

**'Approved'**

Financial Markets Supervisory Authority  
of the Republic of Azerbaijan  
Resolution № 1851100008

'08' October 2018

**Acting Chairman of the Management Board**

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**Regulations on requirements for formation of investment fund capital, composition,  
structure and management of fund's assets**

**1. General provisions**

1.1. These Regulations have been developed in accordance with Articles 5.7, 10.6, 16.3 and 34.5 of the Law of the Republic of Azerbaijan on Investment Funds and determine the requirements for formation of investment fund capital, composition, structure and management of fund's assets.

1.2. The definitions used herein bear the following meanings

1.2.1. **OECD countries** – member countries of the Organization for Economic Cooperation and Development;

1.2.2. **money funds** – cash funds and demand savings and deposits;

1.2.3. **money market instruments** – securities with up to one-year duration (bonds, notes, deposit certificates);

1.2.4. **high credit rating** – long-term credit rating of at least 'AA-' (according to the classification of the 'Standard & Poor's and Fitch's rating agencies), 'Aa3' (according to Moody's rating agency classification) or equivalent;

1.2.5. **investment/bond credit rating** – at least a long-term credit rating of 'BBB-' (according to the classification of the Standard & Poor's and Fitch), 'Baa3' (according to the classification of the Moody's) or equivalent;

1.2.6. **quotation** - the price offered by an auction participant for securities trading;

1.2.7. **listing** – inclusion of issuer's securities in quote sheets of the stock exchange;

1.2.8. **quote sheet** – a list of securities (including price and details) that have passed the listing procedure;

1.2.9. **index** – an indicator calculated taking into account weighted average capitalization of the securities included in it;

1.2.10. **corporate securities** – securities issued by commercial organizations, as well as mutual funds.

## **2. Requirements for the activity of the investment fund and the manager**

2.1. Minimum amount of authorized capital of a joint-stock investment fund and the capital sufficient for formation of a mutual fund to be considered to have taken place is set AZN 500,000 (five hundred thousand).

2.2. Authorized capital of a joint-stock investment fund is paid only in money funds.

2.3. Cash proceeds from placement of shares during formation or increase of authorized capital of a joint-stock investment fund are accumulated in a special account opened with the depository. These funds are placed only as deposits with banks or short-term government securities until the report on the results of the issue of shares is approved.

2.4. After approval of the report on results of the issue, these funds are placed in accordance with the investment declaration of the fund.

2.5. Other issues related to formation and change of authorized capital of a joint-stock investment fund are regulated by relevant normative legal acts and regulations on joint-stock companies.

2.6. Minimum amount of authorized capital of a legal entity managing investment funds (hereinafter - the manager) is set AZN125,000 (one hundred twenty-five thousand). If the amount of assets managed by the manager exceeds AZN10,000,000 (ten million), the manager should increase its aggregate capital by 0.625 percent of the increased amount for each AZN200,000 (two hundred thousand) of that amount. No increase in aggregate capital is required when the increased part of aggregate capital reaches AZN2,000,000 (two million).

2.7. At least 3 (three) people in the staff of legal entities engaged in investment fund management should have a qualification certificate on management of investment funds.

2.8. Expenditures related to the management of an investment fund may not exceed 5% of fund's assets on annual.

2.9. Persons, registered in offshore zones specified in the 'List of states (territories) supposedly involved in legalization of criminally obtained funds or other property, the financing of terrorism, transnational organized crime, as well as support of armed separatism, extremism and mercenary trafficking, illicit trafficking in drugs or psychotropic substances, where identification information is not required during financial transactions' defined by the Financial Monitoring Service of the Republic of Azerbaijan, or founders,

owners of qualifying holding and beneficiary owners registered in such zones may not be founders or shareholders of a joint-stock investment fund and the manager.

### **3. Requirements for the composition of investment fund assets**

3.1. The name of the investment fund and the investment declaration should indicate which group it belongs to, depending on the composition of assets.

3.2. Investment funds are divided into the following groups based on composition of assets:

3.2.1. debt instruments investment funds;

3.2.2. equity funds;

3.2.3. mixed investment funds;

3.2.4. real estate investment funds;

3.2.5. index funds.

3.3. Assets of debt instruments investment funds include:

3.3.1. money funds;

3.3.2. bank deposits;

3.3.3. government securities;

3.3.4. municipal securities;

3.3.5. corporate bonds.

3.4. Assets of equity funds include:

3.4.1. money funds;

3.4.2. bank deposits;

3.4.3. shares;

3.4.4. financial instruments whose underlying assets are stocks;

3.4.5. shares of open-end and interval mutual funds;

3.4.6. participation share in authorized capital of legal entities.

3.5. Assets of mixed investment funds include:

3.5.1. money funds;

3.5.2. bank deposits;

3.5.3. government securities;

3.5.4. municipal securities;

3.5.5. corporate bonds;

3.5.6. shares;

3.5.7. derivative financial instruments;

3.5.8. shares of open-end and interval mutual funds.

3.6. Assets of real estate investment funds include:

3.6.1. bank deposits;

3.6.2. government securities;

3.6.3. municipal securities;

3.6.4. real estate;

3.6.5. derivative financial instruments whose underlying assets are real estate;

3.6.6. shares of investment funds.

3.7. Assets of index funds include:

3.7.1. money funds;

3.7.2. bank deposits;

3.7.3. securities included to the calculation base of the index.

3.8. Open-end mutual funds invest in the following, regardless of the group they belong to:

3.8.1. money funds;

3.8.2. short-term bank deposits;

3.8.3. money market instruments traded in the stock exchange of the Republic of Azerbaijan and those operating in OECD countries;

3.8.4. securities included in Level I quotations on stock exchanges operating in the Republic of Azerbaijan;

3.8.5. securities of issuers with high credit rating and listed on stock exchanges operating in OECD countries.

3.9. Interval mutual funds invest in the following, regardless of the group they belong to:

3.9.1. money funds;

3.9.2. short- and long-term bank deposits;

3.9.3. government and municipal securities of the Republic of Azerbaijan and OECD countries;

3.9.4. securities issued by issuers listed on stock exchanges operating in the Republic of Azerbaijan;

3.9.5. securities of issuers with investment grade credit rating and listed on stock exchanges operating in OECD countries.

3.10. Closed-end mutual funds invest in the following, regardless of the group their assets relate to:

3.10.1. money funds;

3.10.2. bank deposits;

3.10.3. government and municipal securities;

3.10.4. corporate securities;

- 3.10.5. real estate;
- 3.10.6. participation share in authorized capital of legal entities.
- 3.11. Joint-stock investment funds invest in the following, regardless of the group to which their assets belong:
  - 3.11.1. money funds;
  - 3.11.2. bank deposits;
  - 3.11.3. government and municipal securities;
  - 3.11.4. corporate securities;
  - 3.11.5. real estate;
  - 3.11.6. participation share in authorized capital of legal entities.

#### **4. Requirements for the structure of assets of investment funds**

4.1. The structure of assets of investment funds, grouped as debt instrument investment funds, should meet the following requirements at least the two-thirds of business days of a calendar month:

- 4.1.1. amount of money funds deposited in one credit institution should not exceed 25% of fund's assets;
- 4.1.2. volume of bonds of one issuer (except for government securities) should not exceed 10% of the fund's assets;
- 4.1.3. should not own more than 50% of one bond issuance by the issuer;
- 4.1.4 volume of money funds should not exceed 30% of fund's assets.

4.2. The structure of assets of investment funds grouped as equity funds should meet the following requirements at least the two-thirds of business days of a calendar month:

- 4.2.1. amount of money funds deposited in a credit institution should not exceed 10% of fund's assets;
- 4.2.2. volume of investment shares of mutual investment funds should not exceed 30% of the fund's assets;
- 4.2.3. amount of money funds should not exceed 30% of fund's assets;
- 4.2.4. amount of shares listed on stock exchanges operating outside the Republic of Azerbaijan should not exceed 70% of fund's assets.

4.3. The structure of assets of investment funds grouped as mixed investment funds should meet the following requirements at least the two-thirds of business days of a calendar month:

- 4.3.1. amount of money funds deposited in one credit institution should not exceed 25% of fund's assets;
- 4.3.2. amount of shares included in fund's assets should not exceed 40% fund's assets;

- 4.3.3. corporate bonds included in fund's assets should not exceed 40% of fund's assets;
- 4.3.4. shares of investment funds included in fund's assets should not exceed 40% of fund's assets;
- 4.3.5. derivatives included in fund's assets should not exceed 20% of fund's assets;
- 4.3.6. total amount of securities issued by one issuer in fund's assets (excluding government securities) should not exceed 10% of fund's assets;
- 4.3.7. total amount of term deposits, government and municipal securities should not exceed 40% of fund's assets;
- 4.3.8. the share of the fund in authorized capital of the issuer should not exceed 10%;
- 4.3.9. should not own more than 50% of one bond issue of the issuer;
- 4.3.10. volume of investment shares of mutual funds should not exceed 30% of fund's assets;
- 4.3.11. size of money funds should not exceed 30% of fund's assets.
- 4.4. The structure of assets of investment funds grouped as real estate investment funds should meet the following requirements at least the two-thirds of business days of a calendar month:
  - 4.4.1. amount of money funds deposited in a credit institution should not exceed 25% of fund's assets;
  - 4.4.2. total amount of term deposits, government and municipal securities should not exceed 40% of fund's assets;
  - 4.4.3. the number of investment shares of mutual investment funds should not exceed 30% of investment shares of that fund;
  - 4.4.4. amount of money funds should not exceed 30% of fund's assets.
- 4.5. The structure of assets of investment funds grouped as index funds should meet the following requirements at least the two-thirds of business days of a calendar month:
  - 4.5.1. difference between the share of one security in fund's assets and the share of that security in the index determined by the investment declaration should not exceed 3%;
  - 4.5.2. size of money funds should not exceed 20% of fund's assets;
- 4.6. At least 25% of assets of the investment fund (except for index funds) should be invested in the Republic of Azerbaijan.

## **5. Requirements for calculation of investment fund's net assets, as well as current (redemption) value of the share (stock)**

- 5.1. Upon expiration of the period of formation of the mutual fund, the value of net assets is calculated and disclosed as follows:

5.1.1. open-end mutual funds - at least once a week, on the day of expiration of orders for sale and repurchase of shares;

5.1.2. interval mutual funds - once a month, as well as on the day of expiration of orders for sale and repurchase of shares;

5.1.3. closed-end mutual funds - in accordance with the rules of the fund, in case of additions and changes to the rules of the fund or repurchase of shares due to liquidation of the fund, the date of commencement of relevant orders.

5.2. Prior to announcing repurchase of shares of a joint-stock investment fund, the joint-stock investment fund or the manager should calculate the repurchase price of shares.

5.3. Net asset value of the investment fund is calculated with the below formula:

$$NAV = \sum_{i=1}^l A_i - \sum_{i=1}^m L_i$$

**NAV** – net asset value;

**A<sub>i</sub>** – estimated value of each asset of the investment fund under management;

**L<sub>i</sub>** – estimated value of each investment fund's management obligation;

**l** – total number of investment fund assets;

**m** – total number of investment fund liabilities.

5.4. Current value of one share of the investment fund or the repurchase value of one share is calculated by the following formula:

$$CV_t = \frac{NAV_t}{n_t}$$

**NAV<sub>t</sub>** – (current) value of the investment fund's net assets at the time of calculation;

**CV<sub>t</sub>** – value of a share of the investment fund or redemption value of a share;

**n<sub>t</sub>** – current number of issued shares (stocks);

**t** – time of calculation of net assets and value of one share (stock) of the investment fund.

## **5. Requirements for a simplified version of the investment fund's investment declaration**

6.1. The simplified version of the investment declaration of joint-stock investment funds should contain the following information:

- 6.1.1. full name, license details and address of the investment fund, the manager, the depositary and the auditor;
- 6.1.2. appraiser's full name and address;
- 6.1.3. investment areas and conditions of asset diversification of the investment fund;
- 6.1.4. information on various bonuses, expenses and service fees to be paid at the expense of the client and the fund's assets and their maximum amount;
- 6.1.5. the order of payment of dividends;
- 6.1.6. the source from where the investment declaration and other information on fund's activities may be obtained.

## **7. Requirements for the risk warning statement**

7.1. The manager, joint-stock investment fund, or the person selling shares and stocks submits a risk warning statement to investors and sells shares or stocks to investors after they review and sign this document.

7.2. The investment fund's Risk Warning Statement should include:

7.2.1. a text with the following content:

'Investing in investment funds does not promise guaranteed returns. Some or all of your initial capital and subsequent income may be lost when you leave the fund, depending on the amount of net assets per share/stock.'

7.2.2. the procedure for calculating current value of shares or stocks issued by an investment fund;

7.2.3. information on the types of risks that the client will be exposed to by acquiring shares or stocks issued by the investment fund:

7.2.3.1. interest rate risk - losses due to changes in the value of fund's assets as a result of changes in interest rates;

7.2.3.2. overall market risk – decrease in the value of the investment portfolio as a result of changes in the price of securities and the risk of loss for investors;

7.2.3.3. liquidity risk - a situation in which investors are exposed to restrictions and losses arising from investment funds' investing in illiquid instruments and their conversion into money;

7.2.3.4. credit / default risk - investor risks arising from defaults and non-fulfillment of obligations by the parties, investment funds operate with;

7.2.3.5. reinvestment risk - a risk of relative loss of investors as a result of less return on investments made to other instruments by investment funds due to end of maturity of the securities it made investment in;

7.2.3.6. foreign exchange risk - a situation when investors suffer losses as a result of changes in foreign exchange rates;

7.2.3.7. country risk - the risks that investors may be exposed to as a result of a sharp change in the value of country's securities due to changes in the social, political or economic situation of that country;

7.2.4. other information about the risks the customer may be exposed to.