

# LAW OF THE REPUBLIC OF AZERBAIJAN

## on investment funds

This Law shall determine the principles and rules for organization, management, and liquidation of investment funds in the Republic of Azerbaijan, as well as legal and economic grounds for *regulation and supervision* of activities of investment funds.

### Chapter I General provisions

#### Article 1. Main definitions

1.1. Main definitions used in this Law shall bear the following meanings:

1.1.1. investment fund – financial institution established as a joint-stock or mutual fund, engaged in attraction and investment of funds as set in the investment policy to generate profit.

1.1.2. joint-stock investment fund – an open joint-stock company, *licensed* for activities of a joint-stock investment fund, exclusive subject of activities of which is to generate profit by investing money funds earned from placement of shares in securities and other property according to the procedure specified in the investment policy.

1.1.3. mutual fund – collection of property owned by *owners* of investment fund shares, under the management of investment fund manager based on the right for common share ownership. A mutual fund shall not have a legal entity status and its assets include money from the sale of their shares, other assets earned from investing those funds. Mutual funds may be established in open, closed and interval forms.

1.1.4. open-end mutual fund – a mutual fund that conducts sale and redemption of its shares no less than once a week, whose assets comprise only money and securities.

1.1.5. interval mutual fund – a mutual fund that sells and redeems its shares no less than once a year, whose assets comprise only money and securities.

1.1.6. closed-end mutual fund – a mutual fund that sells and redeems its shares at the end of the period of its activities, as per Article 18.6 herein, whose assets only include money, securities, and real estate.

1.1.7. investment fund unit (hereinafter – unit) – a dematerialized security that confirms its *owner's* appropriate property rights to the share in the mutual fund, entitles to get money from sale of fund's assets after liquidation of the mutual fund proportionate to its shares, as well as other rights specified herein and relevant normative legal acts and *regulations*.

1.1.8. investment policy – a document that outlines the goals, strategy, objectives, and restrictions related to an investment fund's investments.

1.1.9. *investment fund management* – *licensed* activity that includes maintaining transactions with money funds, securities and other property, whose exclusive subject is owned by and delivered for management by a client, specified in the legislation for the benefit of a client or the third party indicated by him/her.

1.1.10. investment fund manager (hereinafter – manager) – a legal entity exclusively engaged in *investment fund management* and *licensed* accordingly.

1.1.11. *investment fund depository* (hereinafter – depository) – a person *licensed* to perform *investment fund's depository activity*.

1.1.12. investment fund's net assets value – the value of fund's assets less the value of its liabilities.

1.1.13. agreement on mutual fund management – agreement signed with a manager,

conditions of which are set by the manager in mutual fund management regulations, which the investor joins with the purchase of shares.

1.1.14. *fit and proper criteria – civil impeccability, honesty, and trustworthiness due to a public position, as well as expertise, experience and business reputation that allow obtaining the rights provided for by this Law.*

1.1.15. *civil impeccability requirement – for the owner of qualifying holding, if a legal entity, for the head of its executive body, beneficiary owners – lack of criminal record for intentional crime, the absence of a ban imposed by a court decision on holding the relevant position or engaging in professional activity; for persons holding executive positions in a joint-stock investment fund and administrative office, property manager – lack of criminal record, lack of criminal prosecution for grave and especially grave crimes against property and in economic activity, lack of ban by a court decision to occupy a corresponding position or engage in professional activity, lack of declaring bankrupt under court decision, as well as lack of any criminal collusion of persons to meet civil impeccability requirements under this Law with the persons they have a common interest that does not meet the requirements listed in this article.*

1.1.16. *qualifying holding – direct or indirect ownership of the share that makes up 10% or more of authorized capital of the joint-investment fund or manager, or the share that allows exercising an important influence on decision-making of the legal entity he/she is a party contractually.*

1.1.17. *managerial position in a joint-stock investment fund or its manager – membership in managerial bodies (supervisory board, management board) of a joint-stock investment fund or its manager, as well as in audit ~~or revision~~ committees.*

1.1.18. *beneficiary owner – an individual, or a legal entity who ultimately obtains economic, or any other benefit from investment fund's activities and operations, including legal entity's real owner in whose favor transactions are conducted, or an individual, who controls a client and/or on whose behalf financial operations or other transactions are made or an individual who exercises control over a legal entity.*

1.1.19. *representative office – a separate unit of an investment fund or a manager, not a legal entity, located beyond the location of the investment fund or the manager, whose activity is limited to represent and protect their interests.*

1.1.20. *qualification certificate – an official document issued to individuals who have achieved acceptable or higher results in certification conducted by the Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank).*

## **Article 2. Legislation on investment funds**

2.1. Activities of investment funds in the Republic of Azerbaijan shall be regulated by the Constitution of the Republic of Azerbaijan, the Civil Code of the Republic of Azerbaijan, this Law, and other normative acts of the Republic of Azerbaijan of legal nature, *regulations of the Central Bank*, as well as international treaties seconded by the Republic of Azerbaijan.

2.2. In the event international treaties seconded by the Republic of Azerbaijan establish rules different from this Law, norms of international treaties shall apply.

2.3. This Law shall not apply to legal entities established by the government to implement the country's investment policy and the bodies they establish.

2.3-1. *Relations on investment funds in the Alat free economic zone shall be regulated under the requirements of the Law of the Republic of Azerbaijan on the Alat Free Economic Zone.*

2.4. Investment funds shall not be kept responsible for liabilities of the government, and the government shall not be kept responsible for liabilities of investment funds.

### **Article 3. The name of the investment fund and the manager**

3.1. The words 'joint-stock investment fund' should be added to the name of the joint-stock investment fund.

3.2. The words 'mutual fund' should be added to the name of the mutual fund and indicate whether the fund is open-end, interval or closed end.

3.3. The words 'Investment Fund' in the Republic of Azerbaijan may be used in the name only by investment funds established in accordance with the legislation of the Republic of Azerbaijan, their managers in relation to these funds, as well as foreign legal entities with a relevant license.

3.4. The use of words, like 'state', 'national', 'central', 'government', 'guaranteed' or 'insured' in the name of the investment fund and the manager shall be prohibited. The name of the investment fund should not contain other words that may give wrong impression about whether income is insured or guaranteed, as well as the risks that investors may be exposed to.

### **Article 4. State register of investment funds and their managers**

4.1. The *Central Bank* shall maintain a *state register of investment funds and their managers*. The *state register* shall include names, legal addresses of investment funds and their managers, registration numbers and dates of their issued and revoked licenses, information on terminated investment funds and their managers.

4.2. The *Central Bank* shall enter joint-stock investment funds and their managers to the *state register* of investment funds from the date of issue of relevant licenses.

4.3. A mutual fund shall be included to the *state register of investment funds and their managers* from the date the *Central Bank* state registers regulations on its management.

4.4. . *Investment funds and their managers shall send a written notice to the Central Bank on changes to the information entered to the register within five working days.*

## **Chapter II A joint-stock investment fund**

### **Article 5. Organization and operation of a joint-stock investment fund**

5.1. A joint-stock investment fund shall be created as an open joint-stock company by at least three legal entities and/or individuals.

5.2. A joint-stock investment fund shall function based upon a license issued by the *Central Bank*.

5.3. A joint-stock investment fund may not engage in other types of entrepreneurial activity.

5.4. The charter of a joint-stock investment fund should indicate that the exclusive subject of its activity is the investment of funds received from placement of shares in accordance with this Law and the investment policy.

5.5. Assets of a joint-stock investment fund intended for investment purposes are managed by the manager on a contractual basis.

5.6. A joint-stock investment fund may not establish subsidiaries or issue securities other than ordinary nominal shares.

5.7. The *Central Bank* shall establish minimum amount of authorized capital of a joint-stock investment fund and procedures for its formation.

5.8. A joint-stock investment fund may borrow funds in the amount of not more than 10

percent of its assets for a period not exceeding three months.

5.9. *The central depository shall maintain a register of shareholders of a joint-stock investment fund.*

## **Article 6. Management in a joint-stock investment fund**

6.1. In addition to the powers provided for in *Article 107.1 of the Civil Code of the Republic of Azerbaijan*, exclusive powers of the general meeting of shareholders of a joint-stock investment fund shall be to:

6.1.1. take a decision on changing the manager or the depository.

6.1.2. take a decision on increase of fund's expenses.

6.2. A list of persons entitled to participate in the general meeting of shareholders shall be determined based on the register of fund's shareholders. The list should be compiled no later than 60 days and no earlier than 45 days prior to the date of the general meeting of shareholders.

6.3. At least 45 days prior to convening, the general meeting of shareholders shall be announced in *media*, and a written notice shall be sent to shareholders, the manager, the depository, and the *Central Bank* based on the compiled list.

6.4. A supervisory board should be established in the joint-stock investment fund, consisting of an odd number of at least three individuals. At least one of the members of the supervisory board should be an independent person *not related to the joint-stock investment fund*.

6.5. A manager, a depository, an auditor, and an appraiser who have concluded relevant agreements with a joint-stock investment fund, as well as *related parties and their representatives* may not be members of the supervisory board of a joint-stock investment fund.

6.6. Employees of the manager, the depository, the auditor, and the *appraiser organization* which has concluded relevant agreements with the joint-stock investment fund, and *their related parties* may not be members of the executive body of the joint-stock investment fund.

6.7. Powers of managerial bodies of a joint-stock investment fund, their decision-making procedures, as well as issues on which decisions are made unanimously or by a conditional majority, shall be regulated by the relevant legislation on joint-stock companies.

6.8. *Informing on the cases that lead to conflicts between personal interests of members of the executive body of a joint-stock investment fund and those of the investment fund, and concluding transactions contrary to interests of the joint-stock investment fund shall be conducted in accordance with Article 107-10.5 of the Civil Code of the Republic of Azerbaijan.*

## **Article 7. Issuance of shares of the joint-stock investment fund**

7.1. To have issuance of shares by a joint-stock investment company state registered the following documents shall be delivered along with those specified in *Article 6.3 of the Law of the Republic of Azerbaijan 'on the Securities Market'*:

7.1.1. copies of agreements between the joint-stock investment fund and managers and depositories.

7.1.2. investment policy of the joint-stock investment fund and its simplified version.

7.1-1. *In case of possibility to obtain documents necessary for state registration of stock issuance of the joint-stock investment fund from the relevant public authority (institution) through the Electronic Government Information System, those documents shall not be required from the applicant. In the cases of impossibility to obtain such documents through the Electronic Government Information System, their submission shall be required upon request from the relevant public authority (institution) at the consent of the applicant from the relevant public authority (institution) or provided by the applicant.*

7.1-2. Where the documents specified in Article 6.3.3 of the Law of the Republic of Azerbaijan 'on the Securities Market' were submitted to the Central Bank in advance and there were no changes therein, they shall not be required to be re-submitted, provided that relevant written information is provided to the Central Bank.

7.2. If the documents provided for in Article 7.1 of this Law are not submitted *in full* (considering the requirements of Article 7.1-1 of this Law) or in the cases specified in Article 6.6 of the Law of the Republic of Azerbaijan 'on the Securities Market' the Central Bank shall refuse to state register issuance of shares of the joint-stock investment fund and the investment policy.

7.3. The Central Bank shall determine requirements for the simplified version of the investment policy of the joint-stock investment fund.

7.4. The placement of shares in the joint-stock investment fund shall be permitted only after the fund has been duly *licensed* to conduct investment activities.

7.5. Deals with shares of the joint-stock investment fund shall be concluded via investment companies.

7.6. Proceeds from placement of shares of a joint-stock investment fund shall be accumulated in a special account opened with the depository and over this period can be placed only as deposits with banks or in short-term government securities. Those funds may be used for investment purposes only after *approval* of the report on results of issuance of shares of a joint-stock investment fund.

#### Article 8. Investment policy of the joint-stock investment fund

8.1. The investment policy of a joint-stock investment fund shall be adopted by the decision of the founding meeting of the fund, if included to powers of the supervisory board after establishment of the fund by the fund's charter, and if this not the case, by the decision of the general meeting of shareholders.

8.2. The investment policy of a joint-stock investment shall include the following:

8.2.1. full name and address of the joint-stock investment fund, the manager, the depository, and the auditor.

8.2.2. *full name, business, or registered address(es) of the appraiser or appraising organization (if any).*

8.2.3. the marketing and sale strategy on placement of shares issued by the joint-stock investment fund.

8.2.4. information on fund's investment strategy, conditions, directions, and areas.

8.2.5. conditions for diversification of fund's assets.

8.2.6. risks related to investments.

8.2.7. restrictions on investment activity.

8.2.8. rules for and maximum amount of calculation of bonuses, expenses, and service fees to be paid to the manager, depository, and other persons from fund's assets.

8.2.9. the order of dividend payment.

8.2.10. information on taxes to be paid by the fund and shareholders provided for in the legislation and the procedure for their payment.

8.2.11. the order of disclosure of information related to activities of the fund.

8.3. The investment policy of a joint-stock investment fund shall be state registered together with the issuance of shares.

~~8.4. The financial markets supervisory authority may determine requirements on including additional information to the investment policy of the joint stock investment fund.~~

8.5. The joint-stock investment fund should publish the investment policy along with the prospectus of its shares or *info memo* as per the legislation.

## **Article 9. Additions and changes to the investment policy of the joint-stock investment fund**

9.1. Additions and amendments to the investment policy of a joint-stock investment fund shall be adopted by the general meeting of shareholders unless the charter of the fund attributes it to the powers of the supervisory board.

9.2. An application for state registration of additions and/or changes to the investment policy of a joint-stock investment fund should be submitted to the *Central Bank* within five working days from the date of the relevant decision.

9.3. Additions and/or changes to the investment policy of a joint-stock investment fund shall be state registered within ten working days from the day the relevant application is received.

9.4. If additions and/or amendments to the investment policy of a joint-stock investment fund contradict requirements of the legislation or restrict rights of shareholders, the *Central Bank* shall refuse to state register them. *In this case, within 10 working days from the date of receipt of the application, a reasoned decision to refuse to register additions and (or) changes to the investment policy of the joint-stock investment fund shall be made and this decision shall be sent to the joint-stock investment fund within 2 working days.* The refusal may be appealed ~~in administrative and~~ in court.

9.5. Additions and (or) changes to the investment policy of a joint-stock investment fund shall be announced in mass media *and on the website of the joint-stock investment fund (if any)* within 5 working days from the date of state registration and shall come into force after 15 working days.

## **Chapter III A mutual fund**

### **Article 10. Organization and operation of mutual funds**

10.1. Mutual investment funds shall be established as open-end, interval or closed-end funds.

10.2. A manager shall take a decision on establishment of a mutual investment fund.

10.3. According to rules of management of mutual investment fund the manager shall perform all property rights, components of the fund, in favor of shareholders.

10.4. The manager shall conclude transactions related to property of the mutual fund not contradicting regulations on the fund management. These transactions shall be concluded by the manager, by indicating on behalf of which mutual fund it acts.

10.5. The manager shall function as a plaintiff and a defendant in judicial bodies regarding activities of the mutual investment fund under its management.

10.6. *The Central Bank* shall determine requirements for minimum amount of capital sufficient to consider formation of a mutual fund completed.

10.7. *The Central Bank* shall determine requirements for the minimum amount of net assets of a mutual fund.

### **Article 11. Investment fund share**

11.1. During the period of formation of a mutual fund, the share placement value shall be determined by rules of the fund. The current value of the share shall be calculated in accordance with this Law and *regulations* of the *Central Bank*. The share shall have no face value.

11.2. The manager shall issue an unlimited number of shares of the open-end and interval

mutual fund. The number of shares issued by the manager of a closed-end investment fund shall be determined by fund management rules.

11.3. The value of shares shall be expressed in the national currency of the Republic of Azerbaijan and be paid only with money.

11.4. The *owner* of each investment fund share shall enjoy the same rights.

11.5. One person may not own more than 50% of shares of a mutual fund.

11.6. Circulation of shares shall not be subject to any restriction after the end of the formation period of the mutual fund.

11.7. *Shares may not act as underlying assets of derivative financial instruments.*

11.8. The depository, auditor, *appraiser*, or *appraising organization* (if any) of the mutual fund, as well as their subsidiaries may not be owners of shares of that fund.

11.9. Share *owners* shall not be kept responsible for obligations arising from the fund management and shall bear a risk of losses due to changes in the market price of fund's assets only in the amount of cost of their shares.

11.10 Claims arising from obligations of share *owners* (including in case of their bankruptcy) shall not apply to entire property of the fund and may be directed only to shares owned by those persons.

11.11. The manager shall not sell or buy back shares of other investment funds, except for the shares of the mutual fund under its management.

## **Article 12. Agreement on mutual fund management**

12.1. From the moment of receiving the investment fund share in a mutual fund the investor shall join the agreement on mutual fund management and transfer funds to disposal of the manager for management in accordance with fund management rules.

12.2. The investor shall terminate its participation in the agreement on mutual fund management by selling all shares he/she owns.

## **Article 13. Mutual fund management rules**

13.1. Mutual fund management rules shall be a document whose conditions are determined by the mutual fund manager, which can create relevant legal consequences only after state registration, and that determine mutual rights and responsibilities of the investor and the manager with the purchase of investment fund shares.

13.2. The following should be reflected in mutual fund management rules (hereinafter – rules of the fund):

13.2.1. full name and form of the fund (open-end, interval or closed end).

13.2.2. full name, address and license details of the manager, depository, and auditor.

13.2.3. *full name, business, or registered address(es) of the appraiser or appraising organization (if any).*

13.2.4. full name and legal address of the appraiser (if any).

13.2.4. investment policy.

13.2.5. amount of funds sufficient for formation of the fund to be deemed completed, not less than the minimum amount set by the *Central Bank*.

13.2.6. the fund formation period.

13.2.7. number of shares issued.

13.2.8. the value per share during the fund formation period.

13.2.9. rights and responsibilities of the manager.

13.2.10. rights of share *owners*.

- 13.2.11. a note on the duration of the fund's operation or its indefinite operation.
  - 13.2.12. rules and terms of issuing and executing orders for purchase and resale of shares.
  - 13.2.13. minimum amount of funds or shares required for an investor to be accepted to the fund.
  - 13.2.14. procedure for including funds given to the manager to the fund in connection with purchase of shares.
  - 13.2.15. procedure for calculating the current value of the share.
  - 13.2.16. procedure for registering transfer of ownership rights in the register of share *owners*.
  - 13.2.17. calculation procedure and maximum amount of premiums, costs, and service fees to be paid to the manager, depository, and other persons from fund's assets (as a percentage of fund's assets).
  - 13.2.18. procedure for disclosing information on fund's activities.
  - 13.2.19. if assets of the fund are to be placed outside the country, a procedure for transferring assets to the management of a foreign manager.
  - 13.2.20. procedure for taking appropriate measures by the manager in connection with liquidation of the fund (including in case of revocation of the license of the manager).
  - 13.2.21. information on taxation of the fund and share *owners*.
  - 13.2.22. forms and rules for return of invested funds if the formation of a mutual fund fails.
  - 13.2.23. other information specified in the legislation.
- 13.3. If mutual fund management rules fail to meet the requirements of Article 13.2 herein, and include provisions contrary to the legislation, the *Central Bank* shall refuse its state registration.
- 13.4. The *Central Bank* shall review rules of the fund within thirty working days from the date of submission, and if there are no grounds for refusal of registration, the rules shall be state registered.
- 13.5. The rules of the fund may not be disclosed until state registration.
- 13.6. After state registration, the rules of the fund should be published on the manager's website and be public for everybody to familiarize with them during their validity. Fund's shares may not be placed without publication of rules of the fund.

#### **Article 14. Investment policy of the mutual fund**

- 14.1. The manager shall adopt the mutual fund's investment policy that includes:
  - 14.1.1. the fund's investment strategy.
  - 14.1.2. shares' marketing and sale strategy.
  - 14.1.3. information on investment directions and areas.
  - 14.1.4. investment conditions.
  - 14.1.5. conditions for diversification of fund's assets.
  - 14.1.6. risks related to investments.
  - 14.1.7. investment related restrictions.
  - 14.1.8. procedure for dividend payment (if applicable).

#### **Article 15. Additions and changes to mutual fund management rules**

- 15.1. The manager shall take a decision on making additions and changes to management rules of open-end and interval mutual funds.
- 15.2. The general meeting of share *owners* shall take a decision on making additions and

changes to management rules of the closed-end mutual fund.

15.3. An application on state registration of additions and/or changes to mutual fund management rules shall be delivered to the *Central Bank* within five working days after the relevant decisions is made.

15.4. Additions and/or changes to mutual fund management rules shall be reviewed by the *Central Bank* within 10 working days after the application is received and be state registered, in case of no grounds for refusal.

15.5. In case additions and/or changes to mutual fund management rules contradict requirements of the legislation or restrict rights of share *owners*, the *Central Bank* shall refuse to state register them and send a notification to the manager within 2 *working days* indicating reasons for refusal. Refusal can be appealed ~~administratively and~~ judicially.

15.6. Additions and/or changes in question shall be published on the website of the mutual fund manager and *media* within 5 working days upon state registration and take effect after 15 *working days* from the date of publication.

#### Article 16. Formation of a mutual fund and calculation of value of shares

16.1. After the *Central Bank* state registers mutual fund management rules, the manager may offer shares of that fund to investors.

16.2. The manager should complete formation of the fund within 90 days from the date of state registration of mutual fund management rules. In case of failure to form within the above timeframe, the fund shall be removed from the *state register of mutual funds and their managers*, and the manager shall lose the right to form the fund.

16.3. The manager shall establish minimum amount of capital expressed in money in rules of the fund, not less than minimum amount of capital, sufficient for formation of a mutual fund to be deemed completed, set by the *Central Bank*.

16.4. During the period of formation of the mutual fund, shares shall be placed at the value determined in rules of the fund.

16.5. Funds earned during placement of mutual fund shares shall be kept in a special account opened with the depository. Funds earned during the period of formation of the fund can be placed only as deposits with banks and/or in short-term government securities.

16.6. After formation of the fund is completed, the manager shall calculate a selling price per share and amount of money to be paid to share *owner* related to repurchase of the share (except for the case of liquidation of the fund) based on the current value of the share.

16.7. During sale and repurchase of shares by the manager, their value shall be estimated by dividing the value of fund's net assets, determined during next calculation after the order for sale or repurchase, by total number of shares (based on the register of share *owners*) as of the date of calculation.

16.8. After the deadline for the formation of the fund, the value of net assets shall be calculated and related information shall be published as follows:

16.8.1. open-end mutual funds – at least once a week, the day the deadline for receiving orders on the sale and repurchase of shares ends.

16.8.2. interval mutual funds – once a month, as well as on the day of the end of deadline for receiving orders on the sale and repurchase of shares.

16.8.3. closed-end mutual funds – according to rules of the fund; in case of additions and changes to rules of the fund or repurchase of shares related to liquidation of the fund, on the day relevant orders start to be received.

16.9. Information on the value of net assets should be disclosed on the official website of the fund manager or in *media* defined in rules of the fund.

16.10. After the deadline of the formation of the mutual fund ends, the manager should deliver a report on formation of the fund to the *Central Bank* within 3 working days.

16.11. In the event the value of funds attracted falls below the amount of initial capital set in rules of the fund after the deadline for the formation of the fund, formation of the fund shall be deemed failed. At that, the manager should immediately publish related information at its own expense and within 30 days return funds and income (if any) earned from sale of shares to share *owners* in proportion to the number of shares owned by them.

#### **Article 17. Sale of mutual fund shares**

17.1. The share sale shall be conducted based on the order given by the investor to the manager. Shares of a mutual fund shall be placed by the manager itself or through an *investment company*. Purchase and sale transactions with placed shares of interval and closed-end investment funds may be concluded only at the stock exchange.

17.2. Sale of shares of the open-ended investment fund shall be conducted by the manager once a week. Shares of an open-end investment fund shall not be allowed to be sold at a price lower than their current value.

17.3. Sale of shares of an interval investment fund shall be conducted by the manager within the period specified in rules of the fund if it is not less than once a year. After the formation of an interval mutual fund, each acceptance period of orders for purchase of shares shall not be less than 10 working days. The next order acceptance period shall start 60 days after the end of the previous order acceptance period.

17.4. Sale of shares of the closed-end mutual fund shall be conducted by the manager only during the period of formation of the fund, as well as after the shares are bought back in the cases specified in Article 21.13 herein. At that, orders for purchase of shares shall be placed within ten working days after the expiration of their redemption period.

17.5. Shares shall be registered in the name of the investor after relevant funds have entered the fund. The share shall be deemed to be acquired after it is transferred by the depository to the depository account opened in the name of the buyer. Documents confirming the right to share *ownership* should be submitted to the buyer within one working day from the day the shares are transferred to the deposit account, and relevant notes should be made in the *central depository*.

17.6. Sale of shares shall be refused when:

17.6.1. the buyer fails to comply with terms of placing orders specified in rules of the fund.

17.6.2. the order for purchase of a share is given by persons who cannot function as the *owner* of a share according to this Law.

17.6.3. a decision is made to stop the sale of shares as prescribed by this Law.

#### **Article 18. Redemption of mutual fund shares**

18.1. Shares shall be redeemed either directly by the manager or through the *investment company*, at the expense of investment fund assets.

18.2. Shares may not be redeemed during the period of the mutual fund formation.

18.3. Except for the period of the formation of the fund, shares should be redeemed simultaneously with the sale of shares.

18.4. The manager shall receive the order to buy back shares of the open-ended investment fund in the period stipulated by rules of the fund (provided that not less than once a week). Payments to the person requesting share buyback shall be made within ten working

days from the date of share buyback.

18.5. The manager shall receive the order to buy back shares of the interval mutual fund in the period stipulated by rules of the fund (provided that not less than once a year). Each order should be received within ten working days. The acceptance period of share redemption orders can start 60 days after the end of the previous acceptance period. Payments to the person requesting redemption of shares shall be made within fifteen working days after the end of the order acceptance period.

18.6. The manager shall receive the order to buy back shares of the closed-end investment fund at the end of the fund's activity period and in the cases provided by Article 21.13 herein. The term of acceptance of orders for redemption of shares shall be determined in rules of the fund (provided that no later than ten working days from the date of occurrence of those cases). Payments to the person requesting redemption of shares should be made within the period stipulated by rules of the fund (no later than 30 days after the end of the order acceptance period).

18.7. The manager may refuse redemption of shares when:

18.7.1. terms of the order established by rules of the fund on redemption of shares are not complied with.

18.7.2. a decision is made to stop redemption of shares in accordance with this Law.

#### **Article 19. Termination of sale and redemption of mutual fund shares**

19.1. When redemption of mutual fund shares is terminated, sale of its shares shall be terminated too.

19.2. Sale and redemption of mutual fund shares shall be terminated at the decision of the manager in the following cases:

19.2.1. during the period when rights and responsibilities related to supply of depository services are transferred to another depository.

19.2.2. if it is impossible to maintain the operation of the fund in force-majeure cases.

19.3. If the current value of a share of an open-ended mutual fund changes by 20% compared to the value of the share calculated on the previous date, or if the value of net assets of an open-ended or interval mutual fund decreases by 10% or more compared to the last calculation date, as a result of redemption of shares, the manager shall suspend sale and redemption of fund's shares for a period not exceeding 3 working days by notifying the *Central Bank*.

19.4. The manager may decide to stop sale and redemption of shares of the mutual fund only after the end of the acceptance period for orders for sale and redemption of shares.

19.5. When stopping sale and redemption of shares, the manager should submit information in writing to the fund depository and the *Central Bank*, indicating reasons for suspension on the day of the relevant decision.

19.6. Sale and redemption of shares of a mutual fund shall be suspended by the decision of the *Central Bank* when:

19.6.1. the relevant license of the manager or the depository is revoked.

19.6.2. requirements of the legislation on ensuring the activity of the investment fund are violated by the manager, depository, auditor, or appraiser (*appraising organization*).

19.7. Sale and redemption of shares shall be resumed after reasons for their suspension are eliminated. To resume sale and redemption of shares, the manager should submit information in writing to the fund depository and the *Central Bank*, indicating facts confirming elimination of those reasons, and immediately publish that information in *media* specified in rules of the fund.

## Article 20. Register of mutual fund share owners

20.1. The register on share *owners* of the mutual fund shall include information on the mutual fund, including total amount and value of shares sold and redeemed, share *owners* and amount of shares they own, as well as information on the manager.

20.2. The *central depository* shall maintain a register of mutual fund's share *owners*.

## Article 21. General meeting of share owners of the closed-end mutual fund

21.1. The manager shall convene the general meeting of share *owners* in the following cases:

21.1.1. at an initiative of the manager or the depository.

21.1.2. at a written request of *owners* of at least 10 percent of shares.

21.2. Share *owners'* written requests for convening a general meeting should include reasons for convening the meeting and proposals on the agenda.

21.3. A list of persons who have the right to participate in the general meeting of share *owners* shall rest upon the register of share *owners* of the fund. That list should be drawn up no later than 60 days and no earlier than 45 days before convening of the general meeting.

21.4. From the date of receipt of the request to convene a general meeting of share *owners*, the manager should:

21.4.1. establish the time and venue of the general meeting within three working days.

21.4.2. send notifications about convening the general meeting to share *owners* and the depository within five working days.

21.5. The manager should ensure that the general meeting is held no earlier than thirty and no later than forty-five calendar days from the date of receipt of the relevant request.

21.6. If the manager refuses to convene the general meeting at the request of the share *owners* provided for in Article 21.1.2 herein, or delays it unreasonably, the general meeting shall be convened by the depository at the request of share *owners*.

21.7. The general meeting of share *owners* shall be competent when *owners* of at least 60 percent of shares are present.

21.8. If there is no quorum at the general meeting of share *owners*, the general meeting should be reconvened following the requirements set forth in Article 21.4 herein. At that, the agenda of the general meeting should not be changed. The repeatedly convened general meeting shall be competent if *owners* of 40 percent of shares are present.

21.9. If there is no quorum at the reconvened general meeting, the general meeting should be reconvened in accordance with the requirements set forth in Article 21.4 herein. At that, the agenda of the general meeting should not be changed. The repeatedly convened general meeting shall be competent if *owners* of 25 percent of shares are present.

21.10. If there is no quorum to convene a general meeting reconvened according to Article 21.9 herein, the manager shall hold a general meeting regardless of the quorum, informing the *Central Bank*, and based on its decision, the mutual fund shall be liquidated.

21.11. Exclusive powers of the general meeting of share *owners* shall include:

21.11.1. make additions and changes to rules of the fund

21.11.2. replace the manager, the depository, the auditor, and *the appraiser or appraising organization* (if any).

21.11.3. take a decision on premature termination of the fund management agreement.

21.11.4. increase expenses of the fund.

21.11.5. reorganize and liquidate the fund.

21.12. The number of votes belonging to the share *owner* shall be equal to the number of

shares owned by him/her at the time of the general meeting. Decisions of the general meeting on making additions and changes to rules of the fund, replacing the manager, the depository, the auditor, (if any), as well as reorganization and liquidation shall be adopted by the two-thirds majority of those who participated in the voting. Decisions on other issues shall be made by simple majority of those who participated in voting.

21.13. When decisions are made on making additions and changes to rules of the fund, its reorganization and liquidation, share *owners* who voted against those decisions in voting may demand the buyback/redemption of the shares they own. In such cases, the manager shall accept and pay for share redemption orders as per this Law.

21.14. If provided for by rules of the fund, a share *owner* may vote in absentia at the general meeting with his/her signature confirmed as per the legislation (notary and other).

21.15. The manager (and the depository as per Article 21.6 herein) should submit a copy of meeting minutes to the *Central Bank* no later than 3 working days after the date of the general meeting of share *owners*.

## **Article 22. Accounting of mutual fund property**

22.1. Property of the mutual fund shall be formed separately from the property owned by the manager, as well as belonging to other funds under its management, and accounted separately.

22.2. A separate cash account shall be opened with the fund depository for operations related to mutual fund management, and separate deposit accounts shall be opened in the fund depository for accounting of securities that make up fund property. Those accounts shall be opened in the name of the manager, indicating the name of the mutual fund and contain information about the fact that the fund is under its management.

22.3. Names of the fund and its manager shall be recorded in the state register of real estate when rights to real estate constituting the closed-end mutual fund shall be state registered.

22.4. In case of bankruptcy of the manager or the depository, the property constituting the mutual fund shall not be included to an auction.

## **Article 23. Liability for damage to share *owners* of mutual fund**

23.1. The manager shall be kept fully responsible for the damage caused to share *owners* in consequence of violating requirements of the relevant legislation or not complying with fund management rules.

23.2. The manager shall not be kept liable to share *owners* for change in the current value of the share because of increase or decrease in the market value of fund's assets.

23.3. If the depository violates requirements established by this Law and *regulations* adopted by the *Central Bank*, it shall be jointly responsible with the manager before share *owners*. At that, the manager may request recourse against the depository.

## **Chapter IV**

### **Investment fund manager, depository, auditor, and related parties**

## **Article 24. Investment fund manager**

24.1. Legal entities registered in the Republic of Azerbaijan only in the manner established by the legislation, exclusively engaged in *investment fund management* and *licensed* for this type

of activity may be managers of investment funds.

24.2. The manager shall not engage in other types of business activities. The charter of the manager should specify, along with requirements set forth by the legislation in the statute of legal entities that the exclusive subject of its activity consists of *licensed* activity for conducting transactions for the benefit of them or third parties with their clients' money, securities and other property provided for in the legislation.

24.3. The manager shall manage the investment fund based on the management agreement concluded with the joint-stock investment fund or share *owners*, in accordance with the requirements of this Law and other *normative legal acts and regulations*, in accordance with interests of shareholders or share *owners*.

24.4. In connection with management of the investment fund assets, the manager shall:

24.4.1. form and manage fund's assets.

24.4.1-1. *conduct operations as a member of the central depository and stock exchange in accordance with the investment policy.*

24.4.2. keep records of total value, movement, and composition of investment fund assets, as well as calculate current value of shares.

24.4.3. maintain separate *accounting* of mutual fund assets and submit reports to the *Central Bank* in accordance with the legislation.

24.4.4. reconcile the value, movement, and composition of investment fund assets with depositories in the following timeframes:

24.4.4.1. on open-ended mutual funds – at least once a week.

24.4.4.2. on joint-stock investment funds, interval and closed-end mutual funds – at least once a month.

24.4.5. regularly inform the joint-stock investment fund or mutual fund share *owners* about composition and value of fund's net assets, as well as the current value per share in accordance with the management agreement or rules of the fund at least once a month.

24.5. When the manager concludes transactions with assets of the mutual fund, it should indicate the name of the investment fund. Otherwise, liabilities undertaken by the manager should be performed at its own expense.

24.6. An investment fund may have only one manager at a time, except when investment fund assets shall be located outside the country. When investment fund assets are located outside the country, their management may be entrusted only to a foreign manager with an appropriate license or permit in that country, and at least 3-year related work experience. *Management of investment funds* may be entrusted to a foreign manager after obtaining a permit of the *Central Bank*.

24.7. An appeal to the *Central Bank* for a permit to entrust *investment fund management* to a foreign manager should include the name, address, and details of the license of the foreign manager, attached with the draft agreement to be concluded with it. The *Central Bank* may request additional information that it deems necessary in terms of risk reduction and protection of investors' rights. *Management of investment funds* may be entrusted only to a foreign manager operating in the territory of the country whose legislation applies a regime of supervision over *management of investment funds* equal to or stricter than the one provided for in the legislation of the Republic of Azerbaijan.

24.8. The *Central Bank* shall review the application within 30 days from the date of complete submission of documents and make a reasoned decision on granting or refusing a permit.

24.9. If entrustment of *management of investment funds* to a foreign manager is deemed unsatisfactory from the point of view of protection of investors' rights, as well as if the foreign manager fails to meet the requirements of Articles 24.6 and 24.7 herein, the *Central Bank* shall

refuse to grant a permit.

24.10. After obtaining the relevant permit from the *Central Bank*, the manager should disclose this information in *media* within 3 *working days*.

24.11. During the management of investment fund assets, the manager should not to:

24.11.1. conclude deals contradicting the legislation, the investment policy, or rules of the fund.

24.11.2. alienate assets of the fund without compensation.

24.11.3. use assets of the fund to secure personal liabilities, lend, pledge, or otherwise encumber them for its own interests.

24.11.4. sell assets it owns to the investment fund or include them in fund's assets.

24.11.5. buy assets of the fund under its management.

24.11.6. formalize fund's assets in its own name.

24.11.7. include assets of another investment fund it manages to fund's assets.

24.11.8. purchase securities or property of persons *related to itself or the depositary* at the expense of fund's assets or sell fund's assets to them.

24.11.9. allow manipulations with cost of fund's net assets, as well as the current value of shares.

24.12. A manager may buy shares or stocks of the investment fund it manages, except for periods of initial placement of shares of the investment fund or formation of the mutual fund. The manager should disclose information on purchase and sale of shares or stocks of the investment funds under its management at least 20 days in advance, under the procedure specified in the investment policy or mutual fund management rules.

## Article 25. **Investment fund depositary**

25.1. Custody of shares (stocks) of the investment fund, accounting, and confirmation of the rights to them, facts of encumbrance, as well as the custody and accounting of assets of the investment fund under management and documents related to them, shall be maintained by the depositary, unless otherwise provided for in the legislation. *The central depositary may engage in activities of the investment fund depositary without obtaining the relevant license*

25.2. Relations of the depositary with the manager and the joint-stock investment fund shall be regulated by the agreement concluded between them in accordance with requirements of *regulations of the Central Bank*

25.3. In addition to the provisions of Article 25.1 herein, the depositary shall perform the opening, maintenance of cash accounts and money transfers related to management of investment fund assets.

25.4. *The depositary may open a correspondent account with the central depositary, and the central depositary may open a correspondent account with the Central Bank*

25.5. Procedures for opening and maintaining money accounts by the depositary and making money transfers shall be determined by the *Central Bank*.

25.6. The depositary shall maintain accounting of assets of the investment fund separately from its own assets and from assets of its clients.

25.7. An investment fund may have only one depositary at a time, except when assets of the investment fund are placed outside the country. When assets of the investment fund are placed outside the country, their storage and accounting shall be entrusted only to a foreign depositary with an appropriate license or permit in that country. Custody and accounting of assets shall be entrusted to a foreign depositary after receiving the permit of the *Central Bank*.

25.8. An appeal made to the *Central Bank* to obtain permit to entrust the custody and accounting of assets to a foreign depositary should include the name, address, and details of the

license of the foreign depository. *The Central Bank* shall review the appeal within 30 days and make reasoned decisions whether to issue or refuse the permit. Custody and accounting of assets shall be entrusted only to a foreign depository operating in a country whose legislation establishes a supervisory regime equal to or stricter than the one provided by the legislation of the Republic of Azerbaijan on depository activities. After obtaining the appropriate permit from the *Central Bank*, the manager should publish this information in *media* within 3 *working days*.

25.9. If entrusting the custody and accounting of assets to a foreign depository is deemed unsatisfactory from the point of view of protection of investors' rights, as well as if the foreign depository fails to meet the requirements set forth in Articles 25.7 and 25.8 herein, the *Central Bank* shall refuse to grant a permit.

25.10. For accounting and maintaining assets of the investment fund, as well as for settlement of transactions related to those assets, the depository shall open separate accounts for the investment fund and note that they are at the disposal of the manager.

25.11. The depository shall:

25.11.1. keep records of fund's assets in accordance with the legislation, accept and keep originals of documents confirming funds, securities and property rights belonging to the fund.

25.11.2. monitor placement (sale) and redemption of stocks or shares of the fund.

25.11.3. monitor conclusion of transactions with assets of the fund, if those transactions are contrary to the requirements of this Law, the investment policy, or rules of the fund, refuse to perform relevant tasks of the manager.

25.11.4. maintain accounting of the value, movement, and composition of fund's assets, as well as monitor correct calculation of the value of shares after the formation of the fund.

25.11.5. reconcile the value, flow, and composition of fund's assets with the executive body of the manager of the joint-stock investment fund within the following timeframe:

25.11.5.1. on open-ended mutual funds – at least twice a week.

25.11.5.2. on joint-stock investment funds, interval and closed-end mutual funds – at least once a month.

25.11.6. report in writing to the *Central Bank* about violations by the executive body of the manager or joint stock investment fund within one working day from the date of their discovery.

25.11.7. *in accordance with international agreements seconded by the Republic of Azerbaijan, that provide for exchange of tax and financial information, when opening an account or providing financial services to legal entities and individuals of those states in the territory of the Republic of Azerbaijan, deliver related information to competent authorities of those foreign states, based on the requirements of Article 76-1 of the Tax Code of the Republic of Azerbaijan.*

25.12. In case of termination of the agreement between the depository and the manager or the joint-stock investment fund, parties should immediately inform the *Central Bank*, indicating reasons for termination of the agreement.

25.13. In case of termination of the agreement concluded between the manager or the joint-stock investment fund and the depository, that depository shall store and keep records of all documents related to the fund until it receives information about conclusion of a relevant agreement between the manager and another depository, and after receiving information on the agreement concluded between the manager and another depository, ensure transfer of all related documents to the new depository. At that, the fee for supplied services shall be paid in accordance with the terminated contract.

## **Article 26. Audit of the investment fund and valuation of its assets**

26.1. The investment fund manager should be audited by an external auditor at least once

a year. An investment fund audit may only be conducted by external auditors who meet the requirements jointly determined by the *Central Bank* and the relevant authority regulating audit services.

26.2. In addition to enjoying the rights and discharging duties provided for in the legislation of the Republic of Azerbaijan, the external auditor auditing the investment fund shall review the following:

26.2.1. accounting of and operations with investment fund assets and preparation of financial statements.

26.2.2. composition and structure of investment fund assets.

26.2.3. valuation of assets of the investment fund, the current value of the share, as well as accuracy of setting placement and redemption prices of shares and stocks.

26.2.4. transactions concluded with assets of the investment fund.

26.2.5. procedure for reconciliation of the cost, movement, and composition of investment fund assets by the manager, as well as current value of shares with the depository and findings.

26.2.6. procedure for maintaining assets of the investment fund and documents confirming the rights on them.

26.2.7. volume and payment of premiums, costs and service fees related to investment fund's activities.

26.2.8. dividend payment procedure (if applicable).

26.2.9. number of issued stocks or shares.

26.3. The external auditor shall submit to the *Central Bank* information on significant deficiencies found, as well as a copy of recommendations on audit findings.

26.4. In the event the external auditor stops providing services to the fund, it should inform the *Central Bank* about its reasons.

26.5. The real estate and unlisted securities that constitute the assets of the investment fund shall be valued by an appraiser in accordance with the Law of the Republic of Azerbaijan '*on Valuation Activities*'

## **Article 27. *Related parties to the investment fund***

27.1. *Related parties* to the investment fund shall include the following for the purposes of this Law:

27.1.1. a member of the supervisory board and executive body of the joint-stock investment fund.

27.1.2. head of the structural unit of the investment fund (branch, department, division, etc.)

27.1.3. relatives of the persons specified in Articles 27.1.1 and 27.1.2 herein (spouses, parents, including in-laws, grandparents, children, adoptees, and siblings).

27.1.4. any person who is in direct or indirect ownership of 10 percent and over of stocks (shares) of the investment fund.

27.1.5. a legal entity whose initial capital is at least 20% owned by the investment fund.

27.1.6. other funds that are under management of the manager.

27.1.7. any person who owns at least 20 percent of stocks (shares) in legal entities specified in Articles 27.1.4 and 27.1.5 herein.

27.1.8. heads of the supervisory board or the executive body of the legal entities specified in articles 27.1.4, 27.1.5 and 27.1.6 herein.

27.1.9. *legal entities in which the persons specified in Articles 27.1.1, 27.1.2 and 27.1.4 herein participate directly or indirectly.*

27.2. The following requirements should be observed in relation with *related parties to the*

*investment fund:*

27.2.1. *related parties to the investment fund* may not be the investment fund depository.

27.2.2. *related parties to the investment fund* may not be members of the supervisory board or the executive body of the manager or the depository at the same time.

27.2.3. *related parties to the investment fund* may not be investment fund's consultant, auditor, property manager or manager at the same time.

27.2.4. *persons* specified in Articles 27.1.1 and 27.1.2 herein *related to the investment fund* may not be members of the supervisory board or the executive body of the manager or other investment funds under its management.

27.2.5. *transactions between a joint-stock investment fund and related parties, which constitute 5 percent or more of the value of fund's assets shall be concluded with the opinion of an independent auditor engaged by the joint-stock investment fund and a decision made by a simple majority vote of the general meeting of shareholders with the voting right.*

27.2.5-1. *transactions between a joint-stock investment fund and its related parties, which constitute up to 5 percent of the value of fund's assets shall be concluded by a decision taken by the general meeting of shareholders, the supervisory board, or the executive body in accordance with the charter of the joint-stock investment fund.*

27.2.6. except for transactions concluded with the shares issued by the mutual fund, transactions between the mutual fund and the *persons related to its manager* in the amount of more than 10 percent of the value of fund's assets shall be concluded only with the permit of the *Central Bank*. At that, the manager applies to the *Central Bank* for approval of the conclusion of the transaction, along with information on its important conditions.

27.2.7. If conclusion of transactions specified in Article 27.2.6 herein shall be deemed unsatisfactory from the point of view of protection of investors' rights, if it poses a threat of sharp changes in prices on the securities market, as well as if it is identified that it is contrary to rules of the investment fund, the *Central Bank* shall refuse to allow its conclusion.

27.2.8. the *Central Bank* shall submit a notification on granting or refusing the permit to conclude the transaction to the manager within 3 *working days*.

27.2.9. *Members of the supervisory board and the executive body of the joint-stock investment fund, as well as heads of structural units (branch, department, division, etc.) of the investment fund should provide information on themselves, and the persons specified in Articles 27.1.3 and 27.1.9 herein acting as related parties in relation to the transaction concluded, as well as the nature of their interests with respect to the said transaction (its origin, volume, etc.) under the procedure established by Articles 49-1.5, 49-1.6 and 49-1.7 of the Civil Code of the Republic of Azerbaijan.*

## **Chapter V**

### **Acquisition of qualifying holding in the joint-stock investment fund and the manager**

#### **Article 28. Acquisition of qualifying holding in the joint-investment fund and the manager**

28.1. One person's participation share in authorized capital of a joint-stock investment fund may not exceed 50 percent.

28.2. Any person shall acquire qualifying holding in authorized capital of a joint-stock investment fund or the manager, including additional share that increases the existing share in authorized capital to qualifying holding, as well as increasing qualifying holding to 20 percent, 33 percent of authorized capital, and 50 percent in the manager, or exceeding this amount only at the consent of the *Central Bank*.

28.3. In the event the joint-stock investment fund, its manager and depository find out

that any person acquired qualifying holding in authorized capital of the joint-stock investment fund, it should inform the *Central Bank* within one working day.

28.4. In case of acquisition of qualifying holding in authorized capital of the manager by any person, the manager, and the *central depository* (if any) should inform the *Central Bank* accordingly within one working day.

28.5. To obtain qualifying holding, provided for in Article 28.2 herein, the joint-stock investment fund or the manager should submit a relevant appeal and the following documents to the *Central Bank*:

28.5.1. if the buyer is a legal entity:

28.5.1.1. a copy of the state registration certificate and *charter*, notarized or approved in accordance with Article 9 of the Law of the Republic of Azerbaijan 'on Administrative Proceedings', financial statements approved by an external auditor for recent 3 financial years, and for the entire period of activity if it has been operating for less than 3 years, relevant documents reflecting the opinion of the external auditor, as well as information and documents on the source of funds channeled to the acquisition of qualifying holding.

28.5.1.1-1. information on civil impeccability of heads of executive bodies.

If the person is a foreigner, a reference whether he/she was brought to criminal liability from the relevant authority of his/her home country legalized and apostilled as per the legislation.

28.5.1.2. a certified copy of the decision of its authorized management body on acquisition of the intended participation share.

28.5.1.3. information on qualifying holding in capital of other legal entities.

28.5.1.4. information on *qualifying holding owners of the participant*, which is a legal entity, including:

28.5.1.4.1. a copy of a relevant document on state registration as a legal entity, notarized or approved in accordance with Article 9 of the Law of the Republic of Azerbaijan 'on Administrative Proceedings'.

28.5.1.4.2. a notarized copy of its *charter*.

28.5.1.4.3. financial statements approved by an external auditor for recent three financial years, and for the entire period of activity in case of less than 3 years of activity, with the addition of a relevant opinion.

28.5.1.4.4. copies of identity documents of individual founders, information and documents specifying their places of employment (types of employment), information on their civil impeccability; if that individual is a foreigner, in addition to the above documents, a positive recommendation of one or several financial institutions of his/her home country (excluding in relation to foreigners whose permanent place of residence is the Republic of Azerbaijan) and a reference from relevant public authorities of his/her home country whether he/she was brought to criminal liability, legalized or apostilled as per the legislation.

28.5.1.4.5. information on qualifying holding of founders in other legal entities, as well as information on qualifying holding of other persons in its authorized capital for each founder which is a legal entity.

28.5.1.5. beneficiary owners as specified by the *Central Bank*, including information on their civil impeccability as specified by this Law; if a beneficiary owner is a foreigner, a reference from relevant public authorities of his/her home country whether he/she was brought to criminal liability, legalized, or apostilled as per the legislation.

28.5.2. if the buyer is an individual:

28.5.2.1. a copy of the ID card either notarized or approved in accordance with Article 9 of the Law of the Republic of Azerbaijan 'on Administrative Proceedings', information and documents indicating the place of work (type of employment); if the person is a foreigner, a positive recommendation at least from one financial institution of his/her home country (excluding in

relation to foreigners whose permanent place of residence is the Republic of Azerbaijan), as well as information and documents on the source of funds channeled to the acquisition of qualifying holding.

28.5.2.2. information on civil impeccability.

If the person is a foreigner, a reference whether he/she was brought to criminal liability from the relevant authority of his/her home country legalized and apostilled as per the legislation.

28.5.2.3. information on that person's qualifying holding in capital of other legal entities.

28.5-1. In case of possibility to obtain documents or information necessary for acquisition of a participation share in the joint-stock investment fund and manager from the relevant public authority (institution) through the Electronic Government Information System, those documents shall not be required from the applicant. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System, their submission shall be required upon request from the relevant public authority (institution) at the consent of the applicant from the relevant public authority (institution) or provided by the applicant.

28.6. The Central Bank shall review the appeal specified in Article 28.5 herein within thirty working days and submit a substantiated notice to the applicant joint-stock investment fund or the manager on the decision it has taken.

28.7. The Central Bank shall refuse to issue a permit for the acquisition of the qualifying holding specified in Article 28.2 herein when:

28.7.1. the requirement of the Central Bank to submit in full or clarify those documents within ten working days is not met, if the documents specified in Article 28.5 herein are not submitted in full or information in documents is not in full (considering the requirements of Article 28.5-1 herein) or erroneous.

28.7.2. qualifying holding owners (if a legal entity, heads of their executive bodies) and their beneficiary owners are not fit and proper persons.

28.7.3. there are facts that the influence of qualifying holding owners and their beneficiary owners on the joint-stock investment fund or the manager will endanger its reliable and prudential management.

28.7.4. the source of funds channeled to acquisition of qualifying holding is unknown.

28.7.5. financial standing of the legal entity acquiring qualifying holding is unsatisfactory.

28.7.6. incompliances with the requirements of this Law have been found.

28.8. In the event transactions specified in Article 28.2 herein are concluded without consent of the Central Bank, they are deemed invalid from the moment they are concluded.

28.9. The consent issued by the Central Bank on acquisition of qualifying holding shall specify deadline for its acquisition.

28.10. The Central Bank may obtain information from ~~other~~ public authorities on qualifying holding owners and persons intending to acquire qualifying holding according to Article 37.3 of this Law. ~~Public authorities should submit information based upon the request of the Central Bank within fifteen working days.~~

## Chapter VI

### Composition and value of investment fund assets

#### Article 29. Composition of investment fund assets

29.1. Investment fund's assets under management may consist of money funds, securities, and real estate. Real estate may be included to assets of the joint-stock investment fund and closed-end mutual fund. The Central Bank shall determine requirements on the composition and structure of investment fund assets with its regulations.

29.2. The following may not be included to investment fund assets:

29.2.1. stocks or shares of other investment funds that are managed by the manager.

29.2.2. securities issued by the manager and *related parties of the fund*.

#### **Article 30. Calculation of the value of investment fund assets**

30.1. A procedure for calculation of the current value of investment fund assets, net assets, as well as shares and redemption of stocks shall be determined with this Law and *regulations of the Central Bank*.

30.2. *Investment funds and their managers shall maintain accounting and develop financial statements under the requirements of the Law of the Republic of Azerbaijan 'On Accounting.'*

#### **Article 31. Payment of management fees, expenses and service fees related to investment fund operations**

31.1. Management fees and expenses of the investment fund manager, as well as service fees of the *depository, the auditor, the appraiser (appraising organization)* shall be paid from assets of the fund. If property of the mutual fund is not sufficient to pay debts incurred in connection with its operation, claims for those debts may be directed to manager's property.

31.2. Management fees, expenses and service fees shall be paid to the account of the manager during the period of formation of the mutual fund. When the fund is formed, paid funds shall be returned to the manager at the expense of fund's assets.

31.3. The cap and procedure for payment of management fees, expenses and service fees related to the operation of the investment fund shall be set with *regulations of the Central Bank*.

31.4. Payment of remunerations, expenses and service fees not provided for by investment fund's issue prospectus (*info memo*) or investment policy shall not be allowed.

### **Chapter VII**

#### **Publication of information on and advertising of the investment fund**

##### **Article 32. Publication of information on the investment fund**

32.1. The joint investment fund, its manager and (or) the mutual fund manager shall provide information on the following for familiarization to investors, shareholders and share *owners* at places of acceptance of orders for acquisition and (or) redemption of stocks (shares):

32.1.1. joint-stock investment fund charter, investment policy, issue prospectus (*info memo*) and mutual fund rules.

32.1.2. composition, structure and value of investment fund assets, net assets of the investment fund and calculated value per share as of the deadline of this information.

32.1.3. financial statements of the joint-stock investment fund or the manager for the last financial year, approved by an external auditor attached with a relevant opinion.

32.1.4. amount of remuneration, expenses, and service fees to be paid from fund assets to the joint-stock investment fund, the manager, the depository, the auditor, and the appraiser (*appraising organization*) for last financial year.

32.1.5. sanctions imposed on the joint-stock investment fund, the manager, the depositor over recent one year.

##### **Article 33. Advertising of the investment fund**

33.1. The manager or the joint-stock investment fund shall not use inaccurate, distorted information, as well as the information contradicting the investment policy during advertising

of stocks and shares. The information important for investors to make decisions, including information on risks, shall not be allowed to be hidden.

33.2. The manager or the investment fund shall be obliged to inform on risks in the advertisement. Advertising materials should reflect:

33.2.1. risk warning – possibility of decrease in the value of stocks and shares.

33.2.2. probability of non-redemption of investments.

33.2.3. the warning 'Prior results and return level do not provide any assurance or guarantee of future results and level of return.'

33.3. The following shall not be allowed in advertising materials:

33.3.1. providing assurances about future return and efficiency of investment activities of the investment fund and the manager.

33.3.2. providing false or distorted information and reports about factors to have significant impact on results of manager's investment activities.

33.3.3. using indicators not based on the rate of return and value of net assets, and the investment policy when comparing results of manager's investment activities.

33.3.4. providing guarantees that investments are risk-free.

33.3.5. providing untrue or unconfirmed information about experience and ability of members of management bodies of the investment fund and the manager.

33.4. The manager, the joint-stock investment fund, or the *investment company* that sells shares and stocks shall provide investors with a risk-warning document and sell shares or stocks after investors familiarized themselves with and signed this document.

33.5. When the manager or the joint-stock investment fund sells shares or stocks, where investors do not sign the risk-warning document, they shall be liable for the damage caused to them.

33.6. *The Central Bank* shall determine requirements for risk warning documents.

33.7. The investment fund or the manager, and agencies that provide their advertising, shall submit advertising and sales materials to that authority in accordance with requirements of the *Central Bank*.

33.8. If advertising materials do not meet requirements of the legislation, the *Central Bank* may prohibit their distribution or suspend them until detected deficiencies are eliminated.

## Chapter VIII

### Licensing of the joint-stock investment fund and activities on *investment fund management*

#### Article 34. General licensing requirements

34.1. Only legal entities that have a license in accordance with this Law and other *normative legal acts* and *regulations* may engage in joint investment fund or *investment fund management activities* in the Republic of Azerbaijan.

34.2. Licenses for joint-stock investment fund and *investment fund management activities* shall be issued and revoked by the *Central Bank* in accordance with this Law and other *normative legal acts* and *regulations*.

34.3. Licenses for joint-stock investment fund and *investment fund management activities* shall be issued indefinitely. The license can be used only by the person who received it and cannot be passed to third parties. Licenses issued for the investment fund or *investment fund management activities* shall take effect from the date of issuance by the *Central Bank*.

34.4. A state fee shall be paid in the amount and manner determined by the legislation for issuance of licenses for joint-stock investment fund and *investment fund management activities*.

34.5. Minimum amount of authorized capital of the joint-stock investment fund and the manager should meet requirements determined by the *Central Bank*.

34.6. Persons registered in offshore zones, a list of which is determined by the *Central Bank*, or whose founders, qualifying holding and *beneficiary owners* are registered in such zones may not be founders or shareholders of a joint-stock investment fund and the manager. Activities of investment funds or managers not registered in the Republic of Azerbaijan as per the legislation, not covered with related regulations, regulation and supervision by the *Central Bank* shall not be allowed.

34.7. Manager's *all employees engaged in investment fund management* should have qualification certificates.

#### **Article 35. Licensing of joint-stock investment funds and investment fund management activities**

35.1. The *Central Bank* shall review appeals for obtaining licenses for the management of joint-stock investment funds and *investment fund management* in two steps:

35.1.1. review of an initial appeal for obtaining a license by founders or legally authorized person(s).

35.1.2. review of a final appeal for obtaining a license after state registration of the joint-stock investment fund and the manager as a legal entity.

#### **Article 36. Documents submitted for an initial appeal for licensing on management of the joint-investment fund or investment fund management**

36.1. The following documents shall be submitted for a license during initial appeal:

36.1.1. an application for licensing for the management of the joint-stock investment fund or *investment fund management*.

36.1.2. a *notarized copy* of the decision on foundation and *the charter approved by founders*.

36.1.3. information on legal entity founders, including:

36.1.3.1. a copy of the state registration document as a legal entity either notarized or approved under Article 9 of the Law of the Republic of Azerbaijan 'on Administrative Proceedings'.

36.1.3.2. a notarized copy of its *charter*.

36.1.3.3. approved financial statements for recent three financial years, and for the entire period of activity in case of less than 3 years of activity, attached with a relevant opinion by an external auditor.

36.1.3.4. duly approved copy of the decision of the management body to acquire the intended participation share.

36.1.3.5. *copies of available licenses*.

36.1.3.6. information on *their related parties*.

36.1.3.7. ~~if required by the legislation~~, a reference from the relevant regulatory authority confirming *compliance with prudential norms (if any)* in the field of activity.

36.1.4. a copy of the document confirming identity of individual founders, and a reference containing information about the place of employment (if any).

36.1.5. if an individual founder is a foreigner (*except for foreigners whose permanent place of residence is the Republic of Azerbaijan*) – in addition to the documents specified in Article 36.1.4 of this Law, recommendations at least from two financial institutions of his/her home country.

36.1.6. a *notarized* document confirming authority of the person authorized to apply on behalf of founders.

36.1.7. information and documents on the amount of authorized capital proposed, a share per

share owner and the source of funds channeled to the acquisition of the share, qualifying holding of qualifying holding owner founders in other legal entities, as well as qualifying holding of other persons in authorized capital for *such* a founder that is a legal entity.

36.1.8. a business plan covering the following information for at least next 3 years:

36.1.8.1. organizational actions plan and reasoned amount of funds allocated for the purpose.

36.1.8.2. amount of funds specified for stage of the formation of the fund.

36.1.8.3. information on the office space to be used, *information technologies* and telecommunication systems, electronic accounting, and other software.

36.1.9. information on the manager to manage ~~assets~~ of the joint-stock investment fund.

36.1.10. information on the depositary of the joint-stock investment fund (with its name and address).

36.1.11. information on the external auditor to conduct auditing (name, the name of the authority issuing the relevant license, the registration number and date of issue).

36.1.12. information on internal control mechanisms on performing activities, including *investment fund management*.

36.1.13. *a list of founders, persons to be appointed to management positions, indicating their qualifying holding in that joint-stock investment fund, manager or other legal entities, and information on their civil impeccability (if the founder is a legal entity, heads of its executive bodies), as well as the chief accountant (the person performing these duties) and head and staff of the internal audit service.*

*If the person is a foreigner, a reference whether he/she was brought to criminal liability from the relevant authority of his/her home country legalized and apostilled as per the legislation.*

36.1.14. *notarized documents with the information on education and work experience of persons appointed to managerial positions.*

36.1.15. *relations among shareholders of the joint-stock investment fund or the manager as determined by the Central Bank and information on beneficiary owners of the joint-stock investment fund or the manager, including on their civil impeccability as determined with this Law, where the beneficiary owner is a foreigner, a reference from relevant public authorities of his/her home country where he was brought to criminal liability legalized and apostilled as per the legislation.*

36.1-1. *In case of possibility to obtain documents or information necessary for initial appeals for licenses for joint-investment fund or investment fund management activities from relevant public authorities (institutions) through the Electronic Government Investment System, those documents or information shall not be required from applicants. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System, their submission shall be required from the relevant authority (institution) upon request at the consent of the applicant or shall be provided by the applicant.*

36.2. Documents given to the foreign founder by the relevant public authority of the foreign country related to an initial appeal for the license *should be legalized as per international treaties seconded by the Republic of Azerbaijan or apostilled.*

## **Article 37. Review of initial appeals for licenses on management of the joint-stock investment fund or investment fund management**

37.1. The *Central Bank* shall review documents related to an initial appeal for a license within 60 calendar days from the date of their submission.

37.2. In the event the *Central Bank* finds errors or deficiencies in submitted documents (considering the requirements of Article 36.1-1 of this Law), it shall send a notice to applicants within fifteen working days and offer them to eliminate these errors or deficiencies. This offer shall be implemented within ten working days. Delivery of the offer shall stop the flow of the period

specified in Article 37.1 of this Law. In case the *Central Bank* fails to send a written notice to applicants within fifteen *working days* after delivery of documents, the documents shall be deemed to have been accepted for review.

37.3. *To verify the documents and information submitted, including financial standing of the joint-stock investment fund and the manager, including share owners in the capital of the joint-stock investment fund and the manager and beneficiary owners, as well as whether qualifying holding owners (if a legal entity, heads of their executive bodies), beneficiary owners and the persons specified in Article 40 herein are fit and proper persons and the information on the source of authorized capital of the joint-stock investment fund and the manager the Central Bank may obtain information from independent and reliable sources, as well as related public authorities (institutions). Public authorities (institutions) should provide the information requested by the Central Bank within seven working days. Public authorities (institutions) may not refuse to provide that information by referring that the requested information relates to commercial secret, tax secret or other confidential information protected by law, except for the state secret.*

37.3-1. *Article 37.3 herein shall apply to the persons subsequently willing to acquire qualifying holding in the joint-stock investment fund and the manager (if a legal entity, heads of its executive bodies) and/or beneficiary owners, new appointees to management and other positions in the joint-stock investment fund and manager as per Article 40 of this Law.*

37.4. The *Central Bank* shall refuse the initial appeal for a license when:

37.4.1. the documents specified in Article 36 of this Law have been submitted not in full (*considering the requirements of Article 36.1-1 herein*), or they are incompliant with the requirements of this Law, as well as the information in the documents are not completed as per Article 37.2 herein, *as well as there are facts that the influence of qualifying holding or beneficiary owners on the joint-stock investment fund or the manager may endanger its reliable and prudential management, or the source of initial capital of the joint-stock investment fund or the manager is unknown.*

37.4.2. the requirements of Articles 34.5 and 40 of this Law are not provided, *as well as beneficiary owners are not fit and proper persons.*

37.4.2-1. *financial standing of founders is unsatisfactory.*

37.4.3. it has been found out that there is a threat to financial stability and solvency, normal operation of the investment fund and the manager during future operations and violation of investors' rights in the business plan.

37.5. The *Central Bank* shall *take a reasoned decision* on the result of review of the initial appeal for a license *and send the decision to the applicant within the timeframe specified in Article 37.1 of this Law.* In the event the initial appeal is rejected, the *decision* should indicate grounds for rejection.

37.6. The decision of the *Central Bank* on rejection of the initial appeal can be appealed ~~*administratively and*~~ in court.

37.7. After the *Central Bank* gives a positive answer to its initial appeal for a license, the established legal entity shall be state registered in accordance with the legislation. The final appeal for a license should be submitted within 90 *calendar days* from the date of the positive response to the initial appeal for a license by the *Central Bank*.

## **Article 38. Documents submitted during the final appeal for licensing of the management of the joint-stock investment fund or *investment fund management***

38.1. The following shall be submitted to the *Central Bank* during the final appeal for a license for joint-stock investment fund or *investment fund management* activities:

38.1.1. final application with the name, organizational-legal form, location, settlement

account number and the name of the relevant bank, the name of the type of activity for which the license is applied for.

38.1.2. a copy of the state registration certificate either notarized or approved in accordance with Article 9 of the Law of the Republic of Azerbaijan 'on Administrative Proceedings'.

38.1.3. a notarized copy of the charter.

38.1.4. a relevant reference, in case of changes to the information in an initial appeal.

38.1.5. information confirming compliance with the requirements of this Law, including copies of relevant documents on education and work experience (*in case of changes*) of persons appointed to managerial and other positions.

38.1.6. qualification certificates of employees managing investment funds.

38.1.7. a copy of the document confirming the right to use the office space in which it will operate.

38.1.8. organizational and management structure of a legal entity, departments and their functions, subordination, reporting rules.

38.1.9. information on computer and telecommunication systems, electronic accounting, and other software.

38.1.10. a document confirming payment of a public duty.

38.2. A legal entity applying for a license to operate a joint-stock investment fund shall submit the following documents in addition to the ones provided for in Article 38.1 of this Law:

38.2.1. a copy of the agreement concluded with the manager on management of assets of the joint-stock investment fund.

38.2.2. an investment policy of the joint-stock investment fund.

38.3. *In case of possibility to obtain documents or information necessary for final appeals for licenses for joint-investment fund or investment fund management activities from relevant public authorities (institutions) through the Electronic Government Investment System, those documents or information shall not be required from applicants. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System, their submission shall be required from the relevant authority (institution) upon request at the consent of the applicant or shall be provided by the applicant.*

### **Article 39. Review of the final appeal for licenses for joint-stock investment fund or investment fund management activities**

39.1. The *Central Bank* shall review documents related to an initial appeal for a license within 30 calendar days from the date of their submission

39.2. In the event documents are not submitted in full (*considering the requirements of Article 38.2-1 of this Law*), the information in documents is erroneous the *Central Bank* shall offer to submit the documents in full or clarify them. This offer shall be implemented within ten working days. Delivery of the offer shall stop the flow of the period specified in Article 39.1 of this Law.

39.3. The *Central Bank* may obtain information from ~~other~~ public authorities to verify the information provided in submitted documents. Public authorities should provide the information requested by the *Central Bank* within 15 working days.

39.4. The *Central Bank* shall take a reasoned decision on issuing or rejecting to issue the license within the timeframe specified in Article 39.1 of this Law and send the decision to the applicant.

39.5. The *Central Bank* shall refuse to issue a license when:

39.5.1. the documents specified in Article 38 of this Law have been submitted not full (*considering the requirements of Article 38.2-1 of this Law*), or they are incompliant with the

requirements of this Law, as well as the information in the documents are not completed as offered as per Article 39.2 herein.

39.5.2. it is revealed that there are incompliances with the requirements of Articles 34.4, 34.5 and 40 of this Law *and/or the manager does not have at least two employees with qualification certificates.*

39.5.3. any of the grounds specified in Article 37.4 have been revealed.

39.5.4. except in cases where the delay in state registration is due to reasons beyond the control of the founders, if the final appeal to the *Central Bank* is not made within the period specified in Article 37.7 of this Law for issuance of a license.

#### **Article 40. Requirements for qualifying holding owners of the joint-stock investment fund and the manager and persons holding management *and other positions***

40.1. Qualifying holding owners of the joint-stock investment fund and the manager shall:

40.1.1. *be fit and proper persons (for individuals).*

40.1.2. ~~if required by the legislation, meet prudential norms (if any) on the area of its activity~~ *heads of its executive bodies shall be fit and proper persons (for legal entities).*

40.1.3. *not be citizens of the states (territories) included to the list specified in Article 9.5 of the Law of the Republic of Azerbaijan on Prevention of Legalization of Criminally Obtained Property and the Financing of Terrorism' and legal entities registered in those states (territories)§*

40.2. A member of the supervisory board, the executive body and ~~the revision, or the audit committee, as well as the internal audit service~~ of the joint-stock investment fund and the manager shall:

40.2.1. have a higher education.

40.2.2. not be a member of the supervisory board, executive body, *audit committee or the head and employees of the internal audit service* of that legal entity for at least one year prior to the date of taking the decision on liquidation of a legal entity that underwent forced liquidation due to deterioration of its financial standing or by being declared bankrupt.

40.2.3. not be dismissed from his/her position due to professional incompatibility.

40.2.4. *be a fit and proper person.*

40.2.5. the member of the supervisory board, the executive body of a joint-stock investment fund and the manager should have at least 3 years of work experience in the financial services sector, and the member of the ~~revision or~~ audit committee should have at least 4 years of work experience in audit activities or related areas.

40.2-1. *The chief accountant of the joint-stock investment fund and the manager or the person performing these duties should obtain a professional accountant certificate according to the Law of the Republic of Azerbaijan 'on Accounting.'*

40.2-2. *The head and employees of the internal audit service shall meet the requirements of the Law of the Republic of Azerbaijan 'on Internal Service.'*

40.2-3. *The chief accountant of the joint-stock investment company and the manager (the person performing these duties), the head and employees of the internal audit service should be fit and proper persons.*

40.3. The member of the manager's supervisory board, executive body and *audit committee or the head and members of internal audit service* may not simultaneously hold any office or serve in another manager or depository.

40.4. *A written notice shall be sent to the Central Bank on all appointments and changes to the position of members of the executive body and supervisory board of the joint-stock investment fund and the manager. The notice shall be attached with the documents and information specified in Articles 36.1.13 and 36.1.14 herein. The Central Bank shall review the notice within thirty calendar days and, in*

case of no errors or deficiencies in submitted documents, invite candidates to an interview. After a positive opinion by the Central Bank regarding these appointments those candidates shall begin performing their duties. An interview procedure shall be determined by the Central Bank.

In the event errors or deficiencies have been found in documents, related information shall be provided within fifteen working days after documents have been submitted and they are offered to eliminate errors or deficiencies. In this case, the period of review of the notice shall be calculated from the time those errors or deficiencies are eliminated. Where the Central Bank fails to invite candidates to the interview within the notice review period, their candidacy shall be deemed positively reviewed.

40.4-1. The joint-stock investment company and the Manager shall submit a written notice to the Central Bank within 7 working days after the relevant decision is taken on all appointments and changes to positions of members of the audit committee of the joint-stock investment company and the manager, the chief accountant (the person performing these duties), the head and employees of the internal audit service and the notice shall be attached with the documents and information on those persons specified in Articles 36.1.13 and 36.1.14 herein. The notice shall include the information on the fact that the persons appointed to those positions meet the requirements of Articles 40.2, 40.2-1 – 40.2-3 herein.

40.4-2. Where members of the joint-stock investment company's and manager's supervisory board, executive body and audit committee, chief accountant (the person performing these duties) or the head and employees of the internal audit service fail to meet the requirements of Article 40 herein, their authorities shall be prematurely terminated at the petition of the Central Bank by the joint-stock investment fund and the manager.

~~40.5. The joint stock investment fund and the manager should inform the financial markets supervisory authority within three working days about release of persons holding management positions.~~

~~40.6. The joint stock investment fund and the manager should inform the financial markets supervisory authority within three working days about all appointments and changes to the position of manager.~~

~~40.7. The financial markets supervisory authority shall express its opinion on notification within thirty working days from the date of submission of the application for appointment of the management position in the joint stock investment fund and the manager by the joint investment fund or the manager and determine the time of attestation.~~

40.8. The joint stock investment fund and the manager may carry out new appointments to management positions only with the approval of the financial markets supervisory authority.

40.9. Where the documents specified in Article 40 herein have been submitted to the Central Bank in advance and there have been no changes in those documents they shall not be required to be submitted again, provided that written information shall be provided to the Central Bank.

## **Article 41. Revocation of licenses on joint-stock investment fund and investment fund management activities**

41.1. The license for joint-stock investment fund and investment fund management may be revoked by the Central Bank when:

41.1.1. the joint-stock investment fund or the manager is liquidated based on the decision of the higher management body of the joint-stock investment fund or the manager.

41.1.2. the joint-stock investment fund or the manager is declared bankrupt.

41.1.3. erroneous or inaccurate information is revealed in documents submitted when obtaining a license or after the information has been clarified, the cases specified in Articles 37.4 and 39.5 of this Law are determined as grounds for refusing to issue a license.

41.1.3-1. there are facts that influence of qualifying holding or beneficiary owners on the joint-stock investment fund, or the manager endangers its reliable and prudential management.

41.1.4. the joint-stock investment fund or the manager does not start operating within 12

months from the effective date of the license.

41.1.5. requirements of the existing legislation are significantly violated by the joint-stock investment fund or the manager and the mandatory instructions of the *Central Bank* on elimination of those violations are not fulfilled.

41.1.6. amount of net assets of the joint-stock investment fund or the manager is less than minimum amount of net assets set by the *Central Bank*.

41.1.7. a joint-stock investment fund or the manager intentionally submit false or dishonest reports and information to the *Central Bank*.

41.1.8. the joint-stock investment fund or the manager performs activities not specified in the license

41.1.9. the investment fund or the manager has been reorganized without the consent of the *Central Bank*.

41.1.10. the joint-stock investment fund or the manager does not implement mandatory instructions by the *Central Bank* regarding the application of this Law and *legal acts* regulating the securities market.

41.2. In case of non-fulfillment of binding instructions of the *Central Bank* on elimination of violations of the requirements stipulated in the Laws of the Republic of Azerbaijan '*on Prevention of the Legalization of Criminally Obtained Property and the Financing of Terrorism*' and '*on Targeted Financial Sanctions*' by the joint-stock investment fund or the manager, as well as if such violations are repeated more than twice during a year, the license issued for the joint-stock investment fund or *investment fund management* shall be revoked.

41.3. When the license of the joint-stock investment fund manager is revoked, a property manager is appointed to the fund under its management. At that, the joint-stock investment fund should sign an agreement with the new manager within 90 days at the latest. If it is not possible to conclude an agreement with a new manager within the specified period, the joint-stock investment fund should start the liquidation procedure in accordance with the requirements of Article 45 of this Law.

41.4. When the *Central Bank* decides to revoke the license of a joint-stock investment fund or the manager, it should immediately send related information to the joint-stock investment fund or the manager whose license has been revoked, their depository and tax authorities and publish it in *media*.

41.5. When the license issued for activities on the joint-stock investment fund or *investment fund management*, the joint investment fund or the manager shall be liquidated in accordance with the requirements of Article 45 of this Law.

## **Article 42. Issuing permits to representative offices of a foreign investment fund or the manager**

42.1. A representative office of a foreign investment fund or the manager may operate in the Republic of Azerbaijan based on a permit issued by the *Central Bank*.

42.2. A foreign investment fund or a manager should apply in writing to the *Central Bank* for permit to run a representative office in the Republic of Azerbaijan, attaching the following documents approved in accordance with the legislation:

42.2.1. a *legalized or apostilled* copy of the foreign investment fund's or manager's charter, state registration document, and a copy of the decision of the authorized body to open a representative office.

42.2.2. information on the organizational structure and managerial bodies of the foreign investment fund or the manager.

42.2.3. a list of qualifying holding owners in a foreign investment fund or manager,

indicating the amount of shares owned by them, as of the requested date.

42.2.4. audited financial statements and auditor's opinion of the foreign investment fund or manager for recent three financial years, if less than 3 years, for the entire period of operation.

42.2.5. the statute of the representative office.

42.2.6. *a list of the persons appointed to the management positions of the representative office, indicating qualifying holding in that investment fund or the manager or other legal entities, notarized copies of documents showing information about their education and work experience, or legalized or apostilled in the manner specified in the legislation if those persons are foreigners, as well as information about their civil impeccability.*

*If the person is a foreigner, a reference whether he/she was brought to criminal liability from the relevant authority of his/her home country legalized and apostilled as per the legislation.*

42.6.7. copies of licenses and permits of the foreign investment fund or the manager in its home country.

42.2.8. an opinion of foreign investment fund's or manager's relevant regulatory authority on non-objection to opening a representative office.

42.2.9. a business plan that determines the representative office's commercial strategy, organizational structure, including financial forecasts for first three years.

*42.2-1. In case of possibility to obtain documents or information necessary for issuing permits for activities of representative offices of foreign investment funds or managers in the Republic of Azerbaijan from the relevant executive authority (institution) through the Electronic Government Information System, those documents or information shall not be required from the applicant. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System, their submission shall be required from the relevant public authority (institution) upon request at the consent of the applicant or shall be provided by the applicant.*

42.3. The *Central Bank* shall review the documents within 60 *calendar days* from submission.

42.4. When the *Central Bank* finds out errors or deficiencies in documents submitted for review (*considering the requirements of Article 42.2-1 herein*), it shall send a notification to applicants within 15 *working days* and offer to eliminate them. If the *Central Bank* fails to send a written notification to applicants during that period, the documents shall be deemed to have been accepted for review.

42.5. The *Central Bank* shall refuse to issue a permit for operations of the representative office of the foreign investment fund or the manager in the Republic of Azerbaijan when:

42.5.1. the documents specified in Article 42.2 of this Law (*considering the requirements of Article 42.2-1 herein*) are not submitted in full or are incompliant with the requirements of this Law, as well as information in documents is not completed as per Article 42.4.

42.5.2. incompliances with the requirements of Articles 34.6 and 40 herein have been revealed.

42.5.3. the legislation of the *home country* does not establish a supervisory regime over the investment fund or *investment fund management* activities equal to or stricter than that provided for in the legislation of the Republic of Azerbaijan.

42.6. The *Central Bank* shall send a reasoned written notice to the applicant about granting or refusing to grant a permit within the period specified in Article 42.3 of this Law.

42.7. The decision of the *Central Bank* to refuse to issue a permit can be appealed to court in the manner established by the legislation.

**Article 43. Revocation of the permit issued for local representative offices of the foreign investment fund or the manager**

43.1. The permit to operate representative offices of the foreign investment fund or manager may be revoked by the *Central Bank* when:

43.1.1. there is a decision of a higher managing body of the investment fund or the manager.

43.1.2. the joint-stock investment fund and the manager are declared bankrupt.

43.1.3. erroneous information is revealed in documents submitted for permit.

43.1.4. the representative office fails to operate within 12 months after the permit takes effect

43.1.5. the representative office intentionally submits false reports and information to the *Central Bank*.

43.1.6. the representative office fails to comply with mandatory instructions by the *Central Bank* regarding the application of this Law and other normative legal acts and *regulations* regulating the securities market.

43.2. In the event the investment fund or the manager applies to the *Central Bank* for revocation of the permit, it should state its reasons. The *Central Bank* shall review the request for license revocation within 30 days and make an appropriate decision.

43.3. When the *Central Bank* decides to revoke the permit, it should immediately send related information to the representative office whose permit was revoked, as well as to the relevant investment fund or the manager and publish it in *media*.

## Chapter IX

### Reorganization, liquidation of and declaring bankrupt the investment fund

#### Article 44. Reorganization of the joint-stock investment fund

44.1. The joint-stock investment fund shall be reorganized considering the requirements of this Law, as per the Civil Code of the Republic of Azerbaijan.

44.2. Reorganization of the joint-stock investment fund in the form of merger, dissolution and separation shall be allowed only in case those operations result in creation of a new joint-stock investment fund(s).

44.3. Reorganization of a joint-stock investment fund in the form of merger shall be allowed if other joint-stock investment fund(s) join the joint-stock investment fund to be reorganized.

44.4. Merger or acquisition of the joint-stock investment fund with or to a legal entity not licensed to engage in a joint-stock investment fund activity, as well as investment funds that have significantly different investment strategies and areas.

44.5. Reorganization of the joint stock investment fund in the form of transformation (change of organizational-legal form) shall not be allowed.

44.6. When a decision on reorganization is made, a joint-stock investment fund should submit a copy of that decision to the *Central Bank*, together with a copy of the charter of the newly organized joint-stock investment fund, no later than three working days from the day of the decision.

44.7. The *Central Bank* shall refuse to permit such reorganization if the requirements of Articles 44.2-44.5 of this Law are violated during the reorganization of the joint-stock investment fund, there is a threat of sudden price fluctuations in the stock market, as well as it causes a violation of the financial stability of the investment fund and the rights of investors.

44.8. The *Central Bank* shall review the decision on reorganization of the joint-stock investment fund and relevant documents within thirty working days from the day of

submission of documents and decide to allow or refuse the reorganization.

44.9. A joint-investment fund newly established in consequence of reorganization of the joint-stock investment fund may start operating after submitting documents and obtaining a license in accordance with Article 38 of this Law.

#### Article 45. Liquidation of the joint-stock investment fund

45.1. The joint stock investment fund shall be liquidated in accordance with the requirements of this Law and the Civil Code of the Republic of Azerbaijan.

45.2. The joint-stock investment fund shall be liquidated when:

45.2.1. the general meeting of the joint-stock investment fund decides to liquidate the fund.

45.2.2. the license issued to the joint-stock investment fund is revoked on one of the grounds specified in Articles 41.1.2-41.1.10 or 41.2 of this Law.

45.3. A liquidation committee of the joint-stock investment fund shall be established with the decision of the general meeting of the joint-stock investment fund on the liquidation of the fund. The decision on liquidation shall be submitted to the *Central Bank* within one working day, together with financial statements approved by an external auditor dated at the latest 3 months prior to the date of its adoption, as well as information on composition of the liquidation committee.

45.4. A representative of the manager shall be included in the liquidation committee of the joint-stock investment fund. The *Central Bank* may include its representative in the liquidation committee of a joint stock investment fund, voluntarily liquidated.

45.5. The liquidation committee of the joint-stock investment fund should provide necessary documents and information requested by the *Central Bank* and enable authorized employees of the *Central Bank* to enter the building of the joint-stock investment fund and familiarize themselves with documents related to liquidation.

45.6. If the joint stock investment fund is liquidated on the grounds specified in Article 45.2.1 of this Law, liquidation shall be conducted as specified in the Civil Code of the Republic of Azerbaijan. The liquidation committee should submit the approved liquidation plan of the fund to the *Central Bank* no later than 90 days from the date of taking the decision on liquidation of the joint-stock investment fund. The *Central Bank* shall review the liquidation plan of the joint-stock investment fund within 30 calendar days from the date of submission, and if it considers it unacceptable or reveals deficiencies, it shall require the liquidation committee to eliminate them. Requested corrections should be made within 10 *working days*.

45.7. If the *Central Bank* determines that the liquidation committee fails to ensure liquidation of the joint-stock investment fund as per the legislation and the joint-stock investment fund does not comply with Articles 45.4, 45.5 and 45.6 of this Law, it may respond appropriately to forced liquidation of the joint-stock investment fund under this Law.

45.8. Except for the cases of liquidation based on the decision of the general meeting of shareholders or the declaration of bankruptcy, when the *Central Bank* revokes the license of the joint-stock investment fund in accordance with Articles 41.1.2-41.1.10 and 41.2 of this Law, as well as in the cases specified in Article 45.7 it shall apply to court for forced liquidation and appointment of a property manager.

45.9. The property manager appointed by a court decision shall immediately publish information on initiation of liquidation of the joint-stock investment fund and appointment of a property manager in *media*, send relevant notifications to the joint-stock investment fund's manager, supervisory board, and executive body.

45.10. From the moment of the court decision on forced liquidation of joint-stock

investment fund and appointment of the property manager:

45.10.1. all management powers of the joint stock investment fund, including powers of the general meeting of its shareholders shall pass to the property manager.

45.10.2. actions of officials of the joint-stock investment fund or its shareholders on its behalf shall not have a legal force.

45.11. The court shall approve the act of handing over documents and property of the liquidated joint-stock investment fund from its officials to the property manager appointed by the court.

45.12. A list of creditors of the joint-stock investment fund under forced liquidation, and the liquidation plan shall be approved by the court upon presentation of the property manager.

45.13. During forced liquidation of the joint-stock investment fund, the property manager should submit necessary documents and information at the request of the *Central Bank*. When it is discovered that the property manager fails to perform his/her functions properly, the court may decide to replace him/her with another person based on the appeal of the *Central Bank*.

45.14. Claims of creditors of the liquidated joint-stock investment fund shall be paid as per the Civil Code of the Republic of Azerbaijan.

45.14. Liquidated joint-stock investment fund's property consisting of securities should be sold at the stock exchange, and other property at public auctions. Funds from the sale of property in connection with liquidation of the joint-stock investment fund shall be distributed among shareholders in proportion to their shares after all liabilities of the fund have been paid in accordance with the law.

45.15. During the liquidation process, the words 'under liquidation' should be indicated in the name of the joint-stock investment fund.

#### **Article 46. Declaring the joint-stock investment fund bankrupt and insolvent**

46.1. Considering the requirements of this Law, the joint-stock investment fund shall be declared bankrupt in accordance with the Law of the Republic of Azerbaijan 'on Insolvency and Bankruptcy' and other *normative legal acts and regulations*.

46.2. Bankruptcy proceedings may be initiated on a joint-stock investment fund if:

46.2.1. the amount of net assets of the joint-stock investment fund is 25 percent or below than the minimum amount of net assets set by the *Central Bank* within six months.

46.2.2. the joint-stock investment fund is unable to fully fulfill its liabilities due or make the payments when they are due.

46.3. The joint-stock investment fund shall be declared bankrupt by a relevant decision of the court. An out-of-court procedure for declaring a joint-stock investment fund bankrupt shall not be allowed.

46.4. The joint investment fund itself, as well as its creditors, may apply to court with an application to declare the joint stock investment fund bankrupt, based on the decision of the *Central Bank* or the general meeting of shareholders. In any case, the *Central Bank* should be involved in court cases related to declaration of bankruptcy of a joint-stock investment fund and its opinion should be considered.

46.5. The *Central Bank* should attach documents and reports confirming existence of grounds specified in Article 46.2.1 of this Law with the application for declaring the joint-stock investment fund bankrupt.

46.6. Creditors of the joint-stock investment fund should submit to court, together with the relevant application, documents confirming their claim rights, as well as documents confirming existence of grounds established by Article 46.2.2 of this Law.

46.7. If total amount of matured liabilities is less than 10% of net assets of the joint-stock

investment fund, the court may reject the request to initiate a bankruptcy procedure. At that, creditors' claims against the joint-stock investment fund shall be settled in accordance with the general rules of property disputes in court.

46.8. A joint-stock investment fund should immediately inform the *Central Bank* on the initiation of any insolvency (bankruptcy) proceedings.

46.9. The *Central Bank* shall decide to temporarily suspend the license of the joint-stock investment fund on the day it receives information on initiation of insolvency (bankruptcy) of the joint-stock investment fund.

46.10. When a petition for bankruptcy of the joint-stock investment fund is filed by the *Central Bank*, a copy of the decision to suspend the license shall be attached with that petition.

46.11. From the day when the insolvency (bankruptcy) case starts to be considered, accounts of the joint-stock investment fund in banks and depositories shall be frozen and placement of its shares is stopped by the court decision.

46.12. The *Central Bank* shall apply to court for the appointment of a temporary property manager until the moment of declaring bankruptcy of the joint-stock investment fund. A representative of the *Central Bank* can be a temporary property manager. At that, no fee or remuneration shall be paid to the property manager.

46.13. The court shall review the application on appointment of a temporary property manager in the manner and within the timeframe established by the legislation.

46.14. A joint-stock investment fund shall be declared bankrupt based on the court's decision to grant the application for initiation of insolvency proceedings, and a property manager shall be appointed to it as per the legislation. The insolvency procedure of the joint-stock investment fund shall be started from the moment of the court decision on declaring the joint-stock investment fund bankrupt.

46.15. The court decision to grant the application for starting the insolvency process of the joint-stock investment fund can be appealed in accordance with the legislation.

46.16. The property manager shall immediately publish information on initiation of the bankruptcy (insolvency) process of the joint-stock investment fund and appointment of the property manager in *media*, send relevant notifications to the joint-stock investment fund's manager, supervisory board, and executive body.

46.17. From the moment the court decision is taken:

46.17.1. all powers on managing the joint stock investment fund, including powers of the general meeting of shareholders of the joint stock investment fund, shall pass to the property manager.

46.17.2. actions of officials of the joint-stock investment fund or its shareholders on its behalf shall have no legal force.

46.18. The court shall approve the act on handing over documents and property of the joint-stock investment fund, declared bankrupt from their officials to the property manager appointed by the court.

46.19. During the bankruptcy (insolvency) process of the joint-stock investment fund, the property manager should submit necessary documents and information at the request of the *Central Bank*. If the fact that the property manager is found to be improperly performing his/her functions, the court may decide to replace him/her at the request of the *Central Bank*.

46.20. Within two weeks after appointment, the property manager shall submit a report on the joint-stock investment fund on which insolvency proceedings have been initiated to the *Central Bank* and the court. The report should address the following:

46.20.1. an action plan detailing the work to be done by the property manager.

46.20.2. *financial statements*, including a list of assets on their carrying value.

46.20.3. initial register of creditors' claims.

46.20.4. information on fees and expenses paid to the property manager.

46.20.5. detailed information on any illegal actions or transactions entered by the joint-stock investment fund or the manager.

46.20.6. other information as may be necessary in the judgment of the property manager.

46.21. The property administrator shall submit subsequent reports at one-month intervals or as determined by the court. His/her reports should include the information specified in Articles 46.20.1 - 46.20.4 and 46.20.6 of this Law.

46.22. The property administrator shall register claims against the joint-stock investment fund on which insolvency proceedings are initiated within 60 days from the date of the court decision. If necessary, the court may extend this period by no more than 30 days.

46.23. A list of creditors of the joint-stock investment fund that started bankruptcy (liquidation) procedures, sequence of payment of creditors' claims shall be approved by court along with the opinion of the *Central Bank* together with property administrator's endorsement.

46.24. Within 90 days at the latest from the date of the court decision on declaring the joint-stock investment fund bankrupt, the property administrator shall prepare an appropriate liquidation plan and submit it to court for approval. The court may decide to allow stakeholders to submit an alternative liquidation plan.

46.25. Assets of the joint-stock investment fund declared bankrupt consisting of securities should be sold at the stock exchange, while other assets at public auctions. *Property of the joint-stock investment fund declared bankrupt shall be sold at a public auction no later than 30 days after the court decision on declaring it bankrupt enters into legal force.* Funds from sale of property shall be distributed among shareholders in proportion to the shares owned by them after all liabilities of the joint-stock investment fund have been paid in accordance with the legislation.

46.26. After the property administrator completes execution of the approved liquidation plan, he/she shall submit a report thereof to court. When the court approves the submitted report, liquidation of the joint-stock investment fund shall be deemed completed and that joint-stock investment fund shall be removed from state registers of investment funds and legal entities. The property administrator shall be released from his/her position based on the court decision on completion of the liquidation. After this decision, the property administrator shall complete his/her work by handing over documents of the joint-stock investment fund to the archive as per the legislation.

#### **Article 47. Reorganization and liquidation of a mutual fund**

47.1. A mutual fund shall be reorganized only by transformation from closed end to interval or open-end, from interval to open-end fund. When a mutual fund is reorganized, the manager should apply to the *Central Bank* for registration of the related decision along with additions and changes made to the management rules of the fund and for making changes in the *state register of investment funds and their managers*. The application shall be reviewed as per Articles 15.4 and 15.5 of this Law.

47.2. Reorganization of the mutual fund shall take effect after state registration in the *state register of investment funds and their managers*.

47.3. The mutual fund shall be liquidated in the following cases:

47.3.1. based on the decision of the manager of the open-end or interval mutual fund.

47.3.2. if the operating period of the mutual fund is determined in rules of the fund when that period expires.

47.3.3. if amount of net assets of the fund falls below the minimum amount determined by the legislation for mutual funds and if the discrepancy is not eliminated within six months from the date of its occurrence.

47.3.4. when manager's or depository's licenses are revoked, when they refuse to manage the fund, maintain fund's assets and their accounting – if a new manager or depository is not involved within 30 days from the date of the relevant decision.

47.3.5. when the general meeting of share *owners* of a closed-end mutual fund decides to liquidate the fund.

47.4. When a mutual fund is liquidated, a liquidation committee consisting of representatives of the manager and the depository shall be created. The *Central Bank* may include its representative in the liquidation committee of the fund for monitoring the liquidation of the mutual fund. The *Central Bank* may issue mandatory instructions on liquidation of the fund under the legislation.

47.5. When liquidation of a mutual fund is related to the suspension or revocation of the manager's or depository's license, their representatives shall not be included in the liquidation committee of the fund. When licenses of the manager and the depository are revoked at the same time, the liquidation of the fund shall be conducted by the central depository, or the depository designated by the *Central Bank*.

47.6. Within five working days from the date of the decision on liquidation of the mutual fund, the liquidation committee shall:

47.6.1. inform the *Central Bank* on the decision.

47.6.2. inform share *owners*, depositors, creditors, and counterparties on unexecuted transactions related to fund's assets about conditions for liquidation of the fund and implementation of relevant liquidation procedures by publishing in the *media* specified in fund's rules.

47.6.3. instruct the depository to stop all transactions with the shares of the fund from the date specified in the decision.

47.7. creditors' claims to be paid from mutual fund assets shall be submitted within at least 60 days from the date of publication of the information on liquidation of the fund.

47.8. The liquidation committee shall approve the balance sheet of the fund together with the depository after deadline for presenting claims of creditors payable from mutual fund assets and before settlement with them and submit it to the *Central Bank*.

47.9. In accordance with this Law and rules of the fund, the liquidation committee shall ensure the sale of fund's assets, settlements with fund's creditors, payment of liquidation costs and distribution of funds remaining after the liquidation among share *owners*.

47.10. During liquidation of the mutual fund, money funds that make up the fund and generated from the sale of its assets shall be paid in the following sequence:

47.10.1. to the liquidation committee – liquidation costs.

47.10.2. funds to be paid to the persons whose orders for repurchase of shares have been accepted until the day when the reason for liquidation of the fund arises.

47.10.3. funds calculated to the third parties whose claims are to be paid from assets of the fund until the date of the decision on liquidation of the fund.

47.10.4. to share *owners* – funds remaining after the above settlements and proportional to the amount of shares in their ownership.

47.10.5. to the manager – the service fee calculated up to the date of the decision on liquidation of the fund and for the period after that day (except for the cases of liquidation of the fund due to revocation of the manager's license), as well as to the depository, auditor and appraiser or *appraising organization* (if any) – service fees calculated for the period after the date of the decision on the liquidation of the fund.

47.11. Expenses related to liquidation of a mutual fund shall be paid in the amount of no more than 5 percent of the funds generated from the sale of fund's assets.

47.12. Property of the mutual fund consisting of securities should be sold at the stock

exchange, while other property at public auctions. Funds generated from the sale of the property shall be distributed among share *owners* in proportion to their shares after all liabilities of the mutual fund have been paid in accordance with the legislation.

47.13. The liquidation committee of the mutual fund shall submit to the *Central Bank* information on liquidation of the fund within 5 working days after completion of relevant settlements, as well as notifications of the *central depository* on distribution of all assets of the fund and termination of the register of share *owners*. Based on the provided information, the *Central Bank* shall make an appropriate entry in the *state register of investment funds and their managers* on liquidation of the fund.

## Chapter X

### *Regulation and supervision of operations of investment funds*

#### Article 48. *Regulation and supervision of operations of investment funds*

48.1. To *regulate and supervise* operations of investment funds:

48.1.1. the joint-stock investment fund and operations on *investment funds management* shall be licensed and the licenses shall be revoked as per the legislation.

48.1.2. *regulations* on regulating operations of investment funds, the manager and the depository shall be adopted as per this Law and other legislative acts.

48.1.2-1. *minimum information security requirements shall be determined at the joint-stock investment fund and the manager.*

48.1.3. *a state register of investment funds and their managers* shall be maintained.

48.1.4. procedures for organization and maintaining a register of share *owners* at investment funds shall be determined.

48.1.5. requirements on reports of investment funds and the manager (*except for financial statements*), as well as procedures for their submission and publication shall be determined.

48.1.6. *the supervisory board and members of the executive body* of the joint-stock investment fund *and the manager shall be interviewed, as well as* requirements and certification rules for certification of the employees engaged in *management of investment funds* shall be determined and the certification conducted.

48.1.7. an investment policy of the joint-stock investment fund, additions and changes therein shall be registered.

48.1.8. mutual fund management rules, additions and changes therein shall be registered.

48.1.9. in the cases specified by this Law, a decision shall be made to stop trading and redemption of investment fund shares.

48.1.10. to protect rights of investors, as well as supervise activities of investment funds, reports shall be received from investment funds, managers and depositories, necessary information and documents shall be requested, inspections shall be conducted as per the *Law of the Republic of Azerbaijan 'on the Central Bank of the Republic of Azerbaijan,' as well as in accordance with the procedure stipulated by the Competition Code of the Republic of Azerbaijan regarding state control over the compliance with competition legislation by investment funds.*

48.1.11. complaints regarding violations of the requirements of the investment fund and *investment funds management* shall be reviewed.

48.1.12. compliance with this Law, other *regulations and normative acts*, the charter, or the agreement on mutual fund management by joint-stock investment funds, managers and depositories shall be monitored, ~~and in case of violations, mandatory instructions shall be issued for their elimination.~~

48.1.13. mandatory instructions aimed at protecting the rights of investors or ensuring the

security of the securities market shall be issued and their implementation shall be monitored.

48.1.13-1. *accounting and financial reporting of investment funds and their managers shall be monitored in accordance with this Law and the Law of the Republic of Azerbaijan 'on Accounting.'*

48.1.14. persons who violate requirements of the legislation on operation of investment funds shall be brought to administrative responsibility, and administrative reprimands shall be imposed.

48.1.15. *in the event any person has been found to be engaged in investment fund and investment fund management activities without being licensed as per this Law, actions shall be taken according to the Law of the Republic of Azerbaijan 'on the Central Bank of the Republic of Azerbaijan.'*

48.1.16. in the cases specified by this Law, the court shall be appealed to with the request to liquidate the investment fund in court.

48.1.17. other duties determined by the legislation related to activities of investment funds shall be conducted.

48.1-1. *For the purposes of this Law, conviction of relevant persons shall be established based on a relevant reference from the related executive authority at the request of the Central Bank.*

48.2. During ~~regulation and supervision~~ ~~and supervision~~, an official of the Central Bank, its employee, an appointed property manager shall not be liable for damages incurred due to their actions' (inactions) illegality or deliberate intent to cause harm are not proven under the legislation when exercising their powers related to the regulation *and supervision* in investment fund activities, as well as discharging liquidation functions

~~48.3. The financial markets supervisory authority, its official and employee shall be kept liable in accordance with Article 35.1 of the Law of the Republic of Azerbaijan 'on Regulation of Inspections in Entrepreneurial Activity and Protection of the Interests of Entrepreneurs' for violation of the requirements of the Law of the Republic of Azerbaijan 'on Regulation of Inspections in Entrepreneurial Activity and Protection of the Interests of Entrepreneurs' and this law, as well as for not discharging their duties, exceeding their powers and causing damage to entrepreneurs within the framework of inspection.~~

48.4. *Investment funds and their managers should submit their annual financial statements audited by an external auditor no later than five months after the end of the financial year, and combined (consolidated) financial statements audited by an external auditor no later than six months, together with the auditor's opinion, to the Central Bank of the Republic of Azerbaijan, publish on their official websites and in media and submit relevant information to the Central Bank of the Republic of Azerbaijan. Annual financial statements may be published on print media.*

48.5. *Investment funds and their managers should provide a copy of annual and consolidated financial statements with an auditor's opinion to any person upon his/her request free of charge.*

#### **Article 49. Onsite examinations**

~~49.1. The financial markets supervisory authority shall conduct on site examinations to verify compliance with this Law by joint stock investment funds, managers, foreign investment funds and managers' representative offices or depositories, and find out financial stability of investment funds. On site examinations can be next and extraordinary.~~

~~49.2. On site inspections shall be conducted no less than once in two years according to the schedule determined by the supervisory authority.~~

~~49.3. Extraordinary on site examinations shall be conducted by a reasoned decision of the supervisory authority.~~

~~49.4. The following should be specified in the decision of the supervisory authority on on-site examination:~~

~~49.4.1. the name of the legal entity to be inspected onsite.~~

~~49.4.2. the period of operation to be inspected.~~

~~49.4.3. inspection period, commencement, and completion dates.~~

~~49.4.4. First, last, middle names of the inspector(s) assigned to conduct examination, and his/her/their position(s).~~

~~49.5. Onsite examinations shall be scheduled for not more than forty five working days. In the event the period of inspection is not sufficient for its completion, the period may be extended up to 60 days at the decision of the manager of the supervisory authority.~~

~~49.6. The inspector(s) shall enjoy the following rights during onsite examinations:~~

~~49.6.1. check all documents related to activities of the entity assigned to be inspected onsite, including primary accounting documents, accounting registers, books, journals, information contained in computing equipment, accounting software and other data carriers.~~

~~49.6.2. if necessary, involve experts and specialists, including translators, with special knowledge and experience related to the issues of the inspection, to provide relevant services.~~

~~49.6.3. request submission of original documents from the inspected entity, to copy relevant documents.~~

~~49.6.4 obtain documents, information, opinions, explanations, references necessary for the inspection by submitting a written request to:~~

~~49.6.4.1. the management and regular employees of the inspected entity.~~

~~49.6.4.2. persons with qualifying holding in the inspected entity or who have a qualifying holding in authorized capital of the inspected entity.~~

~~49.6.4.3. the inspected entity's depository, auditor, and appraiser.~~

~~49.7. The inspected entity should help the *financial markets supervisory authority* to conduct the inspection, provide conditions for inspectors to familiarize with all documents without any obstacles and access information sources, and for their employees to provide required information, explanations, and opinions.~~

~~49.8. The inspector should ensure protection of information whose access is restricted by the Law of the Republic of Azerbaijan 'on Obtaining Information.'~~

~~49.9. Inspection findings shall be formalized in accordance with the Law of the Republic of Azerbaijan 'on Regulation of Inspections in Entrepreneurial Activity and Protection of the Interests of Entrepreneurs.'~~

## Article 50. **Complaints against decisions of the Central Bank**

50.1. Decisions and activities of the *Central Bank* on implementation of this Law may be appealed in ~~administrative and~~ judicial manner.

50.2. Filing a complaint provided for in Article 50.1 of this Law shall not restrict the activity of the *Central Bank* in connection with the application of this Law.

~~**Article 51. Fees paid to the financial markets supervisory authority**  
*Investment funds and their managers shall pay fees to the financial markets supervisory authority in the amount and manner determined by the latter.*~~

## Chapter XI Final provisions

### Article 52. **Procedure and duration of document storage**

52.1. The joint-stock investment fund and the manager should keep records and ensure storage of relevant documents on contracts (deals) concluded and executed with investors,

including information on electronic carriers, as well as other documents reflecting their activities, in the manner and within the timeframe established by the legislation.

52.2. A list of documents required to be stored and their storage periods shall be determined by the *Central Bank* in coordination with archive offices.

***Article 53. Prevention of legalization of criminally obtained property and the financing of terrorism***

*53.1. The investment fund and its manager shall submit to the financial monitoring authority information on funds and other transactions to be monitored against the legalization of criminally obtained property and the financing of terrorism and develop and apply its own internal control program.*

*53.2. The investment fund and the manager of this fund should take due diligence measures in respect to the client, the beneficiary owner, and the authorized representative in the cases and in the order specified by the law and comply with the requirements for documenting and storing information.*

*53.3. In addition to the requirements specified in Articles 53.1 and 53.2 of this Law, other requirements shall be determined by the Laws of the Republic of Azerbaijan 'on Prevention of Legalization of Criminally Obtained Property and the Financing of Terrorism' and 'on Targeted Financial Sanctions' and other normative legal acts and regulations.*

**Article 54. Responsibility**

54.1. Persons who violate the requirements of this Law shall be held responsible in the manner determined by the relevant legislation.

**Article 55. Enactment of the Law**

55.1. This Law shall take effect on the day of publication.

55.2. In connection with entry into force of this Law, the Law of the Republic of Azerbaijan No. 766-IQ dated 30 November 1999 'on Investment Funds' shall be deemed invalid.

**Ilham ALIYEV,**

**President**

**The Republic of Azerbaijan**

Baku city, 22 October 2010

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