

ACT ON COLLECTIVE INVESTMENT

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The share and mutual fund share certificate

A mutual fund share certificate is a security that can be issued for one or more shares of a mutual fund shareholder for the assets in a mutual fund, where the mutual fund share with an equal number of shares forms the basis for the equal rights of all mutual fund shareholders. With the mutual fund share is connected the right of the mutual fund shareholder to a corresponding share in the assets in the mutual fund and the right to share in the revenue from the assets according to the fund's statute. The mutual fund shares of an open-end mutual fund may be issued only in inscribed form or unregistered form. The mutual fund share of a closed-end mutual fund may be issued only in inscribed form or unregistered form and must be publicly tradable. A mutual fund share of a special fund may be issued only in an inscribed form.

The initial value of one share is the sum for which a share is issued at the beginning of an open-end mutual fund's establishment.

The net value of the assets in an open-end mutual fund is the difference between the value of the assets in the open-end mutual fund and its liabilities.

A mutual fund share is issued by an asset management company for the so-called current price, equalling the number of shares marked on the mutual fund share multiplied by the current value of the share. The current value of the share is defined as the difference between the net value of assets in the open-end mutual fund and the number of shares in circulation. An asset management company may issue mutual fund shares in one open-end mutual fund only with an equal initial value of the share.

An asset management company issues a mutual fund share for a sale price, which is the total of the current price of the mutual fund share and the expenses connected with issuing the mutual fund share. These expenses (entry and exit fees) however together may not exceed 5% of the current value of the share. In the case of a newly created mutual fund, the asset management company sells mutual fund shares for the initial value, however at most for the period of one month from the commencement the issuing of the first mutual fund shares.

The sale price of a mutual fund share may not be settled in a manner other than pecuniary settlement to the current account administered for the open-end mutual fund and a mutual fund share may be issued only following settlement of the sale price.

The number of issued mutual fund shares and the period of issuing the mutual fund shares of an open-end mutual fund is not limited, unless such a limitation is contained in the statute of the mutual fund. An asset management company may issue the mutual fund shares of a closed-end mutual fund over a period of at most two years from the commencement of issuing the mutual fund shares.

An asset management company can refuse to issue a mutual fund share, in particular where this concerns an unusually high amount or where there exists a suspicion that the financial resources originate from criminal activity.

Redemption of a mutual fund share

The manner of the payout for a mutual fund share differs for individual types of mutual funds. The mutual fund shareholder of a closed-end mutual fund is not entitled to submit a mutual fund share owned by him to the asset management company for redemption. The mutual fund shareholder of a special mutual fund has the right to present a mutual fund share for redemption, the asset management company however must in accordance with its statute and following an agreement with the mutual fund shareholder ensure that the mutual fund shares can be transferred to a different mutual fund shareholder only with the consent of the asset management company.

Unless the Act states otherwise, the mutual fund shareholder of an open-end mutual fund has the right to present its mutual fund share for redemption to the asset management company, which administers this certificate, however, only in the case that the net value of the assets in the mutual fund have by that time reached SKK 50 million. The asset management company is obliged without unnecessary delay and within at latest 14 days from the date of the mutual fund share being returned, to pay out to the mutual fund shareholder the current price as at the day of the mutual fund share's return, and this using funds from the assets in the open-end mutual fund. The expenses connected with the issuing and pay-out of the mutual fund share (the above mentioned maximum 5% of the current value of the share), which are charged to the mutual fund shareholder, represent the income of the asset management company. The mutual fund share following its return remains the property of the mutual fund shareholder until



payment of the redemption price. Through payment of the amount in the value of the redemption price the mutual fund share lapses.

If the financial resources in an open-end mutual fund are not sufficient for the pay-out of returned mutual fund shares, the asset management company must sell a part of the securities from its assets in the open-end mutual fund. For the period until the sale of the securities, at longest however within three months, the asset management company can use for the payment of returned mutual fund shares its own financial resources or take on a short-term loan, which however may not exceed 10% of the value of the assets in the fund.

An asset management company may in exceptional circumstances, at longest however for three months, interrupt the redemption of returned mutual fund shares, and this only where it is in the interest of the mutual fund shareholders. This interruption and its reason must without delay be notified to the supervisory authority and mutual fund shareholders in an appropriate manner. The supervisory authority may cancel a decision of the asset management company regarding the interruption to redemption of returned mutual fund shares, if it finds that the interruption is contrary to the interests of mutual fund shareholders. The supervisory authority may also interrupt the redemption of returned mutual fund shares, if it finds that the redemption of returned mutual fund shares is contrary to the interests of mutual fund shareholders. During the interruption to the redemption of returned mutual fund shares, the asset management company may not issue further mutual fund shares in this open-end mutual fund.

Assets in a mutual fund

The assets in a mutual fund may be invested only in precisely delimited securities, money market instruments and options, or deposited in a current or deposit account in a bank. Apart from this, there may in the assets of a special fund be included also certificates documenting ownership or the storage of precious metals. The prevailing type of assets in the ownership of a fund is thereby used to classify mutual funds into money market funds, bond funds, equity or mixed bonds. With effect from 1 January, 2003, there may be created from open-end mutual funds also so-called funds of funds, which invest primarily in mutual fund shares of other open-end mutual funds.

Rules on the limitation and distribution of risk

Rules on the limitation and distribution of the risk of a fund's investment portfolio lie in the fact that the Act stipulates certain qualitative and quantitative limits for individual types of assets owned by a mutual fund. These are different for individual types of mutual funds. Open-end mutual funds are subject to the strictest rules for the limitation and distribution of risk.

Disposing with assets in an open-end or closed-end mutual fund

Professional care must be taken in disposing with the assets in a fund and this in accordance with an investment strategy, defined in the statute and only in a manner stipulated by the Act on collective investment. All acts concerning disposal with assets in a fund must be documented in writing. In the case of the sale or purchase of securities from the assets or into assets in the fund, the asset management company is obliged to sell or buy these securities at the most advantageous price possible.

From the assets in a fund there may not be provided gifts, financial loans or other credits, nor this in any manner guaranteeing liabilities of other natural persons or legal entities. Financial loans or credit in favour of the assets in the fund may be accepted only where this is in accordance with the interests of mutual fund shareholders and where this is permitted by the fund's statute, and this only with maturities of within one year from establishing the drawing right of this credit or loan. The sum of financial resources of financial loans and credit accepted may not exceed 10% of the value of the assets in the fund as at the day of concluding contracts on financial loans and credits.

There may not in favour of the assets or to the debit of the assets in a fund be made loans of securities and the sale of securities that are not a component of the assets in the fund on the day of concluding a contract on the transfer against payment of securities by purchase.

An asset management company is obliged in disposing with assets in a fund to proceed with professional care, in particular to perform analyses of the economic advantageousness of purchases and sales of securities, to compare prices of individual purchases and sales mutually and with the development of rates and prices published by public market organisers, to keep records and written documentation on trades performed and to prevent the risk of financial losses.

If there occurs the exceeding of shares and limitations concerning assets in a mutual fund and the rules on limitation and risk distribution, the asset management company must without delay notify the supervisory authority of this and take measures again without delay to bring the situation with the shares and limitations into accordance with the Act.

An asset management company must without delay inform the supervisory authority if the current price of the share of the mutual fund falls by one third against the average value of current prices over the past six subsequent months. If this decline lasts longer than three subsequent months and cannot be justified by the situation in the financial market, the supervisory authority may in the interest of protecting mutual fund shareholders interrupt the issuing of mutual fund shares and the redemption of returned mutual fund shares or revoke the asset management company's permit for creating a mutual fund.

If the net value of the assets in a mutual fund falls below the minimum net value of assets of SKK 50 million, the asset management company and the depositary are obliged to inform without delay the supervisory authority of this and of the measures adopted for its remedy. If within three months after this situation having arisen the net value of the assets does not reach the necessary value, the supervisory authority shall revoke the asset management company's permit for creating a fund.

Dissolution of an open-end or closed-end mutual fund

An open-end or closed-end mutual fund may be put into dissolution only on the basis of a decision by the supervisory authority on the withdrawal of the permit for creating a mutual fund or if the permit for creating a mutual fund has lapsed. The supervisory authority shall revoke the permit for creating a mutual fund, if the net value of their assets in a fund falls below the limit of SKK 50 million for a period longer than three months. The supervisory authority may in the interest of protecting the rights of mutual fund shareholders withdraw the permit for creating a mutual fund also in the case where the current value of a fund's share has fallen by one third against the average value of current prices for the past six subsequent months and this decline lasts longer than three subsequent months, where the decline in the share price cannot be justified by the situation in the financial market. The supervisory authority may permit the dissolution of a fund also at the request of the asset management company.

After a decision on revocation of a permit for creating an open-end or closed-end mutual fund has acquired legal validity, or where the permit for creating an open-end or closed-end mutual fund has lapsed, the asset management company is obliged without delay to terminate the issuing of mutual fund shares, the redemption of returned mutual fund shares and to end its handling of assets in the fund. The supervisory authority may in the interest of protecting the rights of mutual fund shareholders determine that this activity be performed by the depositary or a different asset management company.

An asset management company is obliged within six months after a decision on the revocation of its permit for creating an open-end or closed-end mutual fund acquiring legal validity to perform an extraordinary closing of accounts, to sell the securities in the assets of the fund, to ensure payment of receivables in favour of the assets in the fund, to settle all liabilities from the management of assets in the fund and to pay out to mutual fund shareholders their share in the assets.

Investor protection

An asset management company may not in promoting its mutual funds use untrue or misleading information or

withhold facts important for mutual fund shareholders' decision making, in particular to offer advantages the reliability of which cannot be proven. In practice this legal regulation means that an asset management company may not state in a promotional material in connection with mutual funds any definite future yield. Moreover, all promotional material of a mutual fund must contain an express warning drawing note to the fact that also risk is connected with this investment and yields to date are not a guarantee of future yields. Promotional material for the purchase of mutual fund shares of a closed-end mutual fund must also contain a warning that the mutual fund shareholder does not have the right to return the mutual fund share.

All promotional material containing an offer calling for the purchase of mutual fund shares of a mutual fund must contain data on the fact that a prospectus exists, stating the place where this can be obtained, as well as data on the fact that the investor has the possibility to familiarise themselves with the statute of the mutual fund.

Members of the board of directors, the supervisory board, company secretaries and employees of an asset management company may not in the business activity of the asset management company give priority to their own interests over those of collective investment investors and may not acquire securities from assets in a mutual fund that is administered by this asset management company, nor sell such securities into the assets in this mutual fund. This limitation does not relate to the issuing and return of mutual fund shares of open-end mutual funds administered by asset management companies in which these people perform the stated functions.

An asset management company may not acquire securities from assets of commercial companies into assets in the mutual fund, nor sell securities from assets in the mutual fund to commercial companies in which:

- a) it is a member of the board of directors, the supervisory board, the company secretary or an employee of this asset management company or an entity close to them,
- b) it owns a part of the commercial company or there participates in the conduct its business a member of the board of directors, supervisory board, company secretary or employee of this asset management company or a person close to them.

An asset management company may not acquire into the assets of the mutual fund that it administers securities from its shareholders, nor sell to them securities from the assets of this mutual fund without the express permission of the supervisory authority.

Information duty

An asset management company is obliged to publish a prospectus and to publish reports on its business results and asset management in mutual funds. A component of the report on the business results of the company and the report on the management of assets in the mutual funds is



also the closing of accounts, which must be verified by an auditor. The asset management company is obliged to publish half-yearly reports and to submit these to the supervisory authority and its depositary at latest within two months following the end of the half-year, and annual reports within four months following the end of the year.

With effect from 1 January, 2003, the rule applies that if within the set term the closing of accounts is not verified by an auditor, the asset management company is obliged without unnecessary delay following receipt of the auditor's report to submit it to the supervisory authority and to publish it as an Annex to the annual report in the same manner as the annual report. If the general meeting of the asset management company does not approve the closing of accounts, this asset management company is obliged within 30 days to publish this fact and the reasons for the closing of accounts having not been approved and the procedure in resolving the comments of the general meeting. The asset management company is obliged also to submit to the supervisory authority the current wording of its prospectus following each change, and is obliged upon request to provide a half-year report and annual report to a mutual fund shareholder free of charge and to make these available to the public at the place stated in its prospectus.

In the annual report of a mutual fund or asset management company there is also stated an overview of its business results for the past three years.

An asset management company is obliged to calculate and publish in the periodical press with nationwide coverage publishing stock exchange reports also the following data:

- open-end trust: at minimum on a weekly basis the current price of a share, data on the financial amount for issued and returned shares since the last publishing of such data and the net value of the assets (from 1 January, 2003, there will be the obligation to publish the current price of a share, the share sale price, the share purchase price and the net value of the assets on a weekly basis),
- closed-end mutual fund: at least once a month data on the current price of a share, the net value of its assets and on the financial amount of shares issued since the last publication of such data during the issuing of mutual fund shares
- special mutual fund: at least once every three months the current price of a share and the net value of the assets

Besides the above, an asset management company is obliged to publish also decisions on the merging of mutual funds or decisions on the transfer of the administration of mutual fund to a different asset management company.

An asset management company is obliged to notify without delay the supervisory authority of any breaching of the limits stated in provisions on the limitation and distribution of risk.

An asset management company is obliged to maintain a register of contracts relating to the handling of assets intended for collective investment, in particular contracts on

the purchase and sale of securities. This register must without delay be available to the supervisory authority and the depositary.

An asset management company must without delay inform the supervisory authority that it has submitted an application for a permit for the issuing of mutual fund shares in a different state.

An asset management company may submit all the above information and reports to the supervisory authority and depositary also in electronic form.

Supervision

Supervision according to the Act on collective investment is performed by the supervisory authority, which is the Financial Market Office. The Financial Market Office is established by a specific act as a legal entity entrusted in the field of public administration to perform supervision over the whole financial market.

If the supervisory authority finds that supervised subjects have violated or are violating obligations referred to in the Act, in the statute of the mutual fund, in the by-laws of the asset management company, in the permit granted under the Act, or violated specific legal regulations governing their obligations, or have not fulfilled measures imposed through a legally valid decision of the supervisory authority, it can:

- a) impose measures for the remedy of shortcomings ascertained,
- b) interrupt for a defined period and within a defined scope disposal with assets in the mutual fund, the issuing of mutual fund shares and to concurrently impose forced administration of the assets for this period,
- c) to impose a fine,
- d) to demand the ending of asset management of the mutual fund by the asset management company,
- e) to decide on the termination of the asset management company's activity,
- f) to withdraw a permit granted in accordance with this Act and concurrently impose forced administration.

In imposing sanctions the supervisory authority decides on the basis of the nature, seriousness, manner, duration and consequences of the breaching of obligations. In imposing fines the Act specifically defines the essence of a very serious breaching of obligations (a fine up to the amount of SKK 10 million) and of a serious breaching of obligations (a fine of up to SKK 5 million). Different violations of obligations are considered as "other violations of obligations" (a fine of up to SKK 500 000).

Forced administration

Forced administration is the administration of assets performed on the basis of a legally valid decision of the supervisory authority on determining forced administration.

The supervisory authority can decide to introduce the forced administration for example in the case where the asset management company's management of the assets in a mutual fund is terminated following more than three subsequent accounting periods in loss and these losses were caused through the non-fulfilment or insufficient fulfilment of obligations in administering assets in the mutual fund. The forced administrator of the assets of an asset management company and the assets in a mutual fund is decided upon by the supervisory authority also for the period up until the appointment of a liquidator after withdrawal of the asset management company's permit for its establishment and activity.

A forced administrator of assets in a mutual fund can be the depositary of the mutual fund. The depositary is obliged on the basis of a legally valid decision of the supervisory authority to fulfil the duties of a forced administrator. If it is not possible to designate the depositary as the forced administrator, the supervisory board shall appoint a different depositary or other asset management company as the forced administrator.

If the supervisory authority decides upon the forced administration of assets in a mutual fund, the asset management company is obliged to hand over administration of the assets in the mutual fund to the administrator at latest within 30 days from delivery of the decision on determining forced administration. As of the day of the delivery of this decision forced administration is introduced and is effective in respect of all entities. No suspensive effect is had by remedial means against the decision of the supervisory authority through which forced administration has been determined. Through the introduction of forced administration the operation of the statutory authority and supervisory board passes to the forced administrator. The forced administrator is entered into the register.

The forced administrator is bound by limitations stated

in the decision on the introduction of forced administration, where it acts on its own behalf and on the account of mutual fund shareholders.

Forced administration ends on the date stated in the decision on determining the forced administrator. In the case of revoking an asset management company's permit and the introduction of forced administration, this ends as at the date of the entry of the liquidator of the asset management company into the register.

The liquidator

If the supervisory authority decides upon the dissolution of an asset management company with its liquidation, it revokes its permit for its establishment and activity and the rights and obligations of the cancelled asset management company in relation to mutual funds pass to the depositary. Liquidation therefore relates only to their assets of the asset management company itself.

The liquidator is obliged to carry out liquidation of the asset management company on the basis of a liquidation plan, which among others, defines the manner of settling the liquidation balance. The liquidation plan or its changes are approved by the supervisory authority at the proposal of the liquidator.

As at the date of the end of liquidation the liquidator is obliged to compile a closing of accounts and to submit this to the supervisory authority for approval, together with a final report on the course of liquidation and a proposal for the distribution of the liquidation balance among shareholders.

Remuneration of the liquidator is determined by the supervisory authority according to the demands of the work and the liquidation's duration.

If the liquidator breaches its duties, the supervisory authority may recall it and appoint a new liquidator.