

INVESTMENT FUNDS ACT

I GENERAL PROVISIONS

1. Definition of Individual Terms

Article 1

This Act regulates:

- a) the terms and conditions for establishment and operation of funds and management companies,
- b) issue and sale of units and shares,
- v) redemption of units,
- g) promotion of funds,
- d) activities carried on by the third parties on behalf of the funds,
- đ) supervision over the operation of funds, management companies, depositary bank and persons engaged in the sale of units and shares.

Article 2

In terms of this Act, individual terms shall have the following meanings:

„Management company” – a joint stock company or a limited liability company with a registered office in the Republic of Srpska, authorized by the Securities Commission for pursuing activities related to the establishment and management of investment fund,

„Member State” – an EU Member State,

„Home Member State” – an EU Member State in which the management company's registered office is situated,

„Depositary bank” – a bank appointed by the management company and which, on the basis of a contract with the management company and on its order, carries on activities of a depositary bank as provided for by this Act,

„Fund” – an investment fund established in accordance with this Act,

„Open-ended investment fund” – an open-ended investment fund with a public offering, open-ended investment fund with a private offering, open-ended venture capital fund with a private offering,

„Closed-ended investment fund” – a closed-ended investment with a public offering,

„Shareholder of a closed-ended investment fund” or **„Shareholder”** – a natural or legal person who has, after the announcement of the public offering indicated in the fund's prospectus, paid the price of the share issue in its entirety or has acquired shares from the existing shareholder on the basis of a valid legal transaction, in accordance with the provisions of this Act,

„Unit-holder in an open-ended investment fund” or **„Unit-holder”** – a natural or legal person who has, on the basis of a public or private offer for sale of units in an open-ended investment fund, paid the entire amount of monetary assets to the fund's account for the purpose of acquiring the units in a particular fund or has acquired units in a fund from the existing unit-holder on the basis of a valid legal transaction, in accordance with the provisions of this Act,

„Qualifying investors” – investors who operate, on the basis of a valid authorization, as investment or pension funds, investment or pension fund management company, bank, insurance company or brokerage company, and all other companies or natural persons, on the condition that

net asset value of these companies and natural persons exceeds 300.000 KM and that they have at their disposal a minimum of 100.000 KM of cash for the purpose of investing in a particular investment fund,

„Qualifying investors in venture capital funds” – investors who operate, on the basis of a valid authorization, as investment or pension funds, investment or pension fund management company, bank, insurance company or brokerage company, and all other companies or natural persons, on the condition that net asset value of these companies and natural persons exceeds 3.000.000 KM and that they have at their disposal a minimum of 1.000.000 KM of cash for the purpose of investing in a particular investment fund.

„Securities Commission” – Securities Commission of the Republic of Srpska.

„Related person” in relation to an individual legal or natural person, in terms of this Act, (hereinafter: the entity) shall be:

- a) a shareholder or a group of shareholders pursuing business together, i.e. a business stakeholder or a group of business stakeholders pursuing business together, and owning more than 10% of shares or stakes in the company's registered capital, or who, despite owning a smaller percentage than the prescribed one, may influence, directly or indirectly, the decisions made by such an entity,
- b) any entity in which the former entity owns, directly or indirectly, more than 10% of shares or stakes in the company's registered capital, or who, despite owning a smaller percentage than the prescribed one, may influence, directly or indirectly, the decisions made by such an entity,
- v) any natural person or persons who may, directly or indirectly, influence the entity's decisions, and in particular:
 - 1) immediate family members (a spouse or a person with whom the entity has, for a longer period of time, lived together in a household which, under the law regulating a matrimony and family relations, has a legal position equal to that of a matrimony, children or adopted children, other persons who are committed to the custody of that entity),
 - 2) members of management or supervisory board and immediate family members of these persons, or
 - 3) persons employed on the basis of an employment contract with special arrangements, concluded with an entity in which they are employed, as well as immediate family members of these persons,

„Persons related to the fund” are management company, depositary bank, lawyer, law firm, law office or joint law office, auditor and tax advisor who are in a contractual relationship based on the provision of services to the fund, as well as any other person who has, in the previous two calendar years, concluded a contract on the provision of services to the fund,

„Investor” – unit-holder in an open-ended investment fund, i.e. a shareholder in a close-ended investment fund.

Article 3.

(1) The fund shall be a legal person or a separate pool of assets, the establishment and organization of which are determined by this Act.

(2) In terms of this Act and regardless of whether they are specified or described as such in the offer, any legal entity, company or a pool of assets shall be considered a fund, irrespective of their legal form, where participation – whether through shares, units or other rights – is offered for the purpose of raising stakes in cash and with an explicit intention of investing more than 60% of these stakes in a portfolio of securities, monetary deposits and all other types of assets, where the investors do not supervise, on a daily basis, making of investment decisions, and where a primary

objective is to ensure for the investors return on their investments, whether in a form of profit or any other benefit.

Article 4.

(1) The fund referred to in Article 3 of this Act shall not imply:

- a) banks,
- b) insurance companies,
- v) pension funds,
- g) other legal persons investing their own funds,
- d) family members making joint investments,
- đ) other persons exempt under the laws of the Republic of Srpska or treaties signed or joined by the Bosnia and Herzegovina.

(2) The provisions of paragraph 1 of this Article shall not apply to the status, rights and obligations that these persons may have under other laws, regulations or treaties.

2. Register of funds

Article 5.

(1) Funds shall be enrolled in the register of funds of the Republic of Srpska (hereinafter: register of funds).

(2) Funds shall be enrolled and all the particulars shall be entered in the register of funds, as provided for by this Act and the Ordinance on the Contents and Method of Keeping the Register of Funds, as well as the changes in these particulars.

(3) The Register of funds shall be kept by the Securities Commission.

Article 6.

Enrolment in the register of funds shall be carried out on the basis of the application for the issuance of authorization for the fund's operation and application for the enrolment in the register, submitted by the management company.

Article 7.

(1) At the time of issuing the authorization and adopting the decision on the enrolment in the register of funds, the Securities Commission shall assign to each fund its identification number.

(2) The identification number shall be assigned to each fund at the time of enrolment in the register, and shall be uniform, unchangeable and unique.

Article 8.

The decision on the enrolment in the register of funds shall be announced by the Securities Commission in the Official Gazette of the Republic of Srpska.

Article 9.

Enrolment in the register of funds shall have a declarative legal effect in relation to third parties on day following the day of enrolment in the register of funds, unless otherwise provided for by this Act or by the Ordinance on the Contents and Method of Keeping the Register of Funds.

3. Public and private offering, and types of funds

Article 10.

Every fund shall be authorized by the Securities Commission for a private or public offering in the Republic of Srpska, in accordance with the procedures prescribed by this Act or other regulations adopted pursuant to this Act, as well as in accordance with laws and regulations that are in effect in the Republic of Srpska.

Article 11.

(1) Public offering shall imply an unconditional invitation for purchase of units or shares in a fund, addressed to an unspecified number of persons in a manner prescribed by this Act.

(2) The offering shall be deemed public unless:

- a) it is addressed exclusively to a limited group, corresponding to the definition of qualifying investors, as provided for by this Act,
- b) the application for subscription may be accepted only by the persons corresponding to the definition of qualifying investors, as provided for by this Act,

(3) Private offering shall be an unconditional invitation to the purchase of units or shares in a fund, addressed to a specified number of persons, in a manner prescribed by this Act.

(4) In the case of a private offering, the qualifying investors shall prove their status by signing the statement in which they indicate that at the time of unit purchase they meet the requirements laid down in Article 2 of this Act.

(5) The management company shall not be liable for the completeness and accuracy of the statement, referred to in the previous paragraph of this Article, nor for subsequently altered circumstances relating to the fulfilment of conditions required for acquiring the status of a qualifying investor.

(6) The Securities Commission shall adopt a special ordinance regulating in more detail public and private offering, types of funds with a public and private offering, qualifying investors and the minimum permitted amount of subscription in the case of funds with a private offering.

Article 12.

The Securities Commission may authorize or approve the following types of investment funds as funds with a public offering:

- a) closed-ended investment fund, including:
 - 1) closed-ended investment fund with a public offering for investment in securities not admitted to official listing on a stock exchange,
 - 2) closed-ended investment fund with a public offering for investment in real estate;
- b) open-ended investment fund.

Article 13.

The Securities Commission may authorize or approve the following types of investment funds as funds with a private offering:

- a) open-ended investment fund with a private offering,
- b) open-ended venture capital fund with a private offering.

Article 14.

The Securities Commission shall regulate in more detail, by a special ordinance, the sub-classes of investments funds with a public and private offering.

4. Basic restrictions

Article 15.

- (1) A public offering shall be permitted in the Republic of Srpska to:
 - a) the fund established upon the authorization of the Securities Commission and managed by the management company registered in the Republic of Srpska,
 - b) the fund established on the basis of the authorization of the competent authority in the Member State, which operates in accordance with the provisions of this Act regulating the operation of open-ended investment funds with a public offering.
- (2) The fund referred to in paragraph 1, item a) of this Article neither may operate as nor may it be transformed into a fund with a private offering.
- (3) The Securities Commission shall regulate by a special ordinance the conditions for granting authorization to the funds referred to in paragraph 1 of this Article.

Article 16.

- (1) No person, whether legal or natural, may establish or manage the investment fund referred to in Article 3 of this Act, unless it has been authorized by the Securities Commission.
- (2) No person, whether legal or natural, apart from the persons referred to in Article 186 of this Act, may provide agency services in the sale of units or shares in the funds.
- (3) A criminal offence shall be deemed to have been committed by any person who has, without the authorization or approval of the Securities Commission, carried on any of the activities of establishing and managing the investment fund referred to in Article 3 of this Act, through its offering to the third parties on the territory of the Republic of Srpska or agency services in selling the investment fund units or shares.

5. Application of regulations

Article 17.

- (1) The Tax Administration shall, at the request of the management company, and for taxation purpose, issue a certificate proving the tax regime for the investment fund in the Republic of Srpska.
- (2) Unless otherwise provided for by the tax regulations, the fund shall be considered, for the taxation purpose, a beneficial owner of the securities or of the overall fund's assets, as well as the final beneficiary.

Article 18.

- (1) The provisions of the Securities Market Act shall apply to the operation of management companies and activities of investment funds, unless otherwise provided for by this Act or other regulation adopted pursuant to the law.
- (2) The provisions of the Companies Act shall apply to the operation of the management companies and investment funds where this is explicitly determined by this Act or other regulation adopted pursuant to the law.

II INVESTMENT FUND MANAGEMENT COMPANIES

Article 19.

The investment fund management company shall have a legal form of a limited liability company or joint stock company, and shall exclusively carry on the activities of establishing and managing investment funds, i.e. investment of monetary assets in its own name and for the account of the unit-holders of open-ended investment funds and in the name and for the account of the shareholders of closed-ended investment funds, and shall carry on other activities, as provided for by this Act.

Article 20.

(1) The management company may not have a controlling influence or controlling interest in a brokerage company or in a bank authorized for executing the transactions involving securities.

(2) The management company may not have interest in a depository bank. Pursuing of business of a depository bank and a management company may not be related, in terms of organisation, nor may the same persons be engaged in these tasks.

Article 21.

(1) The wordings: »fund management company«, »investment company«, »fund management board«, »investor«, »invest« or »to invest«, alone or together with other wordings, may be used in the company name or in its appendix only by the investment fund management companies for the purpose of denoting the objects of the company's business and for promotional purposes.

(2) Paragraph 1 of this Article shall not relate to the companies which use the wordings: »manage the funds«, »investment«, »investor« or »to invest« in the context which excludes the perception that the objects of the company's business are directed at establishment and management of investment funds, i.e. investment of monetary assets in own name and for the joint account of the unit-holders in an open-ended investment fund, or in the name and for the account of the closed-ended investment fund, as well as at the management of these assets.

1. Registered capital of management company

Article 22.

(1) The minimum amount of the management company's registered capital shall be 200.000 KM. In the case a total net asset value of the managed funds exceeds the equivalent of 450 millions KM, the management company's registered capital shall be larger by at least 0.02% of the amount by which the net asset value of the managed funds exceeds the previously mentioned threshold, up to the maximum amount of registered capital of 15 millions KM.

(2) The Securities Commission shall adopt the ordinance regulating the form and amount of registered capital which the management companies are obliged to maintain.

2. Objects of the management company's business

Article 23.

(1) The management companies shall exclusively be engaged in establishment and management of investment funds. Explicitly and exclusively specified activities may be enrolled in the court register as objects of the investment fund management company's business.

(2) The tasks of investment fund management shall encompass:

- a) fund's assets management,
- b) promotion of investment funds and sale of units in open-ended investment funds, or shares in closed-ended investment funds,

v) administrative tasks:

- 1) keeping of business books and preparing of financial reports,
- 2) relationships with investors,
- 3) establishment of the fund's net asset value and calculation of the unit price,
- 4) harmonization of the company's operation with laws and relevant regulations,
- 5) publications and reporting to shareholders and unit-holders,
- 6) payments to shareholders or unit-holders out of the fund's assets or profit,
- 7) redemption of units in open-ended investment fund,
- 8) keeping of the unit-holders or shareholders register,
- 9) keeping of archive in accordance with the provisions of this Act,
- 10) other administrative tasks, approved by the Securities Commission.

(3) The Securities Commission is authorised to adopt the ordinance regulating the terms and conditions for granting the authorization for carrying on the tasks of asset management and investment advice, as well as the method of reporting on these tasks.

Article 24.

(1) The management company may not delegate the tasks referred to in Article 23, paragraph 2, item a) of this Act to third parties. Exceptionally, the management company may, upon a prior approval by the Securities Commission, delegate the remaining tasks referred to in Article 23, paragraph 2, item v) of this Act, to third parties, but exclusively for the purpose of improving the efficiency of performance of the foregoing tasks..

(2) The Securities Commission is authorised to adopt the ordinance regulating the procedure and the nature of tasks which are permitted to be delegated to third parties by the management company.

(3) Delegation of tasks to third parties may not diminish efficiency of supervision over the management company and the fund, nor may it threaten the investors' interests.

3. Terms and conditions for establishing management companies

Article 25.

A natural or legal person may establish and be a member of a management company.

Article 26.

The following persons may not be members of management companies or members of their management board or supervisory board:

- a) persons who, in the period of three years prior to acquiring membership interest in the management company, had at least 10% interest in the registered capital of the management company, bank authorized for carrying on tasks of a depository bank, closed-ended investment fund, brokerage company or a bank authorized for purchasing and selling securities, investment company or privately-owned pension fund, at the time when the authorization to pursue business was withdrawn from them,
- b) persons who no longer hold membership in a professional association on grounds of infringement of association rules, or against whom the Securities Commission, or another competent authority, has imposed a measure of withdrawing the authorization for carrying on securities-related activities,

- v) persons punished for a criminal offence of causing bankruptcy, violation of liability to keep business books, causing damage to a creditor, providing benefits to a creditor, abuse in bankruptcy proceedings, unauthorized disclosure and gaining knowledge of business or manufacturing secrets, as well as for a criminal offence of fraud, in the period of five years following the date the sentence has become final, where the time of serving the sentence is not calculated in this period,
- g) persons against whom the safety measure has been imposed of prohibiting the pursuit of business which is completely or partially included in the objects of the management company's operations in the period the prohibition is in effect,
- d) persons punished for a criminal offence under the Securities Act and persons who have been punished for several times for the offences prescribed by the relevant laws,
- đ) persons who have been declared incapacitated,
- e) persons holding a valid authorization by the Securities Commission, i.e. the appropriate approval of the competent authority, for a broker or investment advisor, and who effectively perform these tasks as employees of a brokerage company or a bank authorized for securities transactions,
- ž) persons currently holding a public service office and who are currently central government employees or employees of the local and regional self-government or of the authorities responsible to the Government of the Republic of Srpska or to the Parliament of the Republic of Srpska.

Article 27.

- (1) At least two management board members of the management company shall have professional knowledge and experience required for managing the management company's operations.
- (2) The Securities Commission is authorised to adopt the ordinance regulating in more detail the terms and conditions for carrying on activities of the management company management board members, including the criteria for the compulsory professional knowledge and method of its determination.

Article 28.

The management company may carry on the activities related to the investment fund management exclusively on the basis of the authorization for carrying on the activities related to the investment fund management, issued by the Securities Commissions or a competent authority in the Member State.

Article 29.

- (1) The management company shall submit to the Securities Commission the application for the issuance of the authorization.
- (2) The application referred to in paragraph 1 of this Article shall be accompanied by the following:
 - a) instrument of incorporation of the management company,
 - b) business plan for the first three years of conducting business by the management company, which shall contain the planned volume of investment funds which the management company intends to market, the organizational chart of the company, as well as the data concerning the structure of employees,
 - v) a list of the management company members, their first and last names, address or company name and registered office, nominal value of shares or units, and the percentage of shares or units held by the members in the company's registered capital,

- g) a list of persons related to the management company,
 - d) documents prescribed by the Securities Commission on the basis of which it may be established whether the management company is qualified for carrying on the activities of investment fund establishment and management, and especially as regards the staff, technical equipment and organization,
 - đ) other documents, as provided for by the Securities Commission.
- (3) The Securities Commission is obliged to decide on the application for the issuance of the authorization within two months following the date of submitting the.
- (4) The authorization shall cease to be valid for a management company if it fails to establish the fund within one year following the issuance of the authorization.
- (5) The Securities Commission is authorised to adopt the ordinance regulating the contents and procedure of issuing the authorization.

4. Conducting business operations of the management company

Article 30.

- (1) The management company shall:
- a) in establishing obligations and exercising of ensuing rights and obligations, observe the principle of honesty and fairness,
 - b) in performing the management company's tasks, it shall act with due skill, care and diligence, by observing the professional rules, good business practice and regulations of the Republic of Srpska,
 - v) be capable of meeting the liabilities due (the liquidity principle), i.e. of meeting all its liabilities on an on-going basis (the solvency principle),
 - g) be responsible for a timely, fair and efficient exercising of all the rights and obligations, as provided for by this Act, prospectus and/or fund rules, as well as for a proper exercising of the indicated rights and obligations as provided for by this Act, prospectus and/or fund rules, regardless of whether any of them are delegated to other parties,
 - d) safeguard as business secret of the management company, the data concerning the shareholders, unit-holders, fund unit balance, payments and redemptions, and they may be disclosed only upon a court order, request of an individual unit-holder or shareholder, and only to the depositary bank,
 - đ) if activities and tasks have been delegated to third parties, shall monitor whether they comply in their work with the provisions of this Act and prospectus and/or fund rules,
 - e) adopt the ordinance, upon the competent authority's consent, regulating the conflict of interest with the investment funds it manages, the conflict of interest between the unit-holders in open-ended investment funds or shareholders in closed-ended investment funds, the conflict of interest in relation to the third parties' assets management, as well as investment advice,
 - ž) provide supervisory systems and mechanisms which clearly demonstrate that the management company acts, in the long run, in accordance with this Act, prospectus and/or fund rules, and which ensure monitoring of all the decisions, orders and transactions relating to the fund's assets,
 - z) ensure that all the advertising and promotional contents, communications and reports to the shareholders or unit-holders, whether delivered or published in the press or through the

electronic means of public communication, are clear, accurate, not misleading, and that they are compliant with the Securities Commission's requirements,

- i) organize selling of the fund's shares and units exclusively through the persons referred to in Article 186 of this Act,
- j) purchase the assets for the investment fund exclusively in their own name and for the account of the open-ended investment fund, i.e. unit-holders of the fund it manages, and in the name and for the account of the closed-ended fund, by depositing the assets in a depositary bank, in accordance with the procedure prescribed by the Securities Commission's regulations,
- k) deliver to the depositary bank a copy of all the original documents related to the transactions involving the investment fund's assets, immediately upon the preparation of these documents or upon their receipt,
- l) keep records of the transactions involving the individual fund's assets separately from their own accounts and records concerning other funds, and shall adjust them, within the regular time periods, to the accounts of the depositary bank,
- lj) keep business books and other documentation in a manner as provided for by a special regulation,
- m) communicate the data concerning the funds it manages and concerning themselves, in accordance with the Act and the Securities Commission's regulations,
- n) submit to the Securities Commission regular reports in accordance with the procedure, as provided for by the Securities Commission's regulations,
- nj) maintain honest and fair relations with the Securities Commission,
- o) report to the Securities Commission any change in accordance with the provisions of this Act, a change in the management and supervisory board members, or a change in the management company membership, as well as on any change in capital, structure or participation in registered capital in relation to the condition approved by the Securities Commission,
- p) enter into records, keep records and provide insight into all the records, as determined by the Securities Commission, in a comprehensive, timely and accurate manner, in the period determined by the Securities Commission,
- r) provide to the Securities Commission a timely insight into all the records and shall make possible an interview with the persons carrying on activities in the management company,
- s) comply with other requirements, as provided for by this Act and Securities Commission's regulations, as well as the laws of other Member States in which a public offering of shares or units in the investment funds it manages, has been permitted,
- t) shall not enter into any contract for the purpose of a reduction or change in responsibilities provided for by this Act, whereby any such stipulation of the contract entered into for that purpose shall be considered null and void,
- ć) make sure that its employees and any other persons with whom a contract on the sale of fund shares or units has been concluded in its name, act in compliance with this Act and the relevant regulation,
- u) appoint one management board member for ensuring compliance of the management company's operations with the provisions of this Act and any other regulations, and for maintaining contact with the Securities Commission for the purpose of the meeting the reporting and other relevant requirements under the provisions of this Act,

- f) manage the funds in accordance with the investment objectives of every individual fund it manages,
- h) issue orders to a depositary bank for exercising the rights attached to the fund's assets,
- c) make sure that the assessments of the fund's value are accurate and that the unit price is correctly determined.

(2) The Securities Commission shall adopt the ordinance regulating the conducting of business operations of the management company.

Article 31.

(1) The management company shall set up the risk management system which at any time allows for measurement and monitoring of risk of individual instruments in the portfolio as well as of the fund's overall portfolio.

(2) The risk management system shall allow for an accurate and independent determination of value of financial derivatives traded on other regulated markets (OTC).

(3) The management company shall, in accordance with the rules to be prescribed by the Securities Commission, report to the latter, for each individual fund, the types of financial derivatives in the fund's portfolio, associated risks, quantitative limits and the implemented methodology for measuring risks inherent to positions and transactions involving these derivatives.

(4) The fund's exposure to individual financial instruments underlying the derivative may not contravene the investment restrictions prescribed by this Act, prospectus and/or fund rules.

(5) Where the securities or money market instruments have embedded derivatives, such derivatives shall be taken into account when calculating the fund's exposure, referred to in paragraphs 3 and 4 of this Article.

5. Business operations of management companies with registered office in the Republic of Srpska outside of Republic of Srpska

Article 32.

A management company may also carry on activities in the territory of the Member States, whether through establishment and business operation of a branch or directly, in accordance with the regulations of the respective Member States.

Article 33.

(1) A management company wishing to establish a branch in a Member State shall notify the Securities Commission thereof, indicating the Member State in which it intends to establish a branch. The notification shall be accompanied by the following:

- a) general information concerning the branch, which includes:
 - 1) objects of the branch operations,
 - 2) names of the persons authorized for representing the branch,
 - 3) name and registered office of the branch, where all the information related the branch operation may be obtained,
- b) information concerning the funds managed by the company, information concerning the units or shares which the management company plans to offer for public subscription through the branch in the Member State:
 - 1) precise description of the planned business activities which the management company intends to carry on concerning the sale of fund's units or shares,

2) for each fund, its prospectus and/or fund rules, and a financial report for the previous business year.

(2) The Securities Commission, no later than three months following the receipt of the notification referred to in paragraph 1 of this Article, deliver the notification, along with the attachments, to the competent authority of the Member State, and shall notify the management company thereof.

(3) Together with the notification referred to in paragraph 2 of this Article, the Securities Commission shall deliver to the competent authority of the Member State the following:

- a) information concerning the amount of registered capital of the management company,
- b) statement that every fund to which the notification referred to in paragraph 1 of this Article relates, meets the legal requirements for open-ended investment funds with a public offering.

(4) Notwithstanding the provision of paragraph 2 of this Article, the Securities Commission shall not deliver the notification concerning the establishment of a branch to the competent authority of a Member State, if on the basis of the presented information, referred to in paragraph 1 of this Article, and on the basis of the proposed objects of the branch operations, it has concluded that there is a reasonable doubt concerning the organization and administration of the branch operations, i.e. a financial capacity of the management company for conducting business in the Member State, on which the Securities Commission shall issue a decision.

(5) The decision pursuant to the paragraph 4 of this Article is final, and management company shall be entitled to initiate administrative proceedings against the decision.

(6) The management company shall notify the Securities Commission of any change in the particulars, referred to in paragraph 1 of this Article, at least one month prior to implementing the planned changes.

Article 34.

(1) A management company wishing to carry on business of fund management directly within the territory of a Member State, shall notify the Securities Commission thereof, indicating the Member State in which it intends to start with a direct pursuit of business of fund management. The notification shall be accompanied by the following:

- a) plan of activities,
- b) information and documents, referred to in Article 33, paragraph 1, item b) of this Act.

(2) The Securities Commission shall, no later than one month following the receipt of the notification referred to in paragraph 1 of this Article, deliver the notification, along with the attachments, to the competent authority of the Member State, and shall notify the management company thereof.

(3) Together with the notification referred to in paragraph 2 of this Article, the Securities Commission shall deliver to the competent authority of the Member State the following:

- a) information concerning the amount of registered capital of the management company,
- b) statement that every fund to which the notification referred to in paragraph 1 of this Article relates, meets the legal requirements for open-ended investment funds with a public offering.

(4) The management company shall notify the Securities Commission of any change in the particulars, referred to in paragraph 1 of this Article, at least one month prior to implementing the planned changes.

(5) The provisions of this Article shall also apply in the case the management company has delegated individual activities within its scope of business operations to another person.

Article 35.

(1) The Securities Commission shall perform supervision of business operations of a management company branch in a Member State, or of a direct pursuit of business of the management company in a Member State.

(2) The Securities Commission may require from the competent authority of the Member State in which the management company conducts business, to perform the supervisory procedure over the operation of the branch, if in this manner the supervisory procedure would be expedited and simplified, in accordance with the principles of efficacy, cost-efficiency and taking actions within a reasonable time period. Persons authorized by the competent authority of the Member State may also be authorized, under the same conditions, for taking part in the supervisory procedure.

Article 36.

(1) The management company may carry on activities of fund management outside the Member States, exclusively through establishment of a branch.

(2) In order to establish the branch abroad, the management company must be granted approval by the Securities Commission.

(3) The provision of Article 33 of this Act shall apply as appropriately to the procedure of issuing the approval for the establishment of a branch.

(4) The Securities Commission may refuse to issue the approval for the establishment of a branch, if it is likely that the performance of management company supervision would be hampered to a great extent.

(5) The provisions of this Article shall also apply where the management company has delegated individual activities within its scope of business to another person.

6. Business operations of fund and management company with a registered office in EU member states within the territory of Republic of Srpska

6.1. Granting of authorisation to investment funds from member states

Article 37.

(1) The Fund referred to in Article 15, paragraph 1, item b) of this Act, wishing to market its units in the Republic of Srpska shall deliver to the Securities Commission the following documents:

- a) a certificate issued by the competent authority of the home EU Member State that the fund meets the prescribed conditions,
- b) fund rules or another appropriate document of the fund,
- v) full prospectus and simplified prospectus,
- g) the latest half-yearly and annual financial reports,
- d) data on the method of marketing its units in the Republic of Srpska,
- đ) particulars on the place where the local investors will have access to the prospectus, fund rules, reports and other information concerning the fund in the one of official languages used in the Republic of Srpska, as well as the particulars on the place where the local investors will be able to buy and sell the funds units in the domestic currency.

(2) All the foregoing particulars shall be delivered in the one of official languages used in the Republic of Srpska and in the English language. The Securities Commission is obliged to decide on the application within two months upon receipt of complete data.

Article 38.

(1) The Fund referred to in Article 15, paragraph 1, item b) of this Act shall be subject to the provisions of this Act in the case of activities carried on in the Republic of Srpska.

(2) All the notifications and reports of the fund, referred to in Article 15, paragraph 1, item b) of this Act shall be made available in one of official languages in use in Republic of Srpska.

Article 39.

The Securities Commission is authorised to adopt the ordinance regulating the granting of authorizations, market activity, public offering and reporting requirement as regards the fund's data, referred to in Article 15, paragraph 1, item b) of this Act, in the Republic of Srpska.

6.2. Branch of the management company from EU member State

Article 40.

(1) The management company with a registered office in a Member State, wishing to establish a branch in the Republic of Srpska, shall notify the competent authority in the Member State where its registered office is situated, of its intention to establish a branch in the Republic of Srpska and shall deliver to that competent authority the following information:

- a) general information concerning the branch, which includes:
 - 1) objects of the branch operations,
 - 2) names of the persons authorized for representing the branch,
 - 3) name and registered office of the branch, where all the information related the branch operation may be obtained,
- b) information concerning the funds managed by the company, information concerning the units or shares which the management company plans to offer for public subscription through the branch in the Republic of Srpska:
 - 1) precise description of the planned business activities which the management company intends to carry on concerning the sale of fund's units or shares,
 - 2) for each fund, its prospectus and/or fund rules, and the latest financial report.

(2) The competent authority in the Member State shall deliver the notifications referred to in paragraph 1 of this Article, along with the attachments, to the Securities Commission and shall notify the management company thereof.

(3) Together with the notification referred to in paragraph 2 of this Article, the competent authority in the Member State shall deliver to the Securities Commission the following:

- a) information concerning the amount of registered capital of the management company,
- b) statement that every fund to which the notification referred to in paragraph 1 of this Article relates, meets the requirements.

(4) Notwithstanding the provision of paragraph 2 of this Article, the competent authority in the Member State shall not deliver the notification concerning the establishment of a branch to the Securities Commission, if on the basis of the presented information, referred to in paragraph 1 of this Article, and on the basis of the proposed objects of the branch operations, it has concluded that there is a reasonable doubt concerning the organization or administration of the branch operations,

i.e. a financial capacity of the management company for conducting business in the Republic of Srpska.

(5) The management company shall notify the competent authority in the Member State of any change in the particulars, referred to in paragraph 1 of this Article, at least one month prior to implementing the planned changes.

Article 41.

(1) Within two months following the receipt of information referred to in Article 40 of this Act, the Securities Commission is obliged to notify the management company of all the legal responsibilities arising from conducting business in the Republic of Srpska.

(2) Upon the receipt of the notification referred to in paragraph 1 of this Article, the management company may start business.

6.3. Direct pursuit of business in the Republic of Srpska

Article 42.

(1) A management company wishing to carry on business of fund management directly within the territory of the Republic of Srpska shall notify the competent authority of the Member State in which its registered office is located thereof. The notification shall be accompanied by the following:

- a) plan of activities,
- b) information and documents, referred to in Article 40, paragraph 1, item b) of this Act.

(2) The competent authority of the Member State shall deliver the notification, along with the attachments, to the Securities Commission, and shall notify the management company thereof.

(3) Together with the notification referred to in paragraph 2 of this Article, the competent authority of the Member State shall deliver to the Securities Commission the following:

- a) information concerning the amount of registered capital of the management company,
- b) statement that every fund to which the notification referred to in paragraph 1 of this Article relates, meets the legal requirements.

(4) Within two months following the receipt of information concerning such proposal, the Securities Commission shall notify the management company of all the legal responsibilities arising from conducting business in the Republic of Srpska.

(5) Upon the receipt of the notification, i.e. upon the expiry of the time limit referred to in paragraph 4 of this Article, if the notification has not been received within that time limit, the management company may start business.

(6) The management company shall notify the competent authority of the Member State of any change in the particulars, referred to in paragraph 1 of this Article, at least one month prior to implementing the planned changes.

(7) The provisions of this Article shall also apply in the case the management company has delegated individual activities within its scope of business operations to another person.

6.4. Supervision of business operations in the Republic of Srpska

Article 43.

(1) The competent authority of the Member State shall have a right to perform supervision of business operations of a branch of the management company with a registered office in a Member State, or of a direct pursuit of business of the management company in the Republic of Srpska.

(2) The competent authority of the Member State may require from the Securities Commission to perform the supervisory procedure over the operation of the branch, if this would expedite and simplify the supervisory procedure, in accordance with the principles of efficacy, cost-efficiency and taking actions within a reasonable time period. Persons authorized by the competent authority of the Member State may also be authorized, under the same conditions, for taking part in the supervisory procedure.

7. Authorisation withdrawal and termination of the management company

Article 44.

The Securities Commission shall have a right to withdraw authorization from the management company in the following cases:

- a) if the management company has failed to start business within one year following the date of granting the authorization,
- b) if the management company has voluntarily waived the authorization in the case of termination of pursuit of business of investment fund establishment and management,
- v) if the management company has not carried on the activity of investment fund establishment and management for six or more months, in accordance with this Act,
- g) if the authorization has been granted on the basis of false information or misleading information, or in any other inappropriate manner,
- d) if the authorized person no longer meets the conditions for granting the authorization,
- đ) if the authorized person has seriously or systematically infringed this Act.

Article 45.

(1) The management company shall be entitled to transfer the open-ended investment fund management activities to another management company, duly authorized by the Securities Commission.

(2) In the case of a closed-ended investment fund, the Supervisory Board of the fund is entitled to transfer the entire investment fund to another management company authorised by the Securities Commission, upon the approval of the general assembly of the closed-ended investment fund.

(3) The management company shall notify, at least three months prior to the transfer of the investment fund management, all the unit-holders in that fund of the transfer of management. The management company may not calculate and charge the exit fee for unit-holders wishing to exit the fund within the previously indicated period.

(4) The method of business management transfer, referred to in paragraphs 1 and 2 of this Article, shall be prescribed by the Securities Commission.

Article 46.

The management company may terminate its registered activity in the following cases:

- a) at least sixty days prior to the date of management termination, it must deliver a written notification to the depositary bank, provided that the fund has made use of the depositary bank's services, to the Securities Commission, provided that it manages an open-ended investment

fund, or to the supervisory board and Securities Commission if it manages a closed-ended investment fund,

- b) if the circumstances have occurred, unambiguously implying that the management company is not or will not be in a position to meet its liabilities, it must immediately notify the Securities Commission thereof, if it manages an open-ended investment fund, or supervisory board if it manages a closed-ended investment fund,
- d) if the management company which manages the open-ended investment fund has failed to effect the procedure of management transfer to another authorized management company, pursuant to Article 45 of this Act, within sixty days following the date of sending the notification, referred to in items a) or b) of this paragraph, i.e. if the same has not been effected by the supervisory board in the case of the closed-ended investment fund, the winding-up procedure for the fund shall be initiated, pursuant to the provisions of Title IX of this Act.

8. Limitations and liability of the management company

Article 47.

- (1) The management company of investment funds with a public offering may not:
- a) carry on activities of intermediation in purchase and sale of securities,
 - b) divest securities or any other fund's assets, nor may it acquire these assets from the fund, whether for its own account or for the account of related persons,
 - v) purchase out of the fund's assets the assets that are not provided for by the fund rules and prospectus,
 - g) execute transactions which infringe the provisions of this Act and regulations of the Securities Commission, including the provisions concerning the limitations on the investment in funds which it manages,
 - d) divest assets of the closed-ended investment fund and assets constituting the open-ended investment fund without receiving the appropriate fee,
 - đ) acquire or divest assets in the name of the funds which it manages at a price less favourable than the market price or estimated value of the respective assets,
 - e) in its own name and for the account of an open-ended investment fund with a public offering, i.e. in the name and for the account of a closed-ended investment fund with a public offering, borrow funds, unless this is done for the purpose of using these funds for the repurchase of units in open-ended investment fund with a public offering, provided that the monetary assets available in the fund's portfolio are insufficient for that purpose, whereby, in the case of such loans, the total amount of liabilities subject to repayment out of the assets constituting the open-ended investment fund with a public offering, under all loan or credit agreements, may not exceed 10% of net asset value of the open-ended investment fund with a public offering at the moment of taking out these loans, for a period not exceeding three months,
 - ž) grant loans out of the fund's assets,
 - z) use the fund's assets as a collateral for settling the liabilities of the management company or liabilities of third persons, to arrange transactions under preferential terms for the management company, its employees or related persons,
 - i) arrange sale, purchase or transfer of assets between two funds managed by the same management company, under conditions other than market conditions or conditions that favour one fund over the others,

- j) assume obligations concerning the assets which are not, at the time of assuming these obligations, in the ownership of the investment fund with a public offering, except for transactions involving exchange-traded securities or securities traded in some other regulated trading system, the rules of which allow for delivery versus payment for securities,
- k) acquire or divest for its own account units in an open-ended investment fund it manages,
- l) issue securities of open-ended investment funds other than their units,
- lj) invest fund's assets in securities or other financial instruments, issued by that management company,
- m) funds with a public offering managed by a single management company may not collectively own:
 - 1) more than 25% of voting shares of any single issuing body,
 - 2) more than 10% of non-voting shares of any single issuing body,
 - 3) 10% of debt securities issued by the same issuer,
 - 4) 25% of units in an individual investment fund,
 - 5) 10% of money market instruments of any single issuing body, with an exception that the limitations referred to in this sub-item do not apply to debt securities and money market instruments issued by the Republic of Srpska, Bosnia and Herzegovina, units of local and regional self-government of the Republic of Srpska, Member States, local government units of Member States, a non-Member State, or public international bodies of which one or more Member States are members.

(2) Limitations and liability of the management company of the investment fund with a private offering shall be prescribed by the fund's prospectus.

Article 48.

(1) In the case it has not carried on or has failed to carry on, entirely or partially, i.e. if it has improperly carried on any activity or task provided for by this Act, fund rules or fund's prospectus, the management company shall be liable to the unit-holders or shareholders of the fund for due care and diligence in pursuing the business, as provided for by this Act, ordinance, fund rules and the fund's prospectus, as well as by the contract on closed-ended investment fund management.

(2) Waiver of liability due to delegation of individual functions to a third party shall not have a legal effect.

III DEPOSITARY BANK

1. The concept of depositary bank

Article 49.

(1) A depositary bank shall be a bank which carries on, for the fund's needs, the activities of safe-keeping the fund's pool of assets, managing special accounts for the fund's assets and separation of assets of each individual fund from the assets of other funds, and carries on other activities of a depositary bank, as provided for by this Act.

(2) Only a bank with a registered office in the Republic of Srpska, may act as a depositary bank of the fund registered in the Republic of Srpska.

(3) In addition to bank referred to in paragraph 2 of this Article, Central registry of securities may carry out business of fund's depositary, provided that it obtained the authorisation of the Securities Commission.

2. Basic characteristics of depositary bank's activities

Article 50.

- (1) An investment fund with a public or private offering, established in accordance with the provisions of this Act and conducting business within the territory of the Republic of Srpska must have a depositary bank.
- (2) Compulsory provisions of this Act, which regulate the obligations of funds and management companies concerning the use of depositary bank's services, shall relate to all investment funds and companies which manage them.

Article 51.

- (1) Activities of safe-keeping and other activities carried on by a depositary bank for the management company shall be separated, in terms of organizational structure, from the activities of the management company.
- (2) The assets of investment funds, including securities, bank accounts and other assets, shall be safe-guarded and held by the depositary bank in a separate account for each of the funds for which it carries on activities as a depositary bank.
- (3) A depositary bank may not use assets of investment fund, whether directly or indirectly, for executing transactions for its own account or for deriving any benefit for itself, its employees or for the purpose, other than the benefit of shareholders or unit-holders.
- (4) The funds' assets with the depositary bank shall not be included in the depositary bank's assets, neither in liquidation or bankruptcy estate, nor for the execution with respect to the claims on the depositary.

Article 52.

A depositary bank shall act solely in the interest of the fund investors for whom it carries on the activities of a depositary bank.

3. Rights and liabilities of a depositary bank

Article 53.

- (1) Apart from safe-keeping a separate pool of fund's assets, maintaining special accounts for the assets of each individual fund and separation of assets of each individual fund from the assets of other funds, a depositary bank shall carry on the following activities:
 - a) in the case of an open-ended investment fund, it shall make sure that selling and repurchasing of units for the fund's account is performed in accordance with law and the fund rules,
 - b) in the case of an open-ended investment fund, it shall repurchase and redeem units, and shall make payments to unit-holders in open-ended investment fund out of the fund's profit,
 - v) it shall make sure that the calculation of the net value of individual share or unit in a fund is announced in accordance with this Act, relevant regulations and prospectus and fund rules,
 - g) it shall execute the orders of the management company concerning the transactions involving securities and other assets constituting the portfolio, provided that they are not contrary to this Act, Securities Commission's regulations, prospectus and/or fund rules, and shall ensure that securities transactions are settled, i.e. that due monetary claims are collected within the legal or agreed time limits,

- d) it shall report to the management company on the corporate actions related to the fund's assets which it safe-keeps and shall, consequently, execute its orders,
- ď) it shall collect income and other rights due to the benefit of the fund, attaching to its assets,
- e) it shall make sure that fund's income is used in accordance with this Act and prospectus and/or fund rules, and that all the costs paid by the fund are compliant with the conditions set out in the prospectus and/or fund rules, provisions of this Act and other regulations,
- ž) it shall carry on other professional or administrative activities, as provided for by the contract between the management company or supervisory board,
- z) it shall keep records of conducting business as a depositary bank for each individual fund and shall regularly adjust these records with the management company's records,
- i) it shall report to the Securities Commission any permanent infringement of this Act and of the contract by the management company, in the case the management company refuses to accept its request for the termination of such an infringement,
- j) it shall provide access to data and accounts related to the fund and its assets for the auditors and other persons authorized for examination, including the Securities Commission.

(2) The Securities Commission shall prescribe the method of implementing the provisions referred to in paragraph 1 of this Article.

4. Responsibility of a depositary bank

Article 54.

A depositary bank shall be responsible to the management company, unit-holders in open-ended investments funds and shareholders in closed-ended investment funds for the damage caused if it has failed to carry on or has improperly carried on the activities provided for by the contract for custody and depositary services or by this Act, as well as where it has entrusted its activities, referred to in Article 53, paragraph 1 of this Act, entirely or partially, to third persons.

Article 55.

Data on unit-holders, their units, i.e. on shareholders, and on payments and redemptions which are made available to the depositary bank in accordance with the provisions of this Act, shall be safeguarded by the depositary bank as a business secret.

5. Replacement of a depositary bank

Article 56.

The investment funds shall not be permitted to replace a depositary bank without the approval by the Securities Commission.

Article 57.

(1) A depositary bank, wishing to terminate a pursuit of business as a depositary bank or to terminate the contract on depositary bank services with an individual fund or funds, shall, at least two months prior to the termination of activity or termination of contract, send a written notice concerning its intention to the Securities Commission, supervisory board of each closed-ended investment fund or management company of an open-ended investment fund for which it carries on the activities as a depositary bank.

(2) Where the open-ended investment fund management company or supervisory board of a closed-ended investment fund fail to conclude a depositary contract with another depositary bank within two months following a receipt of the notice, referred to in paragraph 1 of this Article, a depositary

bank shall, if it is in a position to do so, continue to provide depositary services for further one month.

(3) Where a depositary bank terminates a pursuit of business as a depositary bank, or where in the period of sixty days, i.e. in the additional period of thirty days, the contract with another depositary bank is not concluded, the investment funds to which a depositary bank provided depositary services shall be wound up, pursuant to the provisions of Title IX of this Act.

Article 58.

The open-ended investment fund management company or supervisory board of the closed-ended investment fund may replace one depositary bank with another. The former depositary bank shall, within three days following the receipt of the application, notify the Securities Commission that, to its best knowledge, there are no unresolved infringements of law or regulations.

Article 59.

In the case of termination of the depositary contract, a depositary bank shall transfer all the assets of the investment funds that it has held in custody to another depositary bank for safe-keeping, with which the management company, or supervisory board, have concluded the depositary contract, and shall also deliver the books of accounts, records and all other documents and materials significant for the pursuit of business of the funds for which it formerly provided services of a depositary bank, in a written or electronic form, depending on the method of keeping the foregoing data.

IV INVESTMENT FUNDS WITH A PUBLIC OFFER

1. The closed-ended investment funds with a public offering

Article 60.

(1) A closed-ended investment fund with a public offering shall be a joint stock company with a registered office in the Republic of Srpska, which is established and managed, upon the authorization of the Securities Commission, by the management company, whose object of business is raising of assets through a public offering of its unlimitedly transferable shares and investment of these assets, on the principle of risk-spreading.

(2) A closed-ended investment fund with a public offering may be established for a definite or indefinite period of time.

(3) The fund rules of the closed-ended investment fund with a public offering shall determine its investment objectives.

(4) A closed-ended investment fund with a public offering may not be transformed into a holding, concern or other forms of related companies.

(5) The provisions of the Companies Act shall apply to the open-ended investment funds with a public offering, unless otherwise provided for by this Act.

Article 61.

(1) The application for granting the authorization and the application for the enrolment of the closed-ended investment fund with a public offering in the register of funds, which is submitted to the Securities Commission by the management company shall contain:

- a) the name of the management company and information concerning the authorization granted to the management company by the Securities Commission, as well as the first and last name of the person authorized for representation, address, telephone and telefax number and e-mail address of the management company,

- b) the name of the fund,
- v) fund's investment objectives,
- g) first and last name, address, telephone and telefax number, e-mail address of the members attending the first session of the fund's supervisory board,
- d) fund rules,
- đ) fund's prospectus,
- e) decision on the appointment of the members of the first supervisory board and their written statements as to the acceptance of the appointment,
- ž) contract concluded between the fund's supervisory board and the management company,
- z) contract concluded with a depositary bank and a copy of the court register certificate for the bank,
- i) an application for admitting the fund's shares to official listing on the stock exchange or another regulated market open to the public, as well as a written confirmation of the respective stock exchange that the fund's shares, judging by the application, meet the listing requirements, and
- j) the name of the auditor, court register certificate and basic information concerning the auditor.

(2) The Securities Commission shall adopt the ordinance regulating in more detail the obligatory contents of the application, fund rules, prospectuses and contracts of the closed-ended investment funds with a public offering, which may require additional data if this is necessary for the protection of the investors' interests.

1.1. Registered capital and shares of the closed-ended investment fund with a public offering

Article 62.

- (1) The minimum amount of registered capital of the closed-ended investment fund with a public offering shall be 1.000.000 KM.
- (2) The Securities Commission may prescribe the larger amount of registered capital than the amount prescribed by paragraph 1 of this Article.

Article 63.

- (1) The provisions of the Companies Act shall apply mutatis mutandis to the subscription and payment of shares.
- (2) The shares of the closed-ended investment fund with a public offering shall be paid in cash and shall be paid up entirely prior to the enrolment of the closed-ended investment fund in the court register or prior to the enrolment of an increase in registered capital.

Article 64.

- (1) Ordinary shares of the closed-ended investment fund with a public offering shall be registered shares, granting shareholders equal rights, as provided for by the law, prospectus and fund rules.
- (2) The closed-ended investment fund with a public offering may not issue any other type of securities, except for shares referred to in paragraph 1 of this Article.
- (3) The shares of the closed-ended investment fund with a public offering must be admitted to official listing on the stock exchange or another regulated market open to public.

1.2. Costs of closed-ended investment fund with a public offering

Article 65.

(1) Costs and fees associated with the establishment of a closed-ended investment fund with a public offering may be paid by debiting the fund's assets only if so is determined by the prospectus and fund rules. The maximum amount of establishment costs and fees that are paid by debiting the fund's assets shall be expressed in the prospectus as a percentage of monetary assets paid in the fund at its establishment. Any other costs and fees associated with the establishment, exceeding the percentage determined in this manner, shall be borne by the management company or supervisory board, depending on who has incurred them.

(2) If the closed-ended investment fund with a public offering fails to reach the minimum amount of registered capital, costs and fees associated with the establishment shall be borne by the founders who have adopted the fund rules, and monetary holdings shall be returned to the investors in entirety.

(3) Costs and fees associated with the establishment which are paid out of the assets of the closed-ended investment fund with a public offering may not exceed 3.5% of total monetary assets raised by issuing shares.

Article 66.

(1) As regards other costs, the following costs, exclusively, may be directly paid from the assets of the closed-ended investment fund with a public offering:

- a) the management company fee, which shall be based on the percentage of the fund's average annual net asset value and shall be indicated in the contract between the fund and the management company, and in the fund's prospectus, and may be deducted, as an annual cost, from the fund's assets and shall be calculated at every net asset value calculation of the fund,
- b) fee to the depositary bank,
- v) fees and costs of the supervisory board's members,
- g) costs, commissions or remuneration directly related to the acquisition or sale of fund's assets,
- d) fees and costs of keeping a share register, including the costs of issuing the unit balance certificates, if they are issued, and the costs of dividends pay-out,
- đ) costs of auditors and lawyers, incurred in a pursuit of business of a closed-ended investment fund,
- e) costs of preparing, printing and postal charges related to the publication and delivery of reports that are, in accordance with this Act, communicated to the shareholders,
- ž) costs of holding a general assembly, except where an extraordinary general assembly is convened by the management company, in which case these costs shall be borne by the management company,
- z) all the prescribed fees and remuneration, paid to the Securities Commission, concerning the issuance of authorization to the closed-ended investment fund,
- i) costs of admittance to official listing on the stock exchange or another regulated market open to the public,
- j) taxes on assets and/or profit imposed on the fund,
- k) advertising costs, but only where this is compulsory for closed-ended investment funds, pursuant to this Act, and
- l) other costs, as provided for by the special laws (Securities Commission costs).

(2) The management company fee, referred to in paragraph 1, item a) of this Article, may not be defined in such a manner that it depends on the fund's performance.

(3) Only the costs determined by the fund's prospectus may be paid by debiting assets of the closed-ended investment fund with a public offering.

Article 67.

(1) Total amount of all the costs entered in the books by debiting the closed-ended investment fund with a public offering shall be expressed as a total expense ratio, and shall be calculated for each previous year in the following manner:

Total management fee + total amount of all other
costs, referred to in Article 66 of this Act, less costs
referred to in paragraph 1, item j) and item l) of that Article

$$\frac{\text{Total management fee + total amount of all other costs, referred to in Article 66 of this Act, less costs referred to in paragraph 1, item j) and item l) of that Article}}{\text{Average annual net asset value}} \times 100$$

(2) The amount of costs referred in paragraph 1 of this Article must be published in the audited annual financial report of the fund.

Article 68.

(1) The fund's total expense ratio may not exceed 3.5% of the average annual net asset value of the fund. Upon the expiry of the annual accounting period. The Securities Commission shall publish, every year, a summary of a comparison of total expense ratios for all closed-ended investment funds with a public offering.

(2) All the costs incurred, which in a particular year exceed the maximum permitted total expense ratio of 3.5% shall be borne by the management company.

1.2. Supervisory board

Article 69.

(1) The supervisory board of a closed-ended investment fund with a public offering shall have a minimum of 5 members.

(2) A maximum of 40% of the total number of supervisory board members of the closed-ended investment fund with a public offering may be employees or persons related to the management company or persons who have, in the past two years, concluded a contract on the provision of services with the fund, including auditors, lawyers and public notaries.

(3) Other supervisory board members of the closed-ended investment fund with a public offering shall be independent, implying that they may not be:

- a) employed with the management company, depositary bank, auditor or persons granted a valid authorization by the Security Commission, i.e. appropriate competent authority, for a broker or investment advisor, and effectively carrying on these activities as employees of a brokerage company or a bank authorized for securities transactions, or persons who have, in the past two years, concluded a contract for the provision of services with any of them,
- b) employed with the persons related to persons referred to in paragraph 3, item a), of this Article, or with persons related to them.

Article 70.

The following persons may not be members of the supervisory board of the closed-ended investment fund with a public offering:

- a) members of management or supervisory board of the management company, depositary bank, brokerage company or a bank authorized for securities transactions, insurance companies, privately-owned pension fund, at the time when the authorization to pursue business has been withdrawn from these companies by the competent regulatory authority, in the period of three years following the authorization withdrawal,
- b) persons who no longer hold membership in a professional association on grounds of infringement of the association rules, or against whom the Securities Commission, i.e. the respective competent authority, has imposed a measure of withdrawing the authorization to execute transactions involving securities,
- v) persons against whom a final sentence has been imposed for a criminal act against property, a criminal act against the payment transaction safety and operation, and a criminal act of distortion of authenticity of documents prescribed by the Criminal Code of the Republic of Srpska, for a period of one year after the sentence has become final, where the time of serving the sentence is not calculated in that period,
- g) persons against whom a final sentence has been imposed for unauthorized use and disclosure of insider information, price manipulation and distribution of false information, indication of false data in the prospectus and its unauthorized distribution, unauthorized listing of securities, concealment of ownership and unauthorized trading in securities, as provided for by the Securities Act, for a period of one year after the sentence has become final, where the time of serving the sentence is not calculated in that period,
- d) persons against whom a final sentence has been imposed for an offence prescribed by the Securities Market Act, for a period of one year after the sentence has become final,
- đ) persons against whom the safety measure has been imposed of prohibiting the pursuit of business which is completely or partially included in the objects of the fund's/management company's operations, in the period the prohibition is in effect,
- e) any person who has been declared incapacitated,
- ž) persons holding a valid authorization by the Securities Commission, i.e. by the respective competent authority, for a broker or investment advisor, where they effectively carry on these activities as employees of a brokerage company or a bank authorized for securities transactions,
- z) persons currently holding a public service office and who are currently central government employees or employees of the local and regional self-government or of the authorities responsible to the Government of the Republic of Srpska or to the Republic of Srpska's Parliament, or employees of the corresponding authorities in any other country.

Article 71.

The supervisory board members of the closed-ended investment fund with a public offering shall be appointed for a term of office of maximum four years and they may be re-appointed.

Article 72.

The total amount of remuneration and costs paid to the supervisory board members, as well as the number and value of all the shares in the fund held by an individual supervisory board member shall be indicated in the annual financial report of the closed-ended investment fund with a public offering. The supervisory board members shall not be permitted to receive any remuneration from

the issuing bodies of securities in which the fund invests its assets, other than remuneration to which they are entitled pursuant to the employment contract.

1.4. Competence of the supervisory board

Article 73.

The supervisory board members of the closed-ended investment fund with a public offering, in addition to competence of the supervisory board granted pursuant to the Companies Act, shall jointly represent the fund in relation to the management company. In addition, the supervisory board shall be competent for the following:

- a) granting of approval for entering into contract with persons providing services to the fund, where such contracts may not be concluded for a period longer than three years,
- b) supervision over the performance of the contract, referred to in item 1 of this paragraph, where the supervisory board shall have a right to terminate the contract in the case of a permanent non-performance of the contract, in which case none of the fees payable as a result of such a termination may exceed the amount of a three-month remuneration provided under the terminated contract,
- v) supervision over the compliance of business operations with the provisions of this Act, fund's prospectus, as well as the objectives and limitations on investment of an individual fund,
- g) granting of approval of the decision on the proposed decisions to be made concerning the share redemption, share issue and fund restructuring at the fund's general assembly,
- d) communicating to the Securities Commission any failure of the management company and depositary bank to comply with this Act and relevant regulations,
- đ) determining the fund's financial reports, upon the proposal of the management company.

Article 74.

In the case of authorization withdrawal from a management company or occurrence of any other circumstance preventing a continued pursuit of activities of managing closed-ended investment fund with a public offering, the supervisory board shall, within sixty days following the occurrence of such circumstances, sign the contract, referred to in Article 76 of this Act, with another management company. The supervisory board shall, otherwise, convene the general assembly of the fund.

Article 75.

In the case of authorization withdrawal from a depositary bank of the closed-ended investment fund with a public offering or occurrence of any other circumstance preventing a continued pursuit of the contracted activities, the supervisory board shall, within sixty days following the occurrence of such circumstances, sign the contract with another depositary bank. The supervisory board shall, otherwise, convene the general assembly of the fund.

1.5. Fund management

Article 76.

(1) The management board of the management company shall have authority, shall be appointed and shall act as the management board of the closed-ended investment fund and shall manage the fund in accordance with the contract concluded between the management company and the fund, represented by its supervisory board, pursuant to the provisions of this Act and relevant regulations.

(2) The Securities Commission shall adopt the ordinance regulating in more detail the compulsory contents of the contract, referred to in the previous paragraph of this Article, concluded between the management company and the closed-ended investment fund with a public offering.

Article 77.

The management company shall be responsible for performing the obligations assumed under the contract, referred to in Article 76 of this Act, regardless of whether it performs these obligations directly or through a third party.

1.6. Permitted investments and limitations on investments

Article 78.

(1) Assets of a closed-ended investment fund with a public offering may, exclusively, consist of the following:

- a) securities,
- b) units or shares in investment funds,
- v) money market instruments,
- g) deposits held with authorized banks in the Republic of Srpska or in a Member State, or in some other country, on the condition that they are subject to supervision and restrictions which the Securities Commission shall consider, in terms of investors' safety, at least equivalent to those in the Republic of Srpska, maturing within a period not exceeding one year and which can be withdrawn at any time,
- d) forwards and options and other financial derivatives, traded on the regulated market, referred to in paragraph 1, item a) of this Article, and/or financial derivatives traded on other regulated markets (OTC), under the following conditions:
 - 1) their underlying is a financial instrument in which investment is permitted by this Article, financial indices, interest rates, exchange rates or currencies in which the fund is permitted to invest pursuant to its prospectus and fund rules,
 - 2) the transactions arranged on other regulated markets (OTC) are concluded with the institutions subject to strict supervision of a regulatory authority in the Republic of Srpska, Bosnia and Herzegovina or in a Member State,
 - 3) they are subject to a reliable and verifiable valuation on a daily basis and they may be sold, liquidated or offset at their fair value at the fund's request, at any time,
 - 4) such instruments are used exclusively for hedging purposes or for yield increase, i.e. for reducing fund's costs without increasing the risks, or on the condition that they do not change the investment strategy, objectives and restrictions defined by this Act and prospectus and/or fund rules,
 - 5) the fund's prospectus must indicate whether investment in such instruments is permitted, whether they will be used for hedging purposes and/or for the purpose of attaining the fund's investment objectives, as well as what is the effect of these instruments on the fund's risk,
- đ) real estates,
- e) money in the account.

(2) The Securities Commission shall adopt the ordinance regulating the permitted investments of the closed-ended investment funds with a public offering.

Article 79.

(1) Investment of assets of a closed-ended investment fund with a public offering shall be subject to the following limitations:

- a) a maximum of 15% of the fund's net asset value may be invested in securities or money market instruments of any single issuing body, with an exception that:
 - 1) the limitation does not apply to investment in securities or money market instruments issued or guaranteed by the Republic of Srpska or units of local and regional self-government of the Republic of Srpska, Bosnia and Herzegovina, Member States, or local government units of Member States, a non-Member State, or public international bodies of which one or more Member States are members, provided that:
 - the prospectus and the fund rules clearly indicate the states, units of local government or public international bodies in whose securities and money market instruments more than 35% of the fund's assets may be invested,
 - the fund's assets consist of at least six different securities or money market instruments, and
 - the value of any single security or money market instrument, referred to in item a), sub-item 1) of this paragraph does not exceed 30% of the fund's assets,
 - 2) if the fund attempts to replicate a share index or debt securities index, the Securities Commission may permit that up to 20% of the fund's assets is invested in shares or debt securities of any single issuing body and in exceptional circumstances, up to 35% of the fund's assets may be invested in shares or debt securities of any single issuing body if this is necessary for the index replication; investment up to 35% of the fund's assets in shares or debt securities of any single issuing body is permitted only for one issuing body; such a fund shall clearly indicate in its prospectus and fund rules that its investment objective is index replication,
- b) persons representing related persons, in accordance with the provisions of the Companies Act and this Act, shall be considered as a single issuing body, in terms of Article 78 of this Act and provisions of this Article, where no more than 20% of the fund's net asset value may be invested in securities or money market instruments the issuers of which are persons representing a group of related companies,
- v) the limitations, referred to in paragraph 1, item a) of this Article shall not apply to:
 - 1) deposits,
 - 2) financial derivatives traded on other regulated markets (OTC),
- g) a maximum of 20% of the fund's net asset value may be placed as a deposit with any single bank, referred to in Article 78, paragraph 1, item g) of this Act,
- d) exposure to a single person on the basis of financial derivatives contracted with that person on another regulated market (OTC) may not exceed:
 - 1) 10% of the fund's net asset value, in the case of a bank referred to in Article 78, paragraph 1, item g) of this Act,
 - 2) 5% of the fund's net asset value, in the case of any other legal person,
- đ) total value of investment in securities or money market instruments issued by any single issuing body and the value of deposits placed with that person and exposures to financial derivatives traded on other regulated market (OTC) arranged with that person, may not exceed 20% of the fund's net asset value,

- e) a maximum of 20% of the fund's net asset value may be invested in units or shares of any single investment fund, referred to in Article 78, paragraph 1, item b) of this Act, on the condition that no more than 30% of the fund's assets is invested in funds other than those referred to in Article 15, paragraph 1, items b) of this Act, and no more than 10% of the fund's assets is invested in funds with a private offering,
- ž) investment in units or shares of an investment fund may not exceed 25% of net asset value of an individual fund in which an investment is made,
- z) if the fund's assets are invested in units or shares of investment funds directly or indirectly managed by the same management company, or managed by another management company with which the former company is linked by common management or control, or by a direct or indirect holding, the fund may not be charged an entry or exit fee for such investments,
- i) if the fund's assets may be invested in units or shares of other investment funds, the fund's prospectus shall clearly indicate, in addition to the maximum management fee that may be charged to the assets of that fund, the maximum management fee that may be charged to the assets of the funds in which it intends to invest, and the fund's annual reports shall clearly indicate total maximum management fee charged to that fund and to other fund in which the former has invested, expressed as a percentage of assets of the fund which has made investment in units or shares of another investment fund,
- j) the fund may not own more than 25% of voting shares of any single issuing body or securities of any single bond issue,
- k) the fund's total exposure to financial derivatives may in no case exceed 10% of the fund's net asset value,
- l) if the fund intends to invest more than 40% of its net asset value in unlisted securities, the name of the fund shall contain the wording "closed-ended investment fund with a public offering for investment in unlisted securities",
- lj) no investment shall be permitted in limited liability companies, or in any securities that are not freely transferable.

(2) The Securities Commission shall adopt the ordinance regulating in more detail limitations on investment of closed-ended investment funds with a public offering.

1.7. Closed-ended investment fund with a public offering for investment in real estate

Article 80.

(1) Exclusively the closed-ended investment fund with a public offering to which investment in real estate is permitted under the prospectus and fund rules, i.e. which intends to invest more than 60% of the fund's net asset value in real estate, may acquire real estate in a manner and under the terms and conditions provided for in this Act.

(2) The investment fund, referred to in paragraph 1 of this Article, shall contain in its name the wording: "closed-ended investment fund with a public offering for investment in real estate".

(3) The investment fund for investment in real estate, according to the fund rules and prospectus, may acquire real estate in the Republic of Srpska and abroad on the principle of reciprocity, as follows:

- a) residential and/or commercial buildings with the respective plot,
- b) site where building work is carried out, if the building plan corresponds to the conditions referred to in item 1 of this paragraph and if, according to the reasonable criteria, the construction may be expected to be completed within the appropriate time limit, and if the costs of land do not exceed a total of 20% of the fund's net asset value,

- v) sites where building work is not carried out, where in accordance with the effective local and regional self-government regulations, construction of residential or commercial buildings is permitted, i.e. of buildings and facilities required for carrying on certain activities, and are thus intended for immediate own construction, in accordance with the provision of item a) of this paragraph,
- g) agricultural land,
- d) other investments in real estates, if this is explicitly provided for in the fund rules and in the prospectus.

(4) Assets referred to in paragraph 3 of this Article may be acquired only if the expert appraiser has previously appraised the respective real estate and if the consideration or price to be paid or performed for the account of the fund does not exceed or only slightly exceeds the appraised value of the real-estate.

(5) Any individual real estate may not at the time of acquisition exceed 20% of net asset value of the fund's assets. This also applies to real estates consisting of several interrelated plots of land.

(6) At least 50% of net value of the closed-ended investment fund with a public offering for investment in real estates shall be accounted for by the real estates located in the Republic of Srpska, except in the case of investment referred to in paragraph 7 of this Article.

(7) Investments in units or shares of companies whose object of business is exclusively or predominantly acquisition and sale, rent and lease of real estates and real estate management, in units or shares of another fund for investment in real estate, or in other securities, derivatives or certificates prescribed by the Securities Commission, and the price of which is based on the underlying real estates, shall be considered a real estate investment.

(8) The Securities Commission shall adopt the ordinance which regulates the investments of closed-ended investment funds with a public offering for investment in real estates.

1.8. Derogation from limitations on investment

Article 81.

The investment limitations, referred to in Article 79 of this Act, may be exceeded in the case of transferable securities or money market instruments acquired by the fund when increasing registered capital out of the company's assets or when exercising the priority subscription rights or subscription rights attaching to securities or money market instruments, and when selling the fund's assets for the purpose of a simultaneous redemption of a larger number of units.

Article 82.

In the case of derogation from the investment limitation, referred to in Article 79 of this Act, which results from the movement of prices on the market, i.e. a derogation referred to in Article 81 of this Act, the management company shall, in an attempt to protect the shareholders' interests, adjust the fund's investments pursuant to the provision of Article 78 of this Act within a period of one year, while possible losses should be minimised.

Article 83.

In the case of derogation from the investment limitation, referred to in Article 79 of this Act, which results from the transactions arranged by the management company, where at the time of their conclusion the previously mentioned limitations have been exceeded, the management company shall adjust the fund's investments pursuant to the provision of Article 78 of this Act immediately after becoming aware of the derogation. The management company shall compensate the fund for the damage occurred in this manner.

Article 84.

Derogation from the investment limitations referred to in this Act may be permitted in the first year following the establishment of the fund, while ensuring observance of the principle of risk-spreading and protection of the investors' interests.

1.9. General Assembly

Article 85.

(1) The provisions of the Companies Act shall apply on the competence, convening and holding of the general assembly.

(2) The general assembly may make valid decisions, where votes representing at least 30% of the registered capital of the closed-ended investment fund with a public offering are present at the general assembly.

Article 86.

The general assembly, on the basis of the votes representing at least three quarters of the registered capital, present at the fund's general assembly at the time of decision making, shall adopt the following decisions:

- a) increase in the annual fee to the management company, above the amount stated in the prospectus that is in effect,
- b) change in investment objectives of the fund in relation to the objectives indicated in the prospectus,
- v) acquisition of fund's own shares for the purpose of their redemption,
- g) the closed-ended investment fund with a public offering is established for a definite period of time, the extension of the fund's operation relative to the period indicated in the prospectus,
- d) merger into and consolidation with another fund, i.e. division of the closed-ended investment fund with a public offering.

2. Open-ended investment funds with a public offering

Article 87.

The open-ended investment fund with a public offering shall be a separate pool of assets, with no legal personality, which is established, upon the authorization of the Securities Commission, by the management company for the purpose of raising monetary assets through a public offering of units in the fund, whose assets are invested in accordance with the provisions of this Act and whose unit-holders shall have a right, in addition to a right to a proportionate participation in the fund's profit, to request, at any time, redemption of their units, and, in this manner, to exit the fund.

Article 88.

(1) A purchase of units through a public offering shall be carried out exclusively by payment of monetary assets, where the buyer, after buying the units, enters into a contractual relationship with the management company, which shall be obliged to manage the paid-in monetary assets as a part of collective assets, in accordance with the terms and conditions indicated in the prospectus.

(2) Notwithstanding paragraph 1 of this Article, the purchase of units may be carried out by granting the new units on the basis of distribution of share in profit, i.e. when reducing the value of units on the basis of granting the new units, or in any other case as provided for by the Securities Commission.

Article 89.

The assets of an open-ended investment fund with a public offering, raised by the issue and public sale of units in the fund and assets acquired by investment of the paid-in monetary assets, including income and rights arising from the fund's assets, shall constitute the open-ended-investment fund with a public offering, i.e. a separate pool of assets in collective ownership of all the unit-holders in the fund.

Article 90.

The unit-holders shall be responsible for liabilities of an open-ended investment fund with a public offering up to the amount of their participation in the fund.

2.1. Establishment of an open-ended investment fund with a public offering

Article 91.

(1) The application for granting the authorization and the application for the enrolment of the open-ended investment fund with a public offering in the register of funds, which is submitted by the management company, on behalf of the fund, to the Securities Commission, shall contain:

- a) the name of the management company, information concerning the authorization granted to the management company by the Securities Commission, as well as the first and last name of the person authorized for representation, address, telephone and telefax number and e-mail address of the management company,
- b) the name of the fund and its investment objectives,
- v) fund's prospectus,
- g) fund rules,
- d) contract concluded between the management company and a depositary bank and a court register certificate for the depositary bank,
- đ) the name of the auditor and a court register certificate for the auditor,
- e) an indication whether the fund, referred to in Article 15, paragraph 1, item a) or item b) of this Act is being established.

(2) The Securities Commission shall adopt the ordinance regulating in more detail the requirements concerning the issuance of authorization, compulsory contents of the prospectus of the open-ended investment fund with a public offering, which may require additional data if this is necessary for the protection of the investors' interests.

2.2. Units in open-ended investment fund with a public offering

Article 92.

(1) Open-ended investment funds with a public offering may issue only one type of units and may not issue any other types of securities granting rights to any part of the fund's assets.

(2) Units may be denominated in the amount that cannot be divided by the whole number, i.e. they may be denominated in the decimal amount.

(3) Pursuant to this Act, units shall be considered securities and shall be freely transferable, with no limitations.

(4) Units in open-ended investment fund with a public offering must be listed on the stock exchange or other regulated public market.

Article 93.

The value of assets of the open-ended investment fund with a public offering may not fall below 1.000.000 KM in the three consecutive calendar months, and if this occurs, the fund shall be wound up or shall merge with another fund.

2.3. Costs of an open-ended investment fund with a public offering

Article 94.

(1) The fees that are charged to the investor, i.e. to the open-ended investment fund with a public offering are limited to:

- a) entry fee, which is deducted from the amount of payment at the time of selling the units,
- b) exit fee, which is deducted from the fund's net asset value per unit at the time of redemption,
- v) management fee, which is calculated daily on the basis of the fund's net asset value, according to the following formula:

$$\text{Reported annual management fee} \times \frac{1}{365}$$

(2) Operating costs of the management company and the services which it provides to the open-ended investment fund with a public offering, other than the fees referred to in paragraph 1 of this Article, may not be charged to the fund, with subscription of unit-holders representing the only exemption, if such service is provided by the management company.

(3) Charging of fees related to the fund's performance shall not be permitted.

Article 95.

Other costs that may be recorded directly by debiting the investors or open-ended fund with a public offering shall be the following:

- a) fees and costs payable to the depositary bank,
- b) costs, commissions or remuneration related to the acquisition or sale of assets,
- v) costs of keeping a unit register, including the costs of issuing the transaction certificates or unit balance certificates, if necessary, and costs of distribution of a share in profit,
- g) costs of annual audit,
- d) costs of preparing, printing and postal charges related to the half-yearly and annual reports for the unit-holders,
- đ) all the prescribed fees and remuneration, payable to the Securities Commission, concerning the issuance of authorization to the fund,
- e) taxes payable by the fund on its assets or profit,
- ž) costs of communicating changes in the prospectus and other prescribed communications, and
- z) other costs, as provided for by the special laws (Security Commission's costs).

Article 96.

(1) Not a single cost may be paid out of the assets of the open-ended fund with a public offering, unless it is indicated as a cost in the fund's prospectus.

(2) No fee or remuneration shall be charged to the open-ended investment fund with a public offering, related to the advertising or promotion of the fund's units nor the remuneration to the funds' sales representatives. Such costs shall be paid by the management company out of income earned on the basis of management fees, collected entry and exit fees.

Article 97.

(1) Total amount of all the costs entered in the books by debiting the open-ended investment fund with a public offering shall be expressed as a total expense ratio, and shall be calculated for each previous year in the following manner:

$$\frac{\text{Total management fee + total amount of all other costs, referred to in Article 95 of this Act, less costs referred to in paragraph 1, items b), e) and z) of that Article}}{\text{Average annual net asset value}} \times 100$$

(2) Amount of costs referred to in paragraph 1 of this Article must be published in the audited annual financial report.

Article 98.

(1) The fund's total expense ratio may not exceed 3.5% of the average annual net asset value of the fund. Upon the expiry of the annual accounting period, the Securities Commission shall publish, every year, a summary of a comparison of total expense ratios for all open-ended investment funds with a public offering.

(2) All the costs incurred, which in a particular year exceed the maximum permitted by paragraph 1 of this Article, shall be borne by the management company.

2.4. Management of Open-Ended Investment Funds with a Public Offering

Article 99.

Business of administration and management of operations of an open-ended investment fund with a public offering, in accordance with the objectives established in its prospectus, may be conducted exclusively by the management company which has been granted authorization by the Securities Commission.

2.5. Permitted investments, limitation on and derogation from limitation on investments

Article 100.

(1) Assets of an open-ended investment fund with a public offering may, exclusively, consist of the following:

- a) transferable securities or money market instruments which are traded:
 - 1) on a regulated market,
 - 2) on a regulated market of a Member State which operates regularly,
 - 3) admitted to official listing on a stock exchange or another regulated market in a non-Member State which operates regularly and is open to the public, on the condition that such an investment is provided for in the prospectus and fund rules,
- b) recently issued transferable securities, provided that:

- 1) the terms of issue in the prospectus provide for their admission to official listing on a stock exchange or to another regulated market which operates regularly and is open to the public, and
 - 2) investment on that market or another regulated stock exchange open to the public is provided for in the prospectus and the fund rules, and
 - 3) such admission is secured within a year of issue. Otherwise, securities will be deemed unlisted,
- v) units or shares in investment funds registered in the Republic of Srpska or in a Member State or in a non-Member State, provided that:
- 1) the level of investor's protection and reporting and notification requirements in respect of the investors in such funds is at least equivalent to the requirements provided for by this Act, especially concerning the investment limitations, and that such investment funds are authorized by the Securities Commission or the appropriate competent authorities in a Member State or a in non-Member State, and
 - 2) the prospectus and/or rules of the fund in the shares or units of which investment is made, provide that a maximum of 10% of the fund's assets may be invested in shares or units of other funds,
- g) deposits held with authorized banks in the Republic of Srpska or in a Member State, or in some other country, on the condition that they are subject to supervision and restrictions which the Securities Commission shall consider, in terms of investors' safety, at least equivalent to those in the Republic of Srpska, maturing within a period not exceeding twelve months and which may be withdrawn at any time,
- d) forwards and options and other financial derivatives, traded on the regulated markets, referred to in paragraph 1, item a) of this Article, and/or financial derivatives traded on other regulated markets (OTC), under the following conditions:
- 1) their underlying is a financial instrument in which investment is permitted by this Article, their underlying instruments are financial indices, interest rates, exchange rates or currencies in which the fund is permitted to invest pursuant to its prospectus and fund rules,
 - 2) the transactions arranged on other regulated markets are concluded with the institutions subject to a strict supervision of a regulatory authority in the Republic of Srpska or in a Member State,
 - 3) they are subject to a reliable and verifiable valuation on a daily basis and they may be sold, liquidated or offset at their fair value at the fund's request, at any time,
 - 4) such instruments are used exclusively for hedging purposes or for yield increase, i.e. for reducing fund's costs without increasing the risks, or on the condition that they do not change the investment strategy, objectives and restrictions defined by this Act and prospectus and/or fund rules,
 - 5) the fund's prospectus must indicate whether investment in such instruments is permitted, whether they will be used for hedging purposes and/or for the purpose of attaining the fund's investment objectives, as well as what is the effect of these instruments on the fund's risk,
- e) money market instruments not traded on a regulated market provided that they:
- 1) have been issued or guaranteed by the Republic of Srpska, Bosnia and Herzegovina or units of local and regional self-government or by the central bank of the Republic of Srpska, Central Bank of Bosnia and Herzegovina Member States, local government units

or central banks of the Member States, the European Central Bank, European Investment Bank, non-Member States, federal units in the case of federal countries, or by a public international body of which one or more Member States are members, or

- 2) have been issued by the issuing body the securities of which are traded on regulated markets referred to in paragraph 1, item a) of this Article, or
- 3) have been issued by the body which is subject to supervision by the competent supervisory authority of a Member State or is subject to supervision which the Securities Commission considers appropriate, in accordance with this Act, or
- 4) have been issued by other persons approved by the Securities Commission, on the condition that investors in such instruments have protection at least equivalent to that of the investors in instruments referred to in paragraph 1, item d) sub-items a), b) ili c) of this Article, and that their issuer is a company whose capital and reserves exceed ten million KM and which prepares and publishes financial reports in accordance with the appropriate financial reporting standards, or that it is a part of a group of related companies, which consists of one or more persons the shares of which are admitted to official listing on the stock exchange and which is dedicated to the financing of that group, or that it is a company whose objects of business include financing of special entities for securitization, which make use of the credit line with a bank, and/or

ž) unlisted securities,

z) money in the accounts.

(2) The Securities Commission shall adopt the ordinance regulating the permitted investments of open-ended investment funds with a public offering.

Article 101.

(1) Investment of assets of an open-ended investment fund with a public offering shall be subject to the following limitations:

- a) a maximum of 10% of the fund's net asset value may be invested in transferable securities and money market instruments, other than those referred to in Article 100, paragraph 1, items a) and b) of this Act,
- b) a maximum of 10% of the fund's net asset value may be invested in transferable securities or money market instruments of any single issuing body, provided that, if the value of transferable securities or money market instruments of any single issuing body, constituting the fund's assets, exceeds 5% of the fund's net asset value, the sum of the value of these investments for all such issuers may not exceed 40% of the fund's net asset value, with an exception that:
 - 1) this limitation does not apply to investment in securities or money market instruments issued or guaranteed by the Republic of Srpska, Bosnia and Herzegovina or units of local and regional self-government of the Republic of Srpska, Member States, or local government units of Member States, non-Member States, or public international bodies of which one or more Member States are members, provided that:
 - the prospectus, the fund rules and any promotional literature clearly indicate the states, units of local government or public international bodies in whose securities and money market instruments more than 35% of the fund's net asset value may be invested,
 - the fund's assets consist of at least six different securities or money market instruments, and

- the value of any single security or money market instrument, referred to in item b), sub-item 1) of this paragraph does not exceed 30% of the fund's net asset value.
- 2) no more than 25% of the fund's net asset value may be invested in bonds approved by the Securities Commission, issued by banks registered in the Republic of Srpska or in a Member State, which are, pursuant to the law or regulations, subject to a special public oversight for the purpose of protection of investors in these bonds; funds raised by the issue of such bonds must be invested, pursuant to the law, in assets which will, until the time of bonds' maturity, allow for settling of liabilities arising from bonds and which will, in the case of the issuer's insolvency, have the highest priority in redeeming the principal and interest attaching to these bonds; if more than 5% of the fund's net asset value is invested in such bonds of any single issuing body, total value of such investments, accounting for more than 5% of the fund's net asset value, may not exceed 80% of the fund's net asset value,
- 3) persons representing related persons, in accordance with the provisions of the Companies Act and this Act, shall be considered as a single issuing body, in terms of Articles 100 and 101 of this Act, where no more than 20% of the fund's net asset value may be invested in securities or money market instruments the issuers of which are persons constituting related companies, pursuant to the provisions of this Act,
- 4) if the fund attempts to replicate a share index or debt securities index, the Securities Commission may permit that up to 20% of the fund's net asset value is invested in shares or debt securities of any single issuing body and in exceptional circumstances, up to 35% of the fund's net asset value may be invested in shares or debt securities of any single issuing body if this is necessary for the index replication; investment up to 35% of the fund's net asset value in shares or debt securities of any single issuing body is permitted only for one issuing body; such a fund shall clearly indicate in its prospectus and fund rules that its investment objective is index replication,
- v) transferable securities and money market instruments, referred to in item b), sub-items 1) and 2) of this paragraph shall not be included in the calculation of the limitation of 40%, referred to in item b) of this paragraph,
- g) the limitations, referred to in item b) of this paragraph, shall not apply to:
 - 1) deposits,
 - 2) financial derivatives traded on other regulated markets (OTC),
- d) a maximum of 20% of the fund's net asset value may be placed as a deposit with any single bank, referred to in Article 100, paragraph 1, item g) of this Act,
- đ) exposure to a single person on the basis of financial derivatives contracted with that person on another regulated market (OTC) may not exceed:
 - 1) 10% of net asset value, in the case of a bank referred to in Article 100, paragraph 1, item g) of this Act,
 - 2) 5% of net asset value, in the case of any other legal person,
- e) total value of investment in securities or money market instruments issued by any single issuing body and the value of deposits placed with that person and exposures to financial derivatives traded on another regulated market (OTC), arranged with that person, may not exceed 20% of the fund's net asset value,
- ž) a maximum of 20% of the fund's net asset value may be invested in units or shares of any single investment fund, referred to in Article 100, paragraph 1, item v) of this Act, on the condition that no more than 30% of the fund's net asset value is invested in funds other than those referred to in Article 15, paragraph 1, item b) of this Act,

- z) investments in units or shares of investment funds shall not be included in the calculation of limitations referred to in items 1 to 6 of this Article,
- i) if the fund's assets are invested in units or shares of investment funds directly or indirectly managed by the same management company, or managed by another management company with which the former company is linked by common management or prevailing influence, or by a direct or indirect holding, the fund may not be charged an entry or exit fee for such investments,
- j) if the fund's assets may be invested in units or shares of other investment funds, the fund's prospectus shall clearly indicate, in addition to the maximum management fee that may be charged to the assets of that fund, the maximum management fee that may be charged to the assets of the funds in which it intends to invest, and the fund's annual reports shall clearly indicate total maximum management fee charged to that fund and to other fund in which the former has invested, expressed as a percentage of assets of the fund which has made investment in units or shares of another investment fund,
- k) open-ended investment fund with a public offering may not own:
 - 1) more than 10% of voting shares of any single issuing body,
 - 2) more than 10% of non-voting shares of any single issuing body,
 - 3) 10% of debt securities issued by any single issuing body,
 - 4) 25% of units in individual investment fund,
 - 5) 10% of money market instruments of any single issuing body, with an exception that limitations referred to in this sub-item do not apply to debt securities and money market instruments issued by the Republic of Srpska, Bosnia and Herzegovina, units of local and regional self-government of the Republic of Srpska, Member States, local government units of Member States, non-Member States, or public international bodies of which one or more Member States are members,
 - 6) the limitations laid down in item k), sub-items 3), 4) and 5) of this paragraph may be disregarded at the time of investment, if at that time it is not possible to calculate the total number or value of instruments in circulation,
- l) the fund's total exposure to financial derivatives may in no case exceed the fund's net asset value,
- lj) open-ended investment funds with a public offering may not invest in precious metals or in securities or other certificates representing them.

(2) The investment limitations, referred to in this Article, may be exceeded in the case of transferable securities or money market instruments acquired by the fund when increasing registered capital out of the management company's assets or when exercising the priority subscription right or subscription rights attaching to securities or money market instruments, and when selling the fund's assets for the purpose of a simultaneous redemption of a larger number of units in the fund.

(3) In the case of derogation from the investment limitations, referred to in this Article, which results from the movement of prices on the market, the management company shall, in an attempt to protect the unit-holders' interests, adjust the fund's investments within a reasonable period of time, while possible losses should be minimized.

(4) In the case of derogation from the investment limitation, referred to in this Article, which results from the transactions arranged by the management company, where at the time of their conclusion the previously mentioned limitations have been exceeded, the management company shall adjust

the fund's investments immediately after becoming aware of the derogation. The management company shall compensate the fund for the damage occurred in this manner.

(5) Derogation from the investment limitations referred to in this Act may be permitted in the first six months following the establishment of the open-ended investment fund with a public offering, while ensuring observance of the principle of risk-spreading and protection of the investors' interests.

(6) The Securities Commission shall adopt the ordinance regulating the investment limitations imposed on open-ended investment funds with a public offering.

3. Prospectus of investment fund with a public offering

Article 102.

The prospectus of the investment fund with a public offering shall represent an invitation to purchase units in open-ended, or shares in closed-ended investment funds.

Article 103.

The information stated in the prospectus shall be accurate and complete.

Article 104.

(1) A prospectus shall include the information necessary for investors to be able to make an informed judgment of the investment fund with a public offering and of the investment, and, in particular, of the risks attached thereto.

(2) A prospectus of the investment fund with a public offering shall contain at least the following information:

a) Information concerning the fund:

- 1) name, i.e. company name of the fund, indication of the type of fund, and names and a brief resume of the supervisory board members, in the case of a closed-ended investment fund,
- 2) date of fund establishment, and indication of duration, if it is established for a limited period of time,
- 3) statement of the place where half-yearly and annual reports may be obtained, as well as where a copy of the fund rules or full prospectus or additional information concerning the fund may be obtained,
- 4) the minimum amount of monetary assets to be raised and activities to be undertaken if the minimum determined amount is not raised,
- 5) name, i.e. company name of the fund's auditor, and of the other service providers to the fund,
- 6) rights attaching to units or shares of the fund:
 - a) voting right at the general assembly of a closed-ended investment fund,
 - b) right to information (half-yearly and annual reports),
 - c) right to a dividend or share in profit,
 - d) right to a sale of units to the fund, i.e. obligation to redeem the units,
 - e) right to be paid the remaining part of liquidation or bankruptcy estate of the fund,
- 7) circumstances in which winding-up of the fund can be decided on and winding-up procedure,

- 8) in the case of a closed-ended investment fund, indication of the stock exchange or exchanges where the fund's shares will be listed,
 - 9) type of assets in which a fund is permitted to make investments,
 - 10) description of the fund's investment objectives and targeted portfolio structure, the manner of attaining the fund's objectives and risks associated with investments and fund's structure,
 - 11) statement of whether it is permitted to invest in forwards and options and other financial derivatives, and in the case such investment is permitted, a mention must be made of whether such transactions may be effected for hedging purposes or for the purpose of attaining the investment objectives, as well as what is the effect of these transactions on the fund's level of risk,
 - 12) indication of states, units of local government or international organizations in the securities and money market instruments of which more than 35% of the fund's assets may be invested,
 - 13) indication that its investment objective is the index replication, if the fund intends to replicate a share index or debt securities index,
 - 14) the minimum amount of individual investments in the fund, the manner of shares or units subscription and, for the open-ended investment fund with a public offering, the method and conditions of unit redemption,
 - 15) the method and time of the fund's assets valuation,
 - 16) if the fund's net asset value will be highly volatile with respect to the composition of the fund's portfolio, i.e. the fund's asset management techniques, the statement indicating the said characteristic of the fund's assets,
 - 17) in the case of an open-ended investment fund with a public offering: time, method and frequency of price calculation for the sale of new units or redemption of the existing ones, and the means of publication of these prices, circumstances in which issue or redemption may be suspended, description of the amount and frequency of payment of the permitted fees and costs relating to the issue and redemption of units,
 - 18) in the case of a closed-ended investment fund with a public offering: amount, type and limits on establishment costs payable by the fund,
 - 19) in the case of any fund: annual fees and management and operating costs that may be charged to the fund and description of the effect of the former on future income of investors,
 - 20) information on the method of calculation and means and frequency of distribution of share in profit or fund's dividends to shareholders or unit-holders,
 - 21) brief indications of the tax regulation applicable to the fund if they are of interest to the shareholders or unit-holders,
 - 22) historical performance of the fund and profile of the typical investor for whom the fund is designed,
 - 23) duration of the business year, and
 - 24) publishing date of the prospectus.
- b) Information concerning the management company:
- 1) company name, or legal form, the management company's registered office and head office, if different from the registered office, number of authorization issued by the

Securities Commission, as well as date of establishment and enrollment in the court register,

- 2) if the management company manages other funds with a public offering, a list of those other funds,
 - 3) names and relation between management board and supervisory board members, and their brief resume,
 - 4) amount of the management company's registered capital and names of the management company's shareholders, legal form and indication of participation of the shareholders in registered capital,
 - 5) company name, legal form, date of establishment and enrollment in the court register, as well as the role of the companies acting as fund's investment advisors and the name of the chairman of the management board or other responsible persons in these companies,
 - 6) in the case of the fund referred to in Article 15, paragraph 1, item b) of this Act, a mention must be made in the prospectus of the place in the Republic of Srpska where domestic investors may obtain information and purchase and sell units or shares of the respective fund. Such information must be published in one of the official languages in use in the Republic of Srpska and transactions must be effected in the domestic currency.
- v) Information concerning depositary bank:
- 1) company name, legal form, registered office and address of the management board of a depositary bank, as well as information and number of authorization, issued by the competent institution, for conducting business of a depositary.

Article 105.

(1) Within two months following the submission of the application, the Securities Commission shall approve every prospectus of investment funds with a public offering, prior to initiating the public offering for the subscription of shares or units, and shall also previously approve the amendments to the existing prospectuses which occurred due to material changes..

(2) It shall not be permitted to market through a public offering shares or units in the investment fund with a public offering, prior to the approval by the Securities commission of the fund's prospectus.

Article 106.

The management company shall, within seven days after it has been granted the approval by the Securities Commission, publish the prospectus in at least one daily newspapers sold in the entire territory of the Republic of Srpska.

Article 107.

(1) The Securities Commission may approve the preparation and distribution of the prospectus in a simplified form (simplified prospectus) only for the needs of an open-ended fund with a public offering, provided that a clear and comprehensible statement is made in the simplified prospectus of the existence of the full prospectus, which may be obtained at the request.

(2) Terms and conditions laid down in the simplified prospectus may not differ from the terms and conditions contained in the full prospectus.

Article 108.

- (1) In the case of a closed-ended investment fund with a public offering, the prospectus shall be prepared and submitted to the Securities Commission for approval for the initial share issue and for each subsequent issue.
- (2) In the case of an open-ended investment fund with a public offering, every new prospectus shall be prepared and submitted to the Securities Commission for approval, whenever a material change occurs in the prospectus, referred to in Article 109, paragraphs 1 and 3 of this Act, i.e. in other cases as provided for by this Act.
- (3) The Securities Commission shall adopt the ordinance regulating the contents, publication and approval of full and simplified prospectuses.

Article 109.

- (1) Changes in the prospectus of open-ended investment funds with a public offering, proposed for the purpose of: increase in entry fees, annual management fees or exit fees; change in investment objectives of the fund and risks associated with the indicated fund's investments; change in policy of distribution of share in profit, or merger into and consolidation with another fund, or division of the fund, shall be subject to the prior approval by the Securities Commission.
- (2) In addition to provisions of paragraph 1. Of this Article, following conditions must be fulfilled prior to changes of the prospectus of an open-ended investment fund with a public offering:
 - a) notification of the proposed changes shall be sent by mail to all unit-holders and shall be published in daily newspapers, sold in the entire territory of the Republic of Srpska, at least once in fourteen days, within the period of two months prior to the day of implementation of the changes,
 - b) all unit-holders shall be notified of the fact that they are entitled to request from the fund a redemption of their units without deduction of any exit fee, which is otherwise payable, prior to the implementation of the changes, along with a notification of the date of their implementation,
 - v) redemption of all units, under the received requests, shall be effected prior to the entry into force of the changes in the prospectus.
- (3) In addition to the changes referred to in paragraph 1 of this Article, changes in the management and supervisory board members of the management company, depositary bank or fund's auditor shall also be subject to the prior approval by the Securities Commission.
- (4) The Securities Commission shall adopt the ordinance regulating in more detail changes in the prospectuses of open-ended investment funds with a public offering.

4. Fund rules of investment funds with a public offering

Article 110.

- (1) Fund rules of open-ended or closed-ended investment funds with a public offering shall regulate the legal relations between the management companies and unit-holders in open-ended investment funds, or shareholders in closed-ended investment funds.
- (2) The fund rules shall be enclosed with the fund's prospectus and shall form an integral part thereof.
- (3) By way of derogation from paragraph 2 of this Article, it shall not be necessary for the fund rules of an open-ended investment fund with a public offering to be enclosed with the fund's prospectus where the prospectus envisages that the unit-holder or a shareholder in a fund shall be

supplied with the fund rules on request, or where it specifies the place where fund rules are made available for examination.

Article 111.

The information given in the fund rules shall be accurate and complete.

Article 112.

The fund rules of an open-ended investment fund with a public offering or a closed-ended investment fund with a public offering shall contain, as a minimum, the following data:

a) Information concerning the fund:

- 1) name or fund name and indication of the type of fund,
- 2) date of fund establishment and fund duration where it is established for a fixed period of time,
- 3) indication of the place where half-yearly and annual reports may be obtained and where a copy of the fund's prospectus or any additional information on the fund may be obtained,
- 4) the lowest highest amount of monetary assets to be raised and activities that will be taken in case the lowest fixed amount fails to be raised,
- 5) the rights from units or shares:
 - the right to vote at the general assembly of a closed-ended investment fund,
 - the right to information (half-yearly and annual reports),
 - the right to dividend or share in the profits,
 - the right to sell one's share to the fund or the obligation to redeem such share,
 - the right to payment of a portion of what's left of the fund's liquidation or bankruptcy estate,
- 6) in case of a closed-ended investment fund with a public offering, information on the stock exchange or stock exchanges to which the shares of the fund will be admitted,
- 7) description of investment funds' investment objectives and the nature of the suggested or actual portfolios, the manner in which such objectives can be achieved and the risks associated with investments and the fund's structure,
- 8) the minimum investment in a fund, the manner of subscription and, in case of open-ended investment funds with a public offering, the manner of unit redemption,
- 9) indication of state, units of local government or international organizations whose securities and money market instruments are eligible for investment of over 35% of the fund's assets,
- 10) indication that its investment objective is index replication, where the fund attempts to replicate a share index or a debt security index,
- 11) the manner and the time of fund asset value calculation,
- 12) in case of an open-ended investment fund with a private offering, the time, the method and the frequency of price calculation for the sale of the new or redemption of the existing units and the manner of publication of such prices, the circumstances under which there may be a suspension of issue or redemption, description of the amounts and the frequency of payments of permitted fees and costs associated with units issue and redemption,

- 13) in case of a closed-ended investment fund with a public offering: the amount, the type and the maximum establishment costs that may be charged to the fund,
 - 14) in case of any investment fund with a public offering: annual fees and management and operating costs that may be charged to the fund and the description of their effect on future investors' yields,
 - 15) information on the manner of calculation and the manner and the frequency of distribution of shares in the profits or dividends in an investment fund to shareholders and unit-holders,
 - 16) brief information on tax legislation applicable to the fund where of significance to the shareholder or unit-holder,
 - 17) duration of business year,
 - 18) date of publication of the fund's rules, and
 - 19) in case of a closed-ended investment fund with a public offering, any other information as prescribed by the Company Act, which is not in contravention of the terms set out in this Article or any of the remaining provisions of this Act.
- b) Data on the management company:
- 1) name of company, legal form, registered office, and head office, where different from the registered office, the number of authorization issued by the Securities Commission as well as the date of establishment and enrolment in the court register,
 - 2) in case where a management company also manages other funds with a public offering, a list of such other funds shall be provided,
 - 3) names of the management and supervisory board members, their brief curriculum vitae and indication if they are connected in some way,
 - 4) the amount of registered capital of the management company and the names of the management company members, legal form, and an indication of the members' shares in the registered capital,
 - 5) company name, legal form, date of establishment and enrolment in the court register and the role of the companies acting as investment advisors to the fund and the name of the president of the management board or other responsible persons in such companies,
 - 6) as regards the funds referred to in Article 15, paragraph 1, item b) of this Act, the fund rules shall indicate the place in the Republic of Srpska where domestic investors may obtain information and purchase and sell units or shares of such funds. Such information shall be provided in the one of official languages in use in the Republic of Srpska and the transactions shall be executed in the domestic currency.
- v) Data on the depositary bank:
- 1) the name, legal form, registered office and the address of the head office of the depositary bank and the number of authorization issued by the competent institution for carrying out the business of a depositary bank.

Article 113.

The provisions of Articles 105 to 109 of this Act shall also apply, *mutatis mutandis*, to fund rules of investment funds with a public offering.

5. Promotion of investment funds with a public offering

Article 114.

Promotional activities of managed funds may be undertaken and carried out exclusively by:

- a) an authorized management company with a registered office in the Republic of Srpska,
- b) an authorized company with a registered office in a Member State.

Article 115.

(1) Before publication, all promotional information in connection with investment funds and companies managing them, notably those relating to ownership stakes, financial operations and the rights of investment funds' unit-holders shall be supplied to the Securities Commission for approval.

(2) A management company managing an open-ended investment fund shall be responsible for the integrity and accuracy of information published for fund promotion purposes.

(3) The supervisory board and the closed-ended investment fund management company shall be jointly and severally liable for the integrity and accuracy of information published for fund promotion purposes.

Article 116.

Promotional information about funds with a public offering may be communicated to third persons through the press, radio and television advertising, through personal visits, telephone communication, the Internet and electronic media as well as through interactive television, with the indicated communication media also including:

- a) brochures,
- b) advertisements in the newspapers and magazines, on the radio, television and the Internet,
- v) regular or electronic mail, facsimile messages or other types of mail delivery,
- g) telemarketing, including the use of a specialised provider of telemarketing services on the basis of an agreement concluded with the management company,
- d) letters, telephone communication or personal contacts,
- đ) means of sales promotion with the characteristics of financial promotion,
- e) investment or other publications offering impersonal investment recommendations involving investment purchase, holding or sale,
- ž) presentation to a larger group of people, and
- z) other methods or means of communication which natural or physical persons resident in the Republic of Srpska may read, see or receive.

Article 117.

(1) All promotional information in connection with investment funds with a public offering shall be approved by persons authorized to represent management companies.

(2) Management companies shall keep a copy of each published promotional information as well as the sources of data supporting the quotations given in such publications.

Article 118.

When offering promotional information on investment funds with a public offering and their management companies:

- a) there shall be no concealment or false presentation of its promotional purpose,
- b) a full, accurate and truthful description shall be provided of the investment fund with a public offering that is being promoted as well as of the prescribed obligations and any associated risks,
- v) it shall be ensured that the facts and the quotations given are integral, clear, true and unambiguous on the day when they are given and that they are not misleading and that any fact given can be substantiated,
- g) it shall be ensured that each given opinion is complete and unambiguous and that an approval of the management company is obtained for its any further use,
- d) it shall be ensured that any use of comparisons is based on facts which are accurate and up to date or that their key assumptions are clearly stated, and that any such comparison is given in a fair and impartial manner which is in no way misleading and which is based on all key factors for such a comparison,
- đ) no misrepresentations can be given, in particular as regards the professional expertise of the responsible persons, the assets and the scope of the fund's and the management company's business operations and ownership or the number of shares or units in the fund,
- e) shall be ensured that the design, the contents or the form of promotional information do not distort, conceal, or lessen the importance of any statement, warning or any other quotation that has to be given pursuant to this Act or a regulation adopted on the basis of the Act,
- ž) it shall be ensured that no authorization given by the competent body may be cited without consent of the Securities Commission or some other competent body, and that no third persons shall be led to conclude that the authorization issued by the Securities Commission has any meaning which is different from the meaning of a certificate proving that the said firm has met all the conditions for the acquisition of the legal status indicated in the authorization,
- z) no data may be omitted if their omission might cause the promotional information to be inaccurate, untruthful, vague or misleading,
- i) an accurate and truthful description shall be provided of the investment fund with a public offering, the prescribed obligations and the associated risks.

Article 119.

- (1) A report on the business results of an investment fund with a public offering:
 - a) shall not be subject to any type of warranty or promise,
 - b) shall not be made in any form of estimate,
 - v) shall reflect the fund's business performance from the moment of its establishment to the day of presentation or its performance in the last five years, whichever of the two periods is shorter,
 - g) shall present the latest data available at the moment of presentation of the fund's business results,
 - d) shall be drawn up on a consistent basis in terms of the periods covered, with inclusion or exclusion of individual factors which affect such results (such as for instance, the basis for the price, costs, taxes, dividends),
 - đ) shall not be shown in a manner that might be construed as forecasts of the possible business results of the fund.
- (2) The Securities commission shall issue an ordinance determining the contents and the methods of presentation of the business results of investment funds with a public offering.

Article 120.

The Securities Commission shall issue an ordinance governing the contents, the time limits, the issuance and the modifications of promotional information on investment funds with a public offering.

Article 121.

Communications exempt from the application of the provisions of this Act regarding the terms of promotion and publication of promotional information about investment funds with a public offering shall be:

- a) communications between the management company and any other person licensed to carry out a financial activity in the Republic of Srpska,
- b) short, exclusively factual, radio, television, press, or electronic media announcements in connection with the fund and/or the management company, and indications of key contact data,
- g) letters and written mail addressed to individually addressed third persons about their specific requirements which do not fall under mass mail advertisement, and
- d) annual business and financial reports of the fund or its management company.

V OPEN-ENDED INVESTMENT FUNDS WITH A PRIVATE OFFERING

Article 122.

The provisions of Title I, Title II, Title III, Title VI, Title VII, Title VIII, Title IX, Title X, Title XII, Title XIII and Title XIV of this Act shall apply, *mutatis mutandis*, to investment funds with a private offering established in the form of open-ended investment funds or open-ended investment funds with a private offering and so shall the remaining provisions of this Act applicable to investment funds with a public offering subject, however, to an exclusive condition that the provisions of Title V of this Act do not explicitly provide otherwise or that such an application is not possible by virtue of the significance or application of the remaining provisions of this Act.

Article 123.

An open-ended investment fund with a private offering is a separate pool of assets without legal personality, which, subject to Security Commission's authorisation, is established by a management company for the purpose of raising monetary assets through a private offering of units in a fund and whose assets are invested in accordance with the investment objectives and restrictions set out in the fund's prospectus and whose unit-holders have the right, apart from their right to a proportionate share of the fund's profits, in the manner and under the conditions set out in the fund's prospectus, to demand redemption of their units and thus exit the fund.

1. Establishing an open-ended investment fund with a private offering

Article 124.

- (1) An open-ended investment fund with a private offering may be established for a fixed or indeterminate period of time.
- (2) When establishing an open-ended investment fund with a private offering, the units in the fund may be offered through a private offering only to persons who meet the requirements of qualifying investors as defined under this Act.

(3) The management company may prescribe in the fund's prospectus or fund rules the maximum allowed number of investors in the fund, while the total number of unit-holders in a fund may never exceed 200.

(4) The lowest first payment of a single investor in a fund shall be 100.000 KM. In case of withdrawal of units, the amount of investment expressed as an amount arrived at by multiplying the number of units by the price of fund units after withdrawal shall exceed 120.000 KM. If not, the unit-holder shall be obligated to withdraw all the units from the fund.

Article 125.

(1) Units in open-ended investment funds with a private offering shall be purchased by means of payments in monetary assets, whereby the buyer upon a purchase of a unit enters into a contractual relation with the management company which undertakes to manage the contributed monetary assets as a component of the mutual fund assets, in accordance with the conditions specified in the prospectus.

(2) By way of derogation from paragraph 1 of this Article, the purchase of units in a fund may be made by awarding new units in exchange for payments of shares in the profits or by decreasing the value of units in exchange for new units to be awarded, or in other cases as provided for in the fund's prospectus.

(3) The management company may permanently or temporarily suspend further purchases of units in an open-ended investment fund with a private offering. In case of unit purchase suspension, the management company shall be obligated to submit information about purchase suspension with explanation to all the existing members of the fund and to the Securities Commission.

(4) The purchase of units in a fund and/or redemption of units shall be performed at the time and in the manner indicated in the fund's prospectus, and not less than once a year during each business year of the fund.

Article 126.

An application for authorization and registration of the enrolment in the register of an open-ended investment fund with a private offering submitted to the Securities Commission, on behalf of the fund, by the management company, shall comprise:

- a) the name of the management company, data on authorization issued by the Securities commission as well as the name and surname of the authorized representative, the address, telephone, facsimile and e-mail address of the management company,
- b) the name of the fund, indication of the type of fund and investment objectives,
- g) the fund's prospectus,
- d) the fund rules,
- đ) contract concluded between the management company and the depositary bank and a court certificate for the depositary bank,
- e) the name of the auditing firm and a court certificate for the auditing firm.

2. Units in open-ended investment fund with a private offering

Article 127.

(1) An open-ended investment fund with a private offering may issue only one type of units and may not issue any other type of securities giving right to any component of the fund's assets.

(2) Units in an open-ended investment fund with a private offering shall be considered securities which may be sold and transferred to qualifying investors exclusively.

Article 128.

The minimum value of assets of an open-ended investment fund with a private offering which the fund shall have at the moment of completing a private offer shall be 1.000.000 KM.

3. Rights and obligations of unit-holders

Article 129.

The assets of an open-ended investment fund with a private offering raised through an issue and a private sale of units in a fund and assets acquired through investment of paid-in monetary assets, including income and rights arising from the fund's assets, shall constitute an open-ended investment fund with a private offering, i.e. separate pool of assets in mutual ownership of all unit-holders in the fund.

Article 130.

Unit-holders in an open-ended investment fund with a private offering shall have the right, apart from their right to a proportionate share in the fund's profits, to demand redemption of their units in the fund in accordance with the dynamics, the manner and the terms of such redemption as determined by the fund rules and its prospectus, and the restrictions imposed by the provisions of this Act.

Article 131.

Unit-holders shall be liable for the obligations of an open-ended investment fund with a private offering to the amount of their individual units in a fund.

4. Costs of an open-ended investment fund with a private offer

Article 132.

Fees charged to investors, i.e. open-ended investment funds with a private offering shall be limited to:

- a) an entry fee deducted from the amount paid at the moment of unit sale,
- b) an exit fee deducted from fund net asset value per unit at the moment of redemption,
- v) management fee.

Article 133.

(1) A fee payable to the management company for the management of an open-ended investment fund with a private offering shall be determined by an autonomous decision of the management company. Management fee shall be indicated in the fund's prospectus.

(2) The management fee, or portion thereof, payable for the management of an open-ended investment fund with a private offering may be determined in such a way as to depend on the fund's yield. The fee, or that portion thereof which depends on the fund's yield, shall be the amount arrived at by multiplying the difference between the entry and the exit price, or entry price and the fund's price on the last business day in a business year, by the number of units. The amount of fee, the manner of its calculation and payment shall be determined by the management company in the fund's prospectus.

Article 134.

Only expenses envisaged by the fund's prospectus may be charged to the assets of an open-ended investment fund with a private offering.

Article 135.

- (1) In terms of total expense ratio, open-ended investment funds with a private offering shall not be subject to restrictions referred to in Article 98 of this Act.
- (2) The Securities Commission may, upon completion of an annual calculation period, publish comparisons of total expense ratios of open-ended investment funds with a private offering.

5. Permitted investments, investment restrictions and exceeding investment restrictions

Article 136.

The assets of an open-ended investment fund with a private offering may consist exclusively of:

- a) transferable securities,
- b) units or shares in investment funds,
- v) money market instruments,
- g) deposits with authorized banks in the Republic of Srpska, a Member State, or some other state,
- d) forward or option contracts and other financial derivatives traded on regulated markets and/or financial derivatives traded on other organised markets (OTC),
- đ) monetary assets, and
- e) instruments issued on the basis of precious metals and other commodity exchanges.

Article 137.

- (1) Investments of assets of open-ended investment funds with a private offering shall be subject to the following restrictions:
 - a) the fund's assets shall consist of not less than six different securities, units or shares in investment funds or money market instruments, and
 - b) three instruments referred to in the preceding item which account for the largest share of the fund's assets shall not exceed 60% of the fund's asset value,
 - v) securities, units or shares in investment funds of a single issuer or deposits with a single deposit institution shall not exceed 20% of the value of all securities, units or shares in investment funds or deposits in a fund,
 - g) persons constituting affiliated companies in terms of the provisions of the Company Act and this Act shall be considered a single issuer in terms of the previous item,
 - d) restrictions referred to in items b) or v) of this paragraph shall not apply to securities or money market instruments issued by or guaranteed by the Republic of Srpska, Bosnia and Herzegovina or units of local and regional self-government of the Republic of Srpska, a Member State or units of its local government, a non-Member State or international public organizations the members of which are one or more Member,
 - đ) if fund assets are invested in units or shares in investment funds directly or indirectly managed by the same management company, or managed by another company which is related to the former company by virtue of common management or controlling position, or direct or indirect mutual ownership stakes, the fund shall not be charged entry of exit fee in case of investments of this type,
 - e) if fund assets may be invested in units or shares of other investment funds, the fund's prospectus, in addition to indicating the maximum management fee that may be charged to that fund's assets, shall also clearly indicate the maximum management fee that may be charged to the assets of the funds in which investments are planned to be made, while the

fund's annual reports shall clearly indicate the maximum total management fee charged to that specific fund and the fund in which that fund invested, expressed as a percentage of the assets of the fund that invested in the units or shares of the other investment fund.

(2) The management company shall prepare and present in the fund's prospectus its investment strategy which shall take account of the distribution of risks and ensure fund liquidity in accordance with the fund's investment objectives.

(3) The management company shall indicate clearly in the fund's prospectus the classes of assets and financial instruments in which it intends to invest, including financial derivatives traded on regulated or other organised markets as well as the degree of the fund's financial exposure and the risks associated with such investment strategy.

(4) The Securities Commission shall issue an ordinance regulating investments of open-ended investment funds with a private offering.

Article 138.

Any possible exceeding of the investment restrictions referred to in Article 137 of this Act, the specific conditions for exceeding investment restrictions as well as the time limits for meeting the investment restrictions shall be set out in the fund's prospectus and fund rules.

6. The prospectus of open-ended investment funds with a private offering

Article 139.

The prospectus of an open-ended investment fund with a private offering constitutes an invitation to purchase units in an open-ended investment fund with a private offering, addressed exclusively to a specific person or a limited group of investors, meeting the requirements of the term qualifying investor as defined under this Act.

Article 140.

The information given in the prospectus shall be accurate and complete.

Article 141.

(1) The prospectus of an open-ended investment fund with a private offering shall contain the information that will enable investors to make an informed judgement about the fund, and make an investment decision, notably as regards the risks associated with the nature of the fund and its portfolio.

(2) The prospectus of an open-ended investment fund with a private offering shall contain, as a minimum, the following data:

a) Data on the fund:

- 1) name of fund, indication of the type of fund,
- 2) indication that the fund is intended exclusively for investors who meet the definition of qualifying investors under this Act and who can support such qualification with a signed statement referred to in Article 11 of this Act,
- 3) date of fund establishment, duration of the fund in case it has been established for a fixed period of time,
- 4) indication of the place where half-yearly and annual reports may be obtained and where a copy of the fund rules, prospectus or additional information on the fund may be obtained,

- 5) the lowest amount of monetary assets, and actions planned to be taken in case the lowest prescribed amount is not raised,
- 6) the name of the auditor or the auditing firm, lawyer and other persons providing services to the fund, if the management company intends to use such services,
- 7) the rights from units:
 - a) the right to information (half-yearly or annual reports),
 - b) the right to a share in the profits,
 - v) the right to sell units to the fund, i.e. unit redemption obligation,
 - g) the right to be paid out what's left of the fund's liquidation estate,
- 8) the conditions which have to be met in order for a decision to be made on the fund's winding-up and the fund winding-up procedure,
- 9) types of assets that the fund may invest into, any possible exceeding of the investment restrictions, specific conditions for exceeding investment restrictions and the time limits for meeting the investment restrictions,
- 10) description of the fund's investment objectives and targeted portfolio structure, the manner in which the fund's objectives are planned to be achieved and the risks associated with the fund's investments,
- 11) indication whether investments in forward and option contracts and other financial derivatives are permitted, in case such investments are permitted, a statement shall be provided indicating whether such transactions can be entered into for the purpose of hedging or for the purpose of achieving investment objectives and indicating what the effect of such transactions on the fund's level of risk is,
- 12) provisions on the fund's liquidity,
- 13) the lowest and the highest amount of individual investments in the fund, the manner of unit subscription and the manner and the conditions for unit redemption,
- 14) the manner and the time of fund asset value calculation,
- 15) in case of high volatility of the fund's net asset value on account of the fund's portfolio composition, or fund asset management techniques, a statement shall be provided drawing attention to the said characteristics of the fund's assets,
- 16) the time, the method and the frequency of price calculation for the sale of new units or redemption of the existing units, and the manner of publication of such prices, the circumstances which may give rise to issue or redemption suspension, description of the amount and frequency of payments of permitted fees and costs associated with unit issue and redemption,
- 17) annual fees and management and operating costs which may be charged to the fund and description of their impact on investors' future yields, and the manner of management fee calculation and payment where the amount of such fee depends on fund yield,
- 18) information on the manner of calculation and the manner and frequency of distribution of shares in the profits of the fund to unit-holders,
- 19) brief information on tax legislation applicable to the fund where of significance to the unit-holder,
- 20) duration of business year, and
- 21) date of publication of the prospectus.

b) Data on the management company:

- 1) name of company, legal form, registered office of the management company and address of head office, where different from the registered office, authorization number issued by the Security Commission as well as the date of establishment and enrolment in the court register,
- 2) the names of the management and the first supervisory board members, their brief curriculum vitae and indication if they are connected in some way,
- 3) the amount of registered capital of the management company,
- 4) company name, legal form, date of establishment and enrolment in the court register and the role of the companies acting as fund investment advisors and the name of the president of the management board or other responsible persons of such companies.

v) Data on the depositary bank:

- 1) the name, legal form, registered office and the address of the head office of the depositary bank and the number of authorization issued by the competent institution for carrying out the business of a depositary bank.

Article 142.

(1) The Securities Commission shall authorize each prospectus of investment funds with a private offering before initiating a private offering for the sale of units, and shall also authorize any amendments made to the existing prospectuses due to major changes.

(2) No units in investment funds with a private offering may be offered through a private offering before authorization is obtained from the Securities Commission for the prospectus.

Article 143.

(1) Any amendments to the prospectus of an open-ended investment fund with a private offering planned with a view to: raising entry fees, annual management fees or exit fees changes in the fund's investment objectives and risks associated with the fund's investments; changes in profit distribution policy, or merging into or consolidation with another fund or division of the fund, shall be subject to a previous approval by the Securities Commission. In addition, following conditions must be fulfilled prior to changes of the prospectus of the open-ended investment fund with a public offering:

- 1) notification of the suggested changes shall be sent by mail to all unit-holders,
- 2) all unit-holders shall be acquainted with the fact that they may require unit redemption without any deductions for any otherwise payable exit fee, and that before any changes are introduced, and shall receive notification regarding the date of their introduction,
- 3) all requests for unit redemption received before the entry into effect of the prospectus amendments shall be executed.

(2) In addition to amendments referred to in paragraph 1 of this Article, changes in management and supervisory board members of the management company, the depositary bank or the fund's auditor shall also be subject to a prior authorisation by the Securities Commission.

7. Fund rules of open-ended investment funds with a private offering

Article 144.

(1) Fund rules of an open-ended investment fund with a private offering shall regulate legal relations between the management company and unit-holders in an open-ended investment fund with a private offering.

(2) The fund rules shall be enclosed with the fund's prospectus and shall form an integral part thereof.

(3) By way of derogation from paragraph 2 of this Article, it shall not be necessary for the fund rules to be enclosed with the fund's prospectus where the prospectus envisages that the unit-holder or a shareholder of the fund shall be supplied with the fund rules on request, or where it specifies the place where fund rules are made available for examination.

Article 145.

The information given in fund rules shall be accurate and complete.

Article 146.

Unless the data referred to in this Article are already laid out in the prospectus of an open-ended investment fund with a private offering, the fund rules of an open-ended investment fund with a private offering shall contain, as a minimum, the following data:

a) Data on the fund:

- 1) name of fund and indication of the type of fund,
- 2) indication that the fund is intended exclusively for investors who meet the definition of qualifying investors under this Act and who can support such qualification with a signed statement referred to in Article 11 of this Act,
- 3) date of fund establishment, duration of the fund in case it has been established for a fixed period of time,
- 4) indication of the place where half-yearly and annual reports may be obtained and where a copy of the fund's prospectus or additional information on the fund may be obtained,
- 5) the lowest amount of monetary assets to be raised, and actions planned to be taken in case the lowest prescribed amount is not raised,
- 6) the rights from fund units:
 - a) the right to information (half-yearly and annual reports),
 - b) the right to a share in the profits,
 - c) the right to sell units to the fund, i.e. unit redemption obligation,
 - d) the right to be paid out what's left of the fund's liquidation estate.
- 7) types of assets that the fund may invest into, any possible exceeding of the investment restrictions, specific conditions for exceeding investment restrictions and the time limits for meeting the investment restrictions,
- 8) the lowest amount of investment in a fund, the manner of unit subscription and the manner of unit redemption,
- 9) provisions regarding fund liquidity,
- 10) the manner and the time of fund asset value calculation,
- 11) the time, the method and the frequency of price calculations for the sale of new units or redemption of the existing units, and the manner of publication of such prices, the circumstances which may give rise to issue or redemption suspension, description of the amount and frequency of payments of permitted fees and costs associated with unit issue and redemption,
- 12) annual fees and management and operating costs which may be charged to the fund and description of their impact on investors' future yields,

- 13) information on the manner of calculation and the manner and frequency of distribution of shares in the profits of the fund to unit-holders,
 - 14) brief information on tax legislation applicable to the fund where of significance to the unit-holder,
 - 15) duration of business year, and
 - 16) date of publication of the fund rules.
- b) Data on the management company:
- 1) name of company, legal form, registered office of the management company and head office, where different from the registered office, authorization number issued by the Securities Commission as well as the date of establishment and enrolment in the court register,
 - 2) the names of the management and supervisory board members, their brief curriculum vitae and indication if they are connected in some way,
 - 3) the amount of registered capital of the management company and the names of management company members, legal form and indication of the members' shares in the registered capital,
 - 4) company name, legal form, date of establishment and enrolment in the court register and the role of companies acting as fund investment advisors and the name of the president of the management board or other responsible persons of such companies.
- v) Data on the depositary bank:
- 1) the name, legal form, registered office and head office of the depositary bank, data and number of authorization as issued by the competent authority for carrying out the business of a depositary bank.

8. Promotion of open-ended investment funds with a private offering

Article 147.

The management company may not engage in public campaigns aimed at promoting the investment fund with a private offering that it manages. Public distribution of presentation materials which, in addition to giving information on the name and activity of the management company, direct potential qualifying investors to the management company of the investment fund with a private offering, shall not be deemed public promotion.

Article 148.

All presentation data on investment funds with a private offering and their management companies shall be integral, clear, true and accurate and shall not be misleading, in particular as regards the associated risks and fees, and shall be authorized by the management company management board members.

Article 149.

- (1) Any presentation of the business results of an investment fund with a private offering shall:
- a) consist of the latest data available at the moment of business results presentation,
 - b) be drawn up on a consistent basis in terms of the periods covered, with inclusion or exclusion of individual factors which affect such results (e.g. the basis for the price, costs, taxes, dividends, etc.).

(2) The Securities Commission shall issue an ordinance determining the mandatory contents and the methods of presentation of the business results of investment funds with a private offering.

VI DETERMINING THE VALUE OF INVESTMENT FUND ASSETS AND THE PRICE OF INVESTMENT FUND UNITS AND SHARES

1. Frequency of value determination

Article 150.

(1) The management company shall determine the value of the open-ended investment fund assets and all the fund's liabilities and fees before determining the net asset value per unit, or the price of unit.

(2) The net asset value of an open-ended investment fund with a public offering shall be calculated on a daily basis, at the time indicated in the prospectus. The management company shall notify the Securities Commission on the next business day about the value of assets of the open-ended investment fund, its liabilities and fees, and about the price of units of the open-ended investment fund as at the calculation date.

(3) The net asset value of an open-ended investment fund with a private offering shall be calculated at the time indicated in the fund's prospectus, and at least once a month.

(4) The net asset value of an open-ended venture capital investment fund with a private offering shall be calculated at the time indicated in the fund's prospectus.

(5) The net asset value of a closed-ended fund shall be calculated at least once a month, at the time indicated in the prospectus.

(6) The Securities Commission shall issue an ordinance specifying the frequency of the funds' net asset value determination.

2. Responsibility for fund value and unit or share price calculation

Article 151.

(1) The value of assets of closed-ended and open-ended investment funds and the price of units in an open-ended investment fund shall be calculated by the management company.

(2) The calculation of values referred to in paragraph 1 of this Article shall be subject to control and verification by the depositary bank which shall in that case be responsible for the accuracy of the calculation. The depositary bank shall sign the document on the determined value of the assets and keep a copy for its file which shall be presented to the Securities Commission for examination.

(3) The investment fund auditor shall be obligated to make random checks in the course of its annual audit to make sure that the principles for value determination specified in the regulations are observed, that the prices of shares or units calculated on the basis of those principles are accurate and that the management fee and other fees and costs envisaged in the regulations, the prospectus or fund rules do not exceed the permitted amounts.

3. Principles and methodology of determining fund portfolio value

Article 152.

The calculation of portfolio value shall provide equal treatment of all investors in a fund, irrespective of the type of fund or the fact whether this is an investment fund with a public or a private offering.

Article 153.

- (1) In case of securities, including shares of closed-ended investment funds, asset value determination shall be based on the market price applicable on organised and regulated markets.
- (2) In case of securities with no applicable market price which meets the requirements referred to in paragraph 1 of this Article, the price of last transaction concluded in that fund shall be used as the basis for the calculation of the value of assets, or the yield from the last transaction in case of debt securities, unless the Securities Commission provides in a regulation for the use of a different method of asset calculation.
- (3) In case of deposits and cash or monetary equivalents, short-term claims and liabilities, and future period income and expenses, the nominal value shall be used increased by the accrued interest, except in cases where it is provided otherwise by the Securities Commission.
- (4) To determine the value of forward and option transactions and derivatives for which it is not possible to determine a market price, the Securities Commission shall issue an ordinance setting out the methods for calculating the value of such assets.
- (5) In case of units in an open-ended investment fund, the price of a unit shall be used, except in cases where it is provided otherwise by the Securities Commission.
- (6) Foreign currency assets shall be calculated into the Convertible Marks (KM) using the last available exchange rate before asset value determination in accordance with the regulations issued by the Securities Commission.
- (7) In case of other forms of assets with no market price available, the fair value of such assets shall be estimated. The procedures for asset fair value determination shall include cash flow discounting, comparisons with like assets with known market price, option valuation methods and other methods as prescribed by the Securities Commission.
- (8) The basis for asset value determination shall be specified in the fund's prospectus and fund rules and shall be applied consistently for each fund asset value calculation.
- (9) The Securities Commission shall issue an ordinance regulating the mandatory basis for asset value determination of closed-ended and open-ended funds, including both securities and money and quasi-money, domestic and foreign currency, forward and option contracts, derivatives, real estate, holdings in companies or other transferable property rights and defining regulated and organised markets in terms of this Act, as well as liquidity requirements for the proper establishment of market prices and the requirement of a timely establishment of such prices, while taking into account different, fund-specific, valuation methods.

4. Fund net asset value and value per fund share or unit

Article 154.

- (1) In case of an open-ended investment fund, the net value of assets is the value of fund assets (investments increased by short-term assets) less its liabilities. The net value per unit is the net value of fund assets divided by the number of fund units at the moment of fund net asset value calculation.
- (2) Net asset value of a closed-ended investment fund is the value of fund assets (investments increased by short-term assets) less its liabilities. The net asset value per fund share is the net value of fund assets equally distributed across the issued shares of a fund at the moment of fund net asset value calculation.
- (3) The Securities Commission shall issue an ordinance defining investment fund assets and liabilities, as well as the basis, the manner and the time limits for the calculation of fund net asset value and its net asset value per unit or share.

5. Initial offering and fund unit or share price determination

Article 155.

- (1) The period for the initial offering of units in an open-ended investment fund, or shares in a closed-ended investment fund may not exceed ninety days. During that period of time, the total amount of monetary assets received shall be held as a deposit and shall not be invested until after the fund has exceeded the legally determined lowest fund asset value threshold.
- (2) Monetary assets raised may not be invested, except in the form of deposit, before expiry of the period of offering.
- (3) The price of the initial or first issue of a closed-ended investment fund shall be the nominal price of each share. The price of subsequent issues shall be market prices of shares, and this without prejudice to the right of the existing shareholders to have additional shares offered to them in proportion with their current share in the fund.
- (4) With the initial, or first offering of an open-ended investment fund, the price of issue shall be determined by the management company and indicated in the fund’s prospectus. After the initial offering, the price of a unit in an open-ended investment fund shall be a uniform price equal to fund net asset value per unit, calculated on the basis of a market price of all securities in the fund’s portfolio.

6. The price of units in open-ended investment funds

Article 156.

- (1) The sale and redemption of units in an open-ended investment fund with a public offering shall be executed on a specific day at a price calculated in accordance with the law and regulations and the fund’s prospectus, and published in the manner specified in this Act. On a price thus determined, it shall be possible to calculate and charge entry and exit fees.
- (2) Sale or redemption of units in an open-ended investment fund at a price below or above the currently applicable uniform (net asset value) price per unit shall not be allowed. The price of unit may vary depending on the changes in net asset value calculated in accordance with a formula as may be prescribed by the Securities Commission.
- (3) The price of unit in an open-ended investment fund shall be calculated in accordance with the following formula:

$$\frac{\text{fund net asset value}}{\text{number of units issued}}$$

- (4) The net asset value pursuant to the paragraph 3 of this Article is calculated in accordance with the provisions of Article 154 of this Act.
- (5) The number of units issued pursuant to the paragraph 3 of this Article is equal with the number of units at the moment of price calculation, taking into account any sale or redemption made from the moment of the last price calculation to the moment of the new price calculation.

7. Exchange and sale of units in open-ended investment funds

Article 157.

A unit-holder in an open-ended investment fund may exchange his or her units for units in some other fund managed by the same management company.

Article 158.

(1) The sale of units in an open-ended investment fund shall be made at a price applicable, pursuant to the fund's prospectus and regulations, at the moment of receipt of payment by the fund, increased by the amount of entry fee where such a fee is charged.

(2) Any payment in an open-ended investment fund with a public offering shall be made in monetary assets and exceptionally in securities under special circumstances prescribed in a regulation by the Securities Commission, under a firm condition that the offered securities be traded on organised and regulated markets and that it is possible to determine their exact price.

(3) Payment to an open-ended investment fund with a private offering shall be made in monetary assets.

8. Unit redemption in open-ended investment funds

Article 159.

(1) Unit redemption in an open-ended investment fund shall be made at a price applicable, pursuant to the fund's prospectus and regulations, at the moment of receipt of a valid request for sale, reduced by the amount of exit fee where such a fee is charged.

(2) A redemption in specie, or redemption by means of transfer of an appropriate percentage of each type of fund assets at a value which equals the value of the units thus redeemed, shall be allowed in cases when the sale of fund assets, necessary to meet the requirements for large value redemption, might compromise the position of permanent investors in the fund, provided the fund rules and its prospectus envisage the in specie redemption. A redemption in specie may be made only by transferring that part of each type of fund assets which is proportionate to the ratio of the number of units of investors seeking redemption and the fund's total asset value.

9. Certificate of purchase of units and terms of payment in case of redemption

Article 160.

(1) The certificate of purchase of units shall be issued on request of investors within seven days from the date of receipt of a valid request for purchase and payment made to the fund.

(2) The certificate of purchase of units shall comprise:

- a) date of unit purchase,
- b) the name of fund and the name and the registered seat of the management company,
- v) number of units in fund assets to which the certificate is made,
- g) name and surname of the unit-holder,
- d) place and date of issue of the certificate,
- đ) signature of the authorized person in a management company. The signatures may be affixed by mechanical means.

(3) Income from redeemed units in an open-ended investment fund shall be remitted to the holder of the redeemed unit within seven days from the receipt of a valid request for sale.

10. Inaccurate calculation of the price of a unit in an open-ended investment fund

Article 161.

In case of an inaccurate calculation of the price of a unit in an open-ended investment fund of over 1% relative to the value arrived at by applying the methodology referred to in Article 153 of this

Act, the Securities Commission shall be authorized to instruct the management company and the depositary bank responsible for such an inaccurate calculation to:

- a) in case where the calculated price per unit is lower than the correct value arrived at by applying the methodology referred to in Article 153 of this Act:
 - 1) compensate each unit-holder for any shortfall in the amount received for the redeemed units, and
 - 2) compensate the damage by paying any due difference to the fund,
- b) in case where the calculated price per unit is higher than the correct value arrived at by applying the methodology referred to in Article 153 of this Act:
 - 1) by acknowledging a proportionate number of additional units, compensate any damage caused to each investor who was charged a higher price when purchasing units, and
 - 2) compensate the damage by paying the difference to the fund.

11. Entry and exit fee of open-ended investment funds

Article 162.

- (1) Apart from the price of units and entry and exit fees, no other fees shall be charged for the purchase or redemption of units in an open-ended investment fund.
- (2) Fees referred to in paragraph 1 of this Article shall be shown separately from the price of units and shall be kept by the management company but they may also constitute the fund's income.

Article 163.

- (1) No entry or exit fees shall be charged in case of winding-up of an open-ended investment fund due to not achieving the lowest fund amount during the period of initial or first offering, in accordance with applicable regulations or the fund's prospectus and its rules.
- (2) No exit fee shall be charged in case of winding-up of a fund regardless of the reason for its winding-up.
- (3) In case of announced introduction or increase in exit fee, no exit fee shall be charged in the period from the first announcement of such fund fee changes until an approval is obtained from the Securities Commission for prospectus amendments providing for the introduction or increase in exit fees.
- (4) No entry and exit fees shall be charged during the transformation of an open-ended investment fund.
- (5) No entry and exit fees shall be charged during an open-ended investment fund's merging into or consolidation with another fund or during fund division.
- (6) A decision of the management company on non-payment of entry and/or exit fees shall be clearly indicated in the fund's prospectus, and so shall the circumstances under which this may happen.

Article 164.

Entry or exit fees of an open-ended investment fund may be reduced relative to the fees indicated in the fund's prospectus only in cases of large transactions and in accordance with a classification mandatorily set out in the fund's prospectus, published and distributed to sales representatives of management companies, with an indication of prohibited derogation therefrom.

12. Suspension of redemption of units in an open-ended investment fund

Article 165.

(1) A redemption of units in an open-ended investment fund may be suspended only provided the management company and the depositary bank consider that under given exceptional circumstances it is not possible to determine the exact price of the assets in a fund portfolio and that there are justified and strong reasons to suspend the redemption in the interest of unit-holders or potential unit-holders. The same reasons shall be the cause for a simultaneous suspension of any issue of units.

(2) Any suspension of redemption shall be notified forthwith to the Securities Commission. Each suspension shall be notified by direct means to unit-holders in an open-ended investment fund with a private offering, while in case of suspension of redemption of units in an open-ended investment fund with a public offering, the circumstances surrounding such a suspension shall be published in a daily paper regularly marketed on the entire territory of the Republic of Srpska. The Securities Commission may instruct repayment of units in an open-ended investment fund with a public offering if that is in the interest of the public or in the interest of investors in a fund.

(3) The Securities Commission may instruct the management company and the depositary bank to suspend temporarily the sale and redemption of units if it can determine beyond doubt or has good reasons to believe that damage is being done to investors due to inaccurate calculation of a fund unit price.

Article 166.

(1) The suspension of unit redemption referred to in Article 165 of this Act shall cease as soon as possible, after the management company and the depositary bank have established that it is possible to determine the exact price of assets in the fund's portfolio, and not later than within twenty eight days from the beginning of suspension, unless the Securities Commission gives its express consent for the extension of the said time limit. A notification on the resumption of the business shall be delivered to all unit-holders in open-ended investment funds with a private offering, while the resumption of business of an open-ended investment fund with a public offering shall be published in a daily paper regularly marketed on the entire territory of the Republic of Srpska.

(2) During the suspension of redemption and sale of units, the management company and its sales representatives may continue to receive requests for the sale or redemption of units which will be executed once the next sale and redemption prices are calculated but it shall be made clear to the ordering parties that their orders will not be executed within the time limits envisaged under the fund's prospectus and its rules.

Article 167.

The Securities Commission shall issue an ordinance regulating the base, the components, the manner and the time limits of calculation when determining the value and the price of open-ended investment funds, the components, the restrictions, the manner of calculation, collection and the publication of fees for units in open-ended investment funds, the duration and the conditions of the prescribed offering period, the procedure, the time limits and the execution of sale and redemption of units as well as suspension and resumption of their sale and redemption in specie and replacement of units in one fund for units in another fund managed by the same management company.

VII PUBLICATIONS AND REPORTING TO INVESTMENT FUNDS' SHAREHOLDERS AND UNIT-HOLDERS

1. Obligation to publish a prospectus

Article 168.

Every content published to an indeterminate number of persons as a proposal for the conclusion of a contract on the sale of units or shares in a fund shall also contain the information where and how the prospectus can be obtained.

Article 169.

(1) The prospectus and/or fund rules, which, in case of an open-ended investment fund may be in a simplified form, shall previously be delivered or made available to all subscribers of shares in a closed-ended investment fund and all buyers of units in an open-ended investment fund.

(2) Where available, copies of the fund's latest half-yearly and annual business and financial reports shall be made available for examination to all subscribers of shares in a closed-ended investment fund and all buyers of units in an open-ended investment fund.

2. Publication of prices and net value

Article 170.

(1) The determined price of a unit in an open-ended investment fund with a public offering shall be published for each day on which a purchase or sale of units in an open-ended investment fund is executed, which shall take place not less than twice a month, while the net asset value per share and the price of shares in a closed-ended investment fund with a public offering shall be published not less than once a month.

(2) The publication referred to in paragraph 1 of this Article shall be made by the use of the media available on the entire territory of the Republic of Srpska, and shall be made available to any investor on request submitted personally, by mail or electronically to the address of the head office of the management company, or other offices of the management company or to the premises of the authorized sales representative.

(3) The Securities Commission shall issue an ordinance regulating the contents and the time of publication of net value per share and the price of shares and units in funds with a public offering.

Article 171.

(1) The management company shall ensure that the price of units in an open-ended investment fund with a public offering and the net asset value per share of a closed-ended fund with a public offering be made available to the public upon their each calculation, in accordance with the provision of Article 150, paragraph 2 of this Act.

(2) The management company shall inform the unit-holder in an open-ended investment fund with a private offering, on his request, about the price of unit, or the value of assets per share.

(3) The Securities Commission shall issue an ordinance regulating the manner, the contents, the form and the time limits for the publication of prices of units in funds with a private offering.

3. Reports to fund shareholders and unit-holders

Article 172.

(1) Investors in funds, exclusively upon their request, shall be supplied with copies of half-yearly reports and audited annual reports of funds.

(2) The reports referred to in paragraph 1 of this Article shall be made available to investors at places indicated in the fund's prospectus.

Article 173.

Investors in funds, exclusively upon their request, shall also be supplied with additional information on the limits applied in the area of fund risk management, the processes used for that purpose, as well as information on any changes in risks and yields of the basic types of financial instruments in which fund assets have been invested.

4. Time limits for the preparation and contents of half-yearly and audited annual reports

Article 174.

(1) Half-yearly reports shall be submitted to the Securities Commission within two months from the end of a six-month calculation period.

(2) Audited annual reports shall be submitted to the Securities Commission within four months from the end of a calculation year.

Article 175.

(1) Half-yearly and audited annual reports shall contain:

- a) a statement of assets and liabilities (balance sheet) for the current calculation period and the comparable preceding calculation period,
- b) statement on the total yield for the current calculation period and the comparable preceding calculation period,
- v) data on the portfolio, distributed by asset type and liquidity and statement of key portfolio changes during the reference period,
- g) total expense ratio for the calculation period,
- d) a table indicating each brokerage company or securities trading company through which the fund executed over 10% of its transactions during the reference calendar year, indicating:
 - 1) the total value of all transactions executed through an individual company, shown as a percentage of the total value of all fund transactions in that particular year,
 - 2) commission paid to the company, shown as a percentage of the total value of transactions executed through that company.

(2) In addition to data from paragraph 1 of this Article, for open-ended investment funds, half-yearly and audited annual reports shall also contain:

- a) a statement of developments in fund asset value,
- b) the number of issued units at the beginning and at the end of the accounting period, and
- v) price per unit at the beginning and at the end of the accounting period.

(3) In addition to data from paragraphs 1 and 2 of this Article, half-yearly and audited annual reports of closed-ended investment funds shall also contain the highest and the lowest price per share in each of the preceding three business years.

(4) In addition to data referred to in paragraphs 1 to 3 of this Article, an audited annual report of the fund shall also contain:

- a) the highest and the lowest value of fund assets and the price per share or unit in a fund within the same calculation period for the past five calendar years,

- b) report by the management board, with an explanation of the fund's business performance, changes in portfolio and planned investment strategy in the forthcoming period,
- v) a comparative review of business performance in the past three calendar years, indicating the following end-business year data for each reference year:
 - 1) total portfolio net asset value,
 - 2) net asset value per unit or share,
 - 3) total expense ratio,
 - 4) distribution of profits per share or per unit during the year.

(5) The Securities Commission shall issue an ordinance regulating the contents of fund shareholders' and unit-holders' reports.

VIII REGISTER OF UNITS IN AN OPEN-ENDED INVESTMENT FUND

1. Responsibility for keeping the register

Article 176.

The management company shall be responsible for keeping the register of units in an open-ended investment fund.

2. Manner and conditions of enrolment in the register of units

Article 177.

- (1) The rights from units in a fund shall be acquired upon enrolment in the register.
- (2) The management company shall supply unit-holders once a year with a statement of balance and turnover in fund units in their ownership.
- (3) On request of unit-holders or their legally authorized representatives, and at their expense, the management company shall supply a statement of balance and turnover in fund units in their ownership.
- (4) The depositary bank and the Securities Commission shall be allowed to examine the fund's register of units.

Article 178.

(1) A unit-holder in an open-ended investment fund shall have the right to transfer his units to another person, subject to a completion of a transfer form approved by the management company, with such a transfer having legal effects vis-à-vis third persons only upon its registration with the fund or the management company and after approval thereof is obtained from the fund and the management company.

(2) A transfer of units in a fund may be refused:

- a) if the acquiring party does not meet the conditions for investing in a fund under and in accordance with the provisions of this Act, the fund rules or the fund's prospectus, or
- b) if the acquiring party has acquired such units in a manner which is in contravention of the allowed manner of acquisition of units in a fund as determined under this Act, the fund rules and/or the prospectus, or
- v) if, as a result of such transfer, the share of the acquiring party or the transferring party in the fund would be smaller than the smallest permitted share as prescribed by the fund rules or

the prospectus, or if such a transfer would violate the provisions on the smallest number of units in a fund, whether on the part of the transferring or the acquiring party.

(3) The transfer form referred to in paragraph 1 of this Article shall be signed by the transferring and the acquiring party and shall be submitted to the management company.

(4) A head of the register shall be obligated to keep the transfer forms during the period in which a legal action may be taken to contest the enrolment of the transfer in the register of units, and where such a legal action has been taken, until a final court decision is reached.

Article 179.

The Securities Commission shall issue an ordinance regulating the establishment of register, its keeping and publication of investment fund register data.

IX MERGERS AND WINDING-UP OF INVESTMENT FUNDS

1. Merger and winding-up of a closed-ended investment fund

Article 180.

Merger and winding-up of a closed-ended investment fund shall be carried out in accordance with the provisions of the Company Act.

2. Merger and winding-up of an open-ended investment fund

Article 181.

(1) Two open-ended investment funds may merge subject to approval from the Securities Commission. The procedure, the conditions and the manner of the merger shall be prescribed by a special ordinance issued by the Securities Commission.

(2) Winding-up of an open-ended investment fund shall be carried out by the management company managing the fund undergoing a winding-up procedure, except in cases where the management company is undergoing bankruptcy proceedings or where the Securities commission has suspended temporarily or revoked on a permanent basis, the management company's authorization.

(3) Where winding-up of an open-ended investment fund by the management company is not possible due to reasons set out in paragraph 1 of this Article, the winding-up shall be carried out by the fund's depository bank. Where the fund's depository bank is undergoing bankruptcy proceedings or where its authorization has been suspended temporarily or permanently revoked by the Banking Agency of the republic of Srpska, the winding-up of the fund shall be carried out by an authorized fund liquidator appointed by the Securities Commission.

(4) The Securities commission shall be obligated to appoint the liquidator of the fund referred to in paragraph 3 of this Article without delay, and in doing so act with increased due care making sure that it takes account of the rights and interests of unit-holders in the fund. The Securities Commission shall be accountable to unit-holders for any undue delay or hesitation with the appointment of fund liquidator, or any conduct which is in contravention of the principle of increased due care which has caused any type of damage to unit-holders.

3. Rights, obligations and responsibilities of the liquidator

Article 182.

(1) The liquidator shall be obligated to inform the Securities Commission and all investors in a fund, within seven days from the day of adoption of a decision on winding-up, or from the day of his appointment as fund liquidator, about the winding-up.

(2) After the adoption of the decision on winding-up, any further sale or redemption of units in an open-ended investment fund shall be prohibited, except in cases of requests received after the last price determination and before the adoption of the decision on winding-up, with fund asset transactions being allowed only for the purposes of the fund's winding-up.

(3) From the day of the adoption of a decision on winding-up, no fees shall be charged to the fund except fees to the depositary bank, costs associated with the winding-up procedure and its revision and costs associated with the preparation and presentation of half-yearly or audited annual reports to investors in the fund, incurred during the fund's winding-up procedure.

(4) The liquidator shall be obligated to submit to the Securities Commission final winding-up reports and a report on the conducted winding-up of the fund and shall be responsible for the preparation of the indicated reports.

4. Completion of the fund's winding-up procedure

Article 183.

During fund winding-up procedure, all fund assets shall be sold, while fund liabilities falling due until the date of adoption of a decision on winding-up shall be settled.

Article 184.

The remaining fund net asset value shall be distributed to unit-holders in proportion with their shares in the fund.

Article 185.

The Securities Commission shall issue an ordinance regulating the procedure, the costs and the time limits for the winding-up of investment funds.

X SALE OF SHARES OR UNITS IN INVESTMENT FUNDS

1. Sale of shares or units in investment funds with a public offering

Article 186.

(1) The sale of shares or units in funds with a public offering shall be carried out by management companies.

(2) In addition to management companies, the sale of shares or units in investment funds with a public offering may be carried out by the following legal persons which have concluded a contract with the management company and which are authorized to operate in the Republic of Srpska:

- a) banks,
- b) insurance companies,
- v) broker-dealer companies,
- g) other legal persons executing sales transactions for the management company on the basis of a contract on business co-operation.

Article 187.

(1) In the sale of shares or units in funds with a public offering, the banks or insurance companies and other legal persons referred to in Article 186, paragraph 2, item g) of this Act, shall act as management companies' agents based on a written contract concluded with the management company.

(2) In the sale of shares or units in funds with a public offering, the brokerage companies shall act as clients' agents in the acquisition of shares or units in their name, based on a contract.

Article 188.

(1) The persons referred to in Article 187 of this Act shall not engage in sales transactions involving units or shares in funds with a public offering during the period in which the competent authority has temporarily suspended their authorizations.

(2) They shall forthwith inform the management companies with which they concluded a contract on the execution of sales transactions about any suspension of their authorizations.

(3) The Securities Commission shall issue a special ordinance regulating the conditions, the manner of acquisition and recognition of authorization for the sale of shares or units in investment funds for all natural persons in a legal person and natural persons executing such transactions for the management company under a special contract.

Article 189.

The persons referred to in Article 187 of this Act, authorized for the sale of shares or units in investment funds with a public offering shall be obligated:

- a) to ensure availability to investors of all relevant documents and data, notably the prospectus, reports, prices etc.,
- b) to check whether the requests for purchase and redemption are completed in an orderly fashion,
- v) to duly forward requests for sale and redemption to the management company,
- g) in promoting the investment funds with a public offering or disclosing data on investment funds with a private offering, to use exclusively the prospectus, reports and promotional or presentation materials approved by an authorized management company,
- d) not to give any false information or information that may be misleading for the investors as regards the condition of the fund, or any false allegations about the fund, its investment objectives, associated risks, prices, yields, or any other issue or information in connection with the fund or the authorized management company, or any other allegations which depart from the contents of the fund's prospectus, the fund rules or its reports,
- đ) to be accountable to the management company of an open-ended investment fund or the management board of a closed-ended investment fund for any errors or oversights of their employees and every failure to comply with this Act and other regulations,
- e) to acquaint the potential investor about the amount of commission paid in connection with their engagement in the sale of shares or units in the fund, calculated as a percentage of an entry, annual management or exit fee,
- ž) to acquaint the potential investor with the fact of which management company it represents and if it offers for sale only the products of that or more companies,
- z) make sure that the proposed investment fund or funds meet the needs of the interested party,
- i) to act at all times in accordance with this Act and applicable regulations.

Article 190.

When making recommendations about a purchase or sale of shares or units in a fund, the brokerage companies shall be obligated to comply with provisions of Article 189 of this Act, with the exception of paragraph 1, items đ) and ž) of that Article.

Article 191.

The persons referred to in Article 187 of this Act shall receive remuneration for their work exclusively from the management company, and that from entry, management or exit fee funds charged by the management company to the investor or the fund.

2. Sale of shares or units in investment fund with a private offering

Article 192.

(1) The sale of shares or units in investment funds with a private offering may be executed exclusively by the management company of the fund whose shares or units are being sold.

(2) Referring potential qualifying investors to the management company by the persons referred to in Article 186 of this Act shall not be deemed sale.

Article 193.

The Securities Commission shall issue an ordinance determining the persons authorized for the sale or promotion of the sale of shares or units in investment funds, setting the conditions related to the manner of their operations in connection with the sale or promotion of the sale and the reporting requirements in connection with the sale of shares or units in investment funds.

XI OPEN-ENDED VENTURE CAPITAL INVESTMENT FUNDS WITH A PRIVATE OFFERING

Article 194.

The provisions of Title I, Title II, Title III, Title VI, Title VII, Title VIII, Title IX, Title X, Title XII, Title XIII and Title XIV of this Act, as well as the remaining provisions of this Act applicable to open-ended investment funds with a public offering shall apply to investment funds established in the form of open-ended venture capital investment funds with a private offering, subject to an exclusive condition that the provisions of Title XI of this Act do not expressly provide otherwise, or that such application is not possible in terms of the significance or the application of the remaining provisions of this Act.

Article 195.

The management company of an open-ended venture capital investment fund shall be established in the legal form of a limited liability company or a joint-stock company whose exclusive object is to establish and manage open-ended venture capital investment funds with a private offering or invest monetary assets in its own name and for the account of fund unit-holders, and to carry out other tasks as provided for under this Act.

Article 196.

(1) A depositary bank is a bank which provides open-ended venture capital investment funds with a private offering custodian services for separate fund assets, separate fund assets account management and separation of assets of each particular investment fund from the assets of other investment funds and carries out other activities of a depositary bank in accordance with the provisions of this Act.

(2) The management company of an open-ended venture capital investment fund with a private offering shall not be obligated to use depositary bank services in asset fund management.

(3) Only banks with a registered office in the Republic of Srpska, duly authorized therefore by the Banking Agency of the republic of Srpska, may act as depositary banks of open-ended venture capital investment funds with a private offering registered in the Republic of Srpska.

Article 197.

The board of trustees of an open-ended venture capital investment fund with a private offering shall be a body made up of representatives of investors in a fund as well as representatives of the management company where that company is one of the investors.

Article 198.

(1) A fund's board of trustees shall have minimum five members.

(2) No member of a fund's board of trustees can be a member of the management or supervisory board:

- a) of any other investment or pension fund management company,
- b) of the fund's depository bank, where the company uses depository bank services,
- v) of any connected person or entities listed in subparagraphs a) and b) of this paragraph.

(3) The term of office of the members of a board of trustees shall equal the duration of the fund. A member may be recalled before expiry of his term of office. The board of trustees shall issue special rules of procedure regulating the convening of meetings, voting and other issues relevant for the operation of the board of trustees.

Article 199.

(1) The board of trustees shall have a president.

(2) The president of the board of trustees shall be elected from among the members of the board of trustees.

Article 200.

(1) The fund's board of trustees shall represent investors in the fund vis-à-vis the management company and shall carry out other tasks placed under its competence pursuant to this Act, in particular:

- a) confirm the decision on the selection of auditor to audit the fund's business,
- b) decide on changes in investment principles, restrictions and sector, which form an integral part of the fund rules,
- v) adopt financial reports on the fund's business,
- g) adopt decision to dismiss the management company in accordance with the provisions of the fund rules,
- d) issue other approvals and authorizations to the company in accordance with the fund rules.

(2) The fund's board of trustees may demand from the management company to keep it informed also about fund portfolio balances and investment opportunities as well as about any other circumstances necessary for an informed judgement about fund asset management.

Article 201.

(1) Meetings of the fund's board of trustees shall be convened by the president of the fund's board of trustees or any other member of the board of trustees authorized therefore by the president of the board of trustees.

(2) The fund's board of trustees shall issue valid decisions by a majority of the total number of votes in accordance with the provisions of the fund rules.

Article 202.

An open-ended venture capital investment fund with a private offering is a separate pool of assets without legal personality, which is established, subject to authorization by the Securities Commission, by the management company of an open-ended venture capital investment fund with a private offering with the aim of raising monetary assets and offering units in a fund for private subscription, and whose assets are invested in accordance with the investment objectives and restrictions laid out in the fund's prospectus, and whose unit-holders have the right, apart from their right to a proportionate share in the profits of the fund, in the manner and under the conditions determined in the fund's prospectus, to demand redemption of their units and thus exit the fund.

1. Establishing an open-ended venture capital investment fund with a private offering

Article 203.

(1) An open-ended venture capital investment fund with a private offering may only be established for a fixed period of time of not less than ten years.

(2) The size of the fund shall be not less than 10.000.000 KM. The size of the fund shall mean the maximum subscribed payment obligation of all investors on any ground throughout the entire duration of the fund.

(3) No fund access shall be allowed to new investors after expiry of two years from the day of fund establishment.

(4) During the establishment of an open-ended venture capital investment fund with a private offering, the units in the fund may be offered for private subscription exclusively to persons meeting the requirements, as provided for in this Act, of qualifying investors in venture capital funds.

(5) The management company may determine in the prospectus and the fund rules the largest permitted number of investors in a fund, provided the total number of unit-holders in a fund at no time exceeds the maximum limit of 20 investors.

(6) The lowest maximum payment obligation by an individual investor in a fund shall be HRK 1.000.000 KM, due for payment by the investor upon invitations of the management company in accordance with the provisions of the prospectus.

(7) In case of failure by the investor to make full maximum payments referred to in paragraph 6 of this Article upon invitation by the management company, the investor may not demand redemption of his units until final expiry of the term of fund duration or fund winding-up and redemption of all units.

(8) The lowest amount of fund net asset value on the date of expiry of the fifth year from the date of fund establishment may not be less than 50% of the fund size referred to in paragraph 2 of this Article.

(9) In case of failure to meet the requirements referred to in paragraph 8 of this Article, the board of trustees shall, within two months from the date of expiry of the time limit referred to in paragraph 8 of this Article, select a new management company, and the fund net asset value on the date of expiry of one year from the selection of a new management company shall be not less than 50% of the fund size referred to in paragraph 8 of this Article.

(10) In case of failure to meet the criteria referred to in paragraph 9 of this Article, the Securities Commission shall issue a decision on the winding-up of the fund in accordance with the provisions of this Act.

Article 204.

(1) Purchase of units in an open-ended venture capital investment fund with a private offering shall be made by payments in monetary assets, whereby the investor upon purchase of units enters into a contractual relationship with the management company which undertakes to manage the monetary assets paid in as a part of mutual assets of the fund, in accordance with the conditions laid out in the prospectus.

(2) By way of derogation from paragraph 1 of this Article, units in a fund may be purchased through an award of new units in exchange for payments of shares in the profits or in case of a decrease in the value of units, through an exchange for new units to be awarded, or in other cases as provided for in the fund's prospectus.

(3) Any purchase of units in a fund and/or redemption of units shall be made at the time and in the manner specified in the fund's prospectus.

Article 205.

An application for authorization and registration of the enrolment of an open-ended venture capital investment fund with a private offering submitted to the Securities Commission, on behalf of the fund, by the management company, shall comprise:

- a) the name of the management company of a venture capital investment fund, data on the authorization issued by the Securities Commission as well as the name and surname of the authorized representative, the address, telephone, facsimile and e-mail address of the management company,
- b) the name of the fund, indication of the type of fund and investment objectives,
- v) the fund's prospectus,
- g) the fund rules,
- d) a contract concluded between the management company and the depositary bank and a court certificate for the depositary bank where services of a depositary bank are used in the management of the fund's assets,
- đ) the name of the auditing firm and a court certificate for the auditing firm.

2. Units in an open-ended venture capital investment fund with a private offering

Article 206.

(1) An open-ended venture capital investment fund with a private offering may issue only one type of units and may not issue any other type of securities giving rights to any component of the fund's assets.

(2) Units in an open-ended venture capital investment fund with a private offering shall be considered securities which may be sold and transferred exclusively to qualifying investors in venture capital investment funds in accordance with the provisions of the fund rules.

3. Rights and obligations of unit holder

Article 207.

Unit-holders in an open-ended venture capital investment fund with a private offering shall have the right, in addition to their right to a proportionate share in the profits of the fund, to demand redemption of their units in the fund in accordance with the dynamics, in the manner and under the terms of redemption laid out in the fund rules and its prospectus.

Article 208.

Liability of unit-holders for the obligations of an open-ended venture capital investment fund with a private offering shall extend to the amount of their units in the fund.

4. Costs of an open-ended venture capital investment fund with a private offering

Article 209.

Fees charged to the investor, or an open-ended venture capital investment fund with a private offering shall be limited to:

- a) entry fee added to the fund net asset value per unit at the moment of sale,
- b) exit fee deducted from the fund net asset value per unit at the moment of redemption,
- v) management fee.

Article 210.

(1) The management fee payable to the management company for managing an open-ended venture capital investment fund with a private offering shall be determined by an autonomous decision of the management company. The management fee shall be indicated in the fund's prospectus.

(2) The management fee for managing an open-ended venture capital investment fund with a private offering or part thereof may be determined as dependent upon the fund's yield. The fee which is dependent upon the fund's yield, or the amount of such fee, the manner of its calculation and payment shall be determined by the management company and indicated in the fund's prospectus.

Article 211.

Apart from the costs envisaged in the fund's prospectus, no other costs may be charged to the assets of an open-ended venture capital investment fund.

5. Permitted investments, investment and borrowing restrictions

Article 212.

The assets of an open-ended venture capital investment fund with a private offering may consist exclusively of units and shares in companies, monetary assets and loans granted.

Article 213.

(1) Investment of assets and borrowing of an open-ended venture capital investment fund with a private offering shall be subject to the following restrictions:

- a) within five years from the date of its establishment, the fund shall make not less than five investments into different units or shares subject to a condition that units or shares of a single issuer shall not exceed 33% of the fund size as defined in Article 203, paragraph 2 of this Act,
- b) in case of failure to make the number of investments referred to in item a) of this Article, the board of trustees shall, within two months from expiry of the time limit referred to in paragraph 1 of this Article, select a new management company, and the minimum number of investments upon expiry of one year from the selection of a new management company shall be five,
- v) in case of failure to fulfil the criteria referred to in item b) of this Article, the Securities Commission shall issue a decision on the fund's winding-up in accordance with the provisions of Articles 181 to 185 of this Act,

- g) no investment in a single sector of the economy may exceed 40% of the fund size as defined in Article 203, paragraph 2 of this Act,
- d) persons constituting affiliated companies in accordance with the provisions of this Act shall be deemed a single issuer in terms of item a) of this Article,
- đ) no investment into securities listed on stock exchanges with the purpose of short-term trading shall be allowed,
- e) the fund may take loans in the amount up to 75% of the fund size as defined in Article 203, paragraph 2 of this Act,
- ž) deposits given to banks and loans taken from banks by funds may not be charged or paid off by taking over units or shares of the issuers which the banks have previously acquired ownership of or have a previous lien on.

(2) The management company shall indicate clearly in the fund's prospectus the investment policy and classes of assets it intends to invest in, including the degree of financial exposure of the fund to the risks associated with borrowing.

(3) The Securities commission shall issue an ordinance regulating investments and the exceeding of investment and borrowing restrictions of open-ended venture capital investment funds with a private offering.

6. Prospectus of an open-ended venture capital investment fund with a private offering

Article 214.

A prospectus of a venture capital investment fund with a private offering is an invitation to purchase units in an open-ended venture capital investment fund with a private offering, addressed exclusively to a specific person or a limited group of investors, meeting the requirements of the term qualifying investor in venture capital investment funds as defined under this Act.

Article 215.

The information given in the prospectus shall be accurate and complete.

Article 216.

(1) The prospectus of a venture capital investment fund with a private offering shall contain the information needed for the investors to make an informed judgement about the fund and make an investment decision, in particular as regards the risks associated with the nature of the fund and its portfolio.

(2) The prospectus of a venture capital investment fund with a private offering shall contain, as a minimum, the following data:

- a) Data on the fund:
 - 1) name of fund and indication of the type of fund,
 - 2) indication that the fund is intended exclusively for investors who meet the definition of qualifying investors in venture capital investment funds under this Act and who can support such a qualification by signing a special statement, agreement or contract with the management company,
 - 3) date of fund establishment, duration of the fund,
 - 4) indication of the place where half-yearly and annual reports may be obtained and where a copy of the fund rules or prospectus or additional information on the fund may be obtained,

- 5) the lowest amount of monetary assets to be raised, and actions planned to be taken in case the lowest prescribed amount is not raised,
 - 6) the name of auditor, or auditing firm, lawyer and other providers of services to the fund,
 - 7) the rights from units,
 - 8) the circumstances under which a decision on winding-up of the fund may be made, and the fund winding-up procedure,
 - 9) types of assets in which the fund may invest,
 - 10) description of the fund's investment objectives and targeted portfolio structure, the manner in which the fund's objectives may be achieved and the risks associated with the fund's investments,
 - 11) the lowest and the highest amount of individual investments in a fund, the manner of unit subscription and the manner and the conditions of unit redemption,
 - 12) the manner and the time of fund asset value calculation,
 - 13) annual fees and management and operating costs which may be charged to the fund and description of their impact on investors' future yields, and the manner of management fee calculation and payment in cases where the amount of such fee depends on the fund's yield,
 - 14) information on the manner of calculation and the manner and frequency of distribution of shares in the profits of the fund to unit-holders,
 - 15) brief information on tax legislation applicable to the fund where of significance to the unit-holder,
 - 16) duration of business year, and
 - 17) date of publication of the prospectus.
- b) Data on the management company:
- 1) name of company, legal form, registered office of the management company and head office where different from the registered office, the number of authorization issued by the Securities Commission as well as the date of establishment and enrolment in the court register,
 - 2) the names of the management and the first supervisory board members, their brief curriculum vitae and indication if they are connected in some way,
 - 3) the amount of registered capital of the management company,
 - 4) company name, legal form, date of establishment and enrolment in the court register and the role of the companies acting as fund investment advisors and the name of the president of the management board or other responsible persons in such companies.
- v) Data on the depositary bank:
- 1) the name, legal form, registered office and the address of the head office of the depositary bank and data and the number of authorization for carrying out the business of a depositary bank issued by a competent institution, where the management company chooses to use a depositary bank.

- g) Description of the position of the board of trustees' and its competences.

Article 217.

(1) The Securities commission shall approve each prospectus of venture capital investment funds with a private offering before initiating a private offering for the sale of units, and any amendments made to the existing prospectuses due to major changes shall also be subject to a previous approval by the Securities Commission.

(2) No units in venture capital investment funds with a private offering may be offered through a private offering before approval of the prospectus is obtained from the Securities Commission.

7. Fund rules of venture capital investment funds with a private offering

Article 218.

(1) The fund rules of an open-ended venture capital investment fund with a private offering shall regulate the legal relations between the management company and unit-holders in open-ended venture capital investment funds with a private offering.

(2) The fund rules shall be enclosed with the fund's prospectus and shall constitute its integral part.

(3) By way of derogation from paragraph 2 of this Article, it shall not be necessary for the fund rules to be enclosed with the fund's prospectus where the prospectus envisages that the unit-holder or a shareholder in a fund shall be supplied with the fund rules on request, or where the prospectus provides for the place where the fund rules are made available for examination.

Article 219.

The information given in the fund rules shall be accurate and complete.

Article 220.

Unless the data referred to in this Article are already laid out in the prospectus, the fund rules of an open-ended venture capital investment fund with a private offering shall contain, as a minimum, the following data:

a) Data on the fund:

- 1) name of fund and indication of the type of fund,
- 2) indication that the fund is intended exclusively for investors who meet the definition of qualifying investors in venture capital investment funds as defined under this Act and who can support such qualification by signing a special statement, an agreement or a contract with the management company,
- 3) date of fund establishment and fund duration,
- 4) indication of the place where half-yearly and annual reports may be obtained and where a copy of the fund's prospectus or any additional information on the fund may be obtained,
- 5) the lowest amount of monetary assets to be raised and activities that will be taken in case the lowest fixed amount is not raised,
- 6) the rights arising from units in the fund,
- 7) minimum investment in the fund, the manner of subscription and unit redemption,
- 8) the manner and the time of fund asset value calculation,
- 9) the time, the method and the frequency of price calculation for the sale of the new or redemption of the existing units and the manner of publication of such prices, the circumstances under which there may be a suspension of issue or redemption, description

of the amounts and frequency of payments of permitted fees and costs of units issue and redemption,

- 10) annual fees and management and operating costs that may be charged to the fund and description of their effect on investors' future yields,
 - 11) information on the manner of calculation and the manner and the frequency of distribution of shares in the profits to unit-holders,
 - 12) brief information on tax legislation applicable to the fund where of significance to the unit-holder,
 - 13) duration of business year,
 - 14) date of publication of the fund rules.
- b) Data on the management company:
- 1) name of company, legal form, registered office and head office, where different from the registered office, the number of authorization issued by the Securities Commission as well as the date of establishment and enrolment in the court register,
 - 2) names of the management and supervisory board members, their brief curriculum vitae and indication if they are connected in some way,
 - 3) the amount of registered capital of the management company and the names of the management company members, the legal form, and an indication of the members' shares in the registered capital,
 - 4) company name, legal form, date of establishment and enrolment in the court register and the role of the companies acting as fund investment advisors and the name of the president of the management board or other responsible persons in such companies.
- v) Data on the depositary bank:
- 1) the name, the legal form, registered office and the head office of the depositary bank and the data and the number of authorization for carrying out the business of a depositary bank issued by a competent institution, where the company chooses to use a depositary bank.
- g) Description of the position and competences of the board of trustees.

8. Promotion of venture capital investment funds with a private offering

Article 221.

- (1) No management company may engage in a public campaign promoting a venture capital investment fund with a private offering that it manages.
- (2) Public distribution of presentation materials which, in addition to giving information on the name and activity of the management company, direct potential qualifying investors in venture capital investment funds to the management company of a venture capital investment fund with a private offering, shall not be deemed public promotion.

Article 222.

All presentation data on venture capital investment funds with a private offering and their management companies shall be integral, clear, true and accurate and shall not be misleading, in particular as regards the associated risks and fees, and shall be approved by the management company management board members.

Article 223.

- (1) Any presentation of the business results of a venture capital investment fund with a private offering shall:
 - a) consist of the latest data available at the moment of business results presentation,
 - b) be drawn up on a consistent basis in terms of the periods covered, with inclusion or exclusion of individual factors which affect such results (e.g. the basis for the price, costs, taxes, dividends, etc.).
- (2) The Securities Commission shall issue an ordinance determining the mandatory contents and the methods of presentation of business results of venture capital investment funds with a private offering.

XII THE SECURITIES COMMISSION

Article 224.

The Securities Commission shall be responsible for the conduct of supervision of the business operations of open-ended and closed-ended investment funds, with a public or a private offering, management companies and depositary banks, as well as legal persons authorized for the sale of shares or units in investment funds.

Article 225.

- (1) Investment fund management companies, brokers engaging in the sale of units or shares in investment funds and depositary banks which carry out the activities of depositary banks for investment funds or other persons taking part in business operations of investment funds, shall be obligated to submit regularly their work reports to the Securities Commission.
- (2) Any violation of the reporting obligation referred to in paragraph 1 of this Article shall constitute a ground for extraordinary inspection, while any repeated violations of this type may lead to temporary suspension of authorization and a suspension of a particular operating activity, by the Securities Commission.

Article 226.

- (1) The Securities Commission shall issue an ordinance regulating the mandatory contents, the time limits and the form of mandatory reports for individual types of investment funds, management companies and depositary banks.
- (2) The reports may be:
 - a) supervisory reports,
 - b) statistical reports.
- (3) Any violation of the reporting obligation referred to in paragraph 2 of this Article or violation of the obligation to comply with the prescribed form and contents of the reports, or any delay in the submission of reports shall constitute the grounds for extraordinary inspection or pecuniary penalty while any repeated failure to submit the reports, any incomplete or late submission of reports by the reporting entities shall constitute the grounds for temporary suspension or permanent revocation of all the authorizations issued.

Article 227.

- (1) The Securities Commission shall be authorized to carry out inspections of closed-ended and open-ended investment funds, fund management companies, brokers engaging in the sale of units or shares, depositary banks or any other person carrying out the business activity the responsibility for

which lies with one of the previously specified persons, through regular or extraordinary inspections.

(2) The Securities Commission shall not be obligated to inform in advance the persons referred to in paragraph 1 of this Article of any planned inspection, even though it may decide to do so in case of a regular inspection.

Article 228.

(1) In case of violation, by a management company or an employee of a company associated with fund management, of the provisions of this Act, the Act on the securities market or ordinances enacted on the basis of these acts, or in case a company manages the fund in a manner which is in contravention of the fund rules, its prospectus or fund management contract, or in case a company has provided false data upon fund establishment, the Securities Commission may:

- a) temporarily or permanently revoke the authorization of the management company or a depositary bank,
- b) instruct the management company to take specific measures, as to make fund management compliant with the regulations,
- v) announce an invitation to other fund management companies to submit their offers and applications for the management of a specific fund,
- g) forbid payments from guarantee deposit account, or
- d) forbid disposal of the fund's assets.

(2) If depositary bank violates provisions of this Act, Act on securities market and regulations based on these laws, the Securities Commission shall be authorized to suspend temporarily or permanently revoke the authorization of a depositary bank.

XIII PENTALY PROVISIONS

1. Criminal offences

1.1. Unauthorised establishment and management of investment funds

Article 229.

(1) Any person engaging in unauthorized establishment and management of investment funds shall be punished with a pecuniary penalty or imprisonment of up to one year.

(2) Where, as a result of the offence referred to in paragraph 1 of this Article, the perpetrator has acquired considerable economic gain, he or she shall be punished with a pecuniary penalty or imprisonment of up to two years.

1.2. Unauthorised offering of investment funds

Article 230.

(1) Any person engaging in unauthorized offering of investment funds to third persons in the territory of the Republic of Srpska shall be punished with a pecuniary penalty or imprisonment of up to one year.

(2) Where, as a result of the offence referred to in paragraph 1 of this Article, the perpetrator has acquired considerable economic gain, he shall be punished with a pecuniary penalty or imprisonment of up to two years.

1.3. Unauthorised sale of units or shares in investment funds

Article 231.

(1) Any person engaging in unauthorized brokerage involving the sale of units or shares in investment funds to third persons in the territory of the Republic of Srpska shall be punished with a pecuniary penalty or imprisonment of up to six months.

(2) Where, as a result of the offence referred to in paragraph 1 of this Article, the perpetrator has acquired considerable economic gain, he shall be punished with a pecuniary penalty or imprisonment of up to one year.

2. Misdemeanours

2.1. Misdemeanours committed by management companies

Article 232.

(1) The management company shall be punished with a pecuniary penalty from 10.000,00 to 50.000,00 KM in case:

- 1) it commences to carry out activities associated with investment fund management without authorization or before obtaining authorization from the Securities Commission (Article 29, paragraph 3),
- 2) of failure to comply with the procedure of duty associated with the business operation (Article 30),
- 3) of failure to inform the Securities Commission about opening a branch in a Member State (Article 33, paragraphs 1 and 2),
- 4) of failure to inform the Securities Commission about any direct involvement in the carrying out of business in a Member State (Article 34, paragraph 1),
- 5) it commences, through a branch, to carry out the business outside the Member States without authorization from the Securities Commission (Article 36, paragraphs 1 and 2),
- 6) of failure to comply with the provisions of Article 45, paragraph 2 of this Act, within the period of three months,
- 7) it carries out a business activity and makes transactions prohibited by virtue of Article 47, paragraph 1 of this Act,
- 8) it charges fees associated with the establishment of a closed-ended investment fund, in contravention of Article 65 of this Act,
- 9) it pay the costs not listed in Article 66, paragraph 1 of this Act from the assets of a closed-ended investment fund,
- 10) the fund's total expense ratio exceeds the values determined in Article 68 of this Act,
- 11) it invests in the assets outside the scope determined in Article 78, paragraph 1 of this Act,
- 12) it fails to comply with the investment restrictions provided for in Article 79, paragraph 1 of this Act and the failure to comply cannot be interpreted in terms of Article 84 of this Act,
- 13) it acquires real estate not assessed previously by an expert (Article 80, paragraph 4),
- 14) the value of a particular real estate exceeds the values determined in Article 80, paragraph 5 of this Act,
- 15) it charges fees in contravention of the provisions of Article 94 of this Act,
- 16) it charges costs to an open-ended investment fund which are not covered by the provision of Article 95 of this Act,

- 17) the total amount of all costs exceeds the value determined in Article 98 of this Act,
- 18) it invests in assets other than those provided for in Article 100 of this Act,
- 19) of failure to comply with the investment restrictions provided for in Article 101 of this Act,
- 20) if offers shares or units in an investment fund before an approval of the fund's prospectus is obtained from the Securities Commission (Article 105),
- 21) it commences with promotional activities without having an authorization from the Securities Commission (Article 115),
- 22) it acts in contravention of the provisions of Article 118 of this Act,
- 23) it acts in contravention of the provisions of Article 119 of this Act,
- 24) it acts in contravention of the provisions of Article 120 of this Act,
- 25) it offers units to persons not meeting the definition of qualified investor (Article 127, paragraph 2),
- 26) it charges an investor a fee not covered by the provision of Article 132 of this Act,
- 27) it invests in assets other than those determined in Article 136 of this Act,
- 28) of failure to comply with the investment restrictions provided for in Article 137 of this Act, where such failure cannot be interpreted in terms of Article 138 of this Act,
- 29) of failure to submit a prospectus for approval pursuant to Article 142 of this Act,
- 30) of failure to submit amendments for an approval pursuant to Article 143 of this Act,
- 31) of failure to comply with asset value determination requirement provided for in Article 150 of this Act,
- 32) it engages in a sale or a redemption in contravention of the provisions of Article 159 of this Act,
- 33) it charges other fees in addition to entry and exit fees (Article 162),
- 34) it charges entry and exit fee in contravention of the provisions of Article 163 of this Act,
- 35) of failure to act in accordance with the provisions of Article 165 of this Act,
- 36) of failure to act in accordance with the provisions of Article 166 of this Act,
- 37) of failure to act in accordance with the provisions of Article 169 of this Act,
- 38) of failure to act in accordance with the provisions of Article 170 of this Act,
- 39) of failure to inform the unit-holder on his request about the price (Article 171, paragraph 2),
- 40) of failure to submit reports to shareholders and unit-holders (Article 172),
- 41) of failure to submit reports pursuant to the provision of Article 173 of this Act,
- 42) of failure to submit reports pursuant to the provision of Article 174 of this Act,
- 43) the reports do not have the contents pursuant to the provision of Article 175 of this Act,
- 44) of failure to act pursuant to the provision of Article 192 of this Act,
- 45) it charges fees in contravention of the provision of Article 209 of this Act,
- 46) it invests in assets other than those listed in Article 212 of this Act,
- 47) of failure to comply with the investment and borrowing restrictions provided for in Article 213 of this Act,

- 48) it offers units in venture capital funds before an approval is obtained from the Securities Commission for the fund's prospectus (Article 217, paragraph 2),
- 49) it engages in public campaigns promoting a venture capital investment fund with a private offering it manages (Article 221),
- 50) the presentation of business results of a venture capital investment fund does not contain the business results as provided for in Article 223 of this Act,
- 51) of failure to submit reports to the Securities Commission pursuant to the provision of Article 226 of this Act.

(2) The responsible person in a legal person shall be punished with a pecuniary penalty from 1.000,00 do 5.000,00 KM for the misdemeanour referred to in paragraph 1 of this Article.

2.2. Misdemeanours committed by a depositary bank

Article 233.

(1) The depositary bank shall be punished on a misdemeanour charge with a pecuniary penalty from 5.000,00 to 25.000,00 KM in case:

- a) of failure to manage the assets of investment funds pursuant to Article 51 of this Act,
- b) of failure to carry out one of the activities referred to in Article 53, paragraph 1 of this Act,
- v) it ceases to carry out the activities of a depositary bank without previously informing the Securities Commission thereof (Article 57),
- g) of failure to send notification to the Securities Commission pursuant to Article 58 of this Act,
- d) of failure to act pursuant to the provisions of Article 59 of this Act.

(2) The responsible person in a legal person shall be punished with a pecuniary penalty from 1.000,00 to 5.000,00 KM for the misdemeanour referred to in paragraph 1 of this Article.

2.3. Misdemeanours committed by a legal person selling shares or units in investment fund with a public offering

Article 234.

(1) Any legal person authorized, on behalf of the management company, to sell shares or units with a public offering, shall be punished on a misdemeanour charge with a pecuniary penalty from 3.000,00 to 15.000,00 KM in case of failure to act in accordance with the provisions of Article 189 of this Act.

2) The responsible person in a legal person shall be punished with a pecuniary penalty from 1.500,00 to 2.500,00 KM for the misdemeanour referred to in paragraph 1 of this Article.

2.4. Misdemeanours committed by auditors

Article 235.

(1) The auditor of an open-ended investment fund shall be punished with a pecuniary penalty from 3.000,00 to 15.000,00 KM in case of failure to make checks of business operations pursuant to Article 151, paragraph 3 of this Act.

(2) The responsible person in a legal person shall be punished with a pecuniary penalty from 1.500,00 to 2.500,00 KM for the misdemeanour referred to in paragraph 1 of this Article.

2.5. Misdemeanour committed by a member of the supervisory board of a closed-ended investment fund

Article 236.

A supervisory board member who fails to act pursuant to the provisions of Article 74 of this Act, shall be punished with a pecuniary penalty from 2.500,00 to 5.000,00 KM.

2.6. Misdemeanours committed by natural persons

Article 237.

A responsible person in a legal person or a self-employed person carrying out an activity shall be punished on misdemeanour charges with a pecuniary penalty from 3.000,00 to 10.000,00 KM if:

- a) that person engages in activities referred to in Article 23 of this Act,
- b) that person engages in an activity associated with investment funds management without authorization from the Securities Commission,
- v) that person makes a public offering of shares or units in investment funds with a public offering without approval for the fund's prospectus (Article 105),
- g) that person acts in such a way as to appear to the investment community that it is a fund management company, a closed-ended or an open-ended investment fund although it does not have the necessary authorizations pursuant to the provisions of this Act.

Article 238.

Initiation of misdemeanour proceedings for all misdemeanours under this Act shall be subject to a statute of limitation after three years from the date the misdemeanour was committed.

3. Protective measures

Article 239.

The management company committing a misdemeanour referred to in Article 232 of this Act, may, in a misdemeanour proceeding, be sentenced to a protective measure involving a prohibition to engage in the activities of the establishment and management of investment funds for a period of up to six months.

Article 240.

The responsible person in the management company which has committed a misdemeanour referred to in Article 232 of this Act may, in a misdemeanour proceeding, be sentenced to a protective measure involving a prohibition to act as a responsible person in an investment fund management company for a period of up to six months.

Article 241.

A depositary bank committing a misdemeanour referred to in Article 233 of this Act may, in a misdemeanour proceeding, be sentenced to a protective measure involving a prohibition to carry out the business of a depositary bank for investment funds for a period of up to six months.

XIV TRANSITIONAL AND FINAL PROVISIONS

Article 242.

(1) Companies established before the date of effect of this Act, having a word "fund" or any derivative of the word "fund" or any other word determined in Article 21 of this Act in designation of their business activity or in their firm name or falling under the term "investment fund" as

defined in Article 3 of this Act, shall be obligated to harmonise their internal organizational structure, their acts and business activity with the provisions of this Act relating to the form, the organization, the amount of registered capital and the business activity and the manner of investment fund representation and management.

(2) Companies pursuant to the paragraph 1 of this Article shall submit to the Securities Commission their application for authorization to continue with their business activity, not later than within six months from the date of effect of this Act or shall, within the same time limit, register removal or change of firm name or part thereof containing the word “fund” or any derivative of the word “fund”, the activity of investment fund management, or any other discrepancy in terms of Article 21 of this Act and inform the Securities Commission thereof.

Article 243.

The provisions of Article 15, paragraph 1, item b), Articles 33 to 35, Articles 37 to 43, Article 47, paragraph 1, item m), sub-items 3) and 5), Article 91, paragraph 1, item e), Article 104, paragraph 2, item b), sub-item 6), Article 112, paragraph 1, item b) sub-item 6), Article 114, item b) of this Act shall apply as of the date of accession of the Bosnia and Herzegovina to the European Union.

Article 244.

(1) The Securities Commission shall adopt subordinate legislation based on this Act within one year from the date of entry into force of this Act.

(2) Within six months from the date of entry into force of this Act, the Securities Commission shall issue an ordinance regulating the contents and the manner of keeping registers of funds and, within further six months, take and implement any necessary technical and other measures needed for the establishment, beginning of operation and regular keeping of the Register of Funds.

(3) The Securities Commission shall publish its ordinance on the contents and the manner of keeping the Register of Funds in the Official Gazette of the Republic of Srpska.

Article 245.

This Act shall enter into force on the 8th day following its publication in the Official Gazette of the Republic of Srpska.

NATIONAL ASSEMBLY OF THE REPUBLIC OF SRPSKA
President of the National Assembly
Igor Radojičić

Number:
Date,