

A large, abstract graphic of a network or sphere made of interconnected blue cubes and lines, positioned in the upper right background.

# Russia

## Regulation

FUNDS AND FUND MANAGEMENT 2010

### 2.1 Type of funds

Current Russian legislation establishes the following investment vehicles for the Russian securities market.

#### Joint stock investment funds

Joint stock investment funds (hereinafter – joint stock funds) are established in the form of a Russian open joint stock company (OAO). The activity of joint stock funds is subject to the general regulations of Russian corporate legislation applicable to joint stock companies.

Joint stock funds are prohibited from issuing securities other than ordinary inscribed shares. These shares cannot be distributed through a closed subscription. The shares of a joint stock fund may be paid up either in cash or in other property stipulated in the investment declaration of the fund. Partial payment for the shares of a joint stock fund upon their issuance is prohibited.

A joint stock fund performs investment activities exclusively and is subject to licensing by the Federal Financial Markets Service (the FFMS). The fund's investment policy is defined in its investment declaration, which should be registered with the FFMS.

The initial assets of a joint stock fund consist of the assets received from its shareholders upon issuance of the shares of the fund. The assets of the joint stock funds are divided into assets for investing (investment reserves) and assets necessary for compensating management and other bodies of the joint stock fund. The investment reserves should be managed by a licensed trust management company.

The assets of a joint stock fund should be maintained and accounted for by a single licensed custodian company.

#### Mutual funds

Mutual funds are established in the form of property pools and do not have the status of a legal entity in accordance with applicable Russian legislation.

The assets of a mutual fund are accumulated under the trust management agreement concluded between the investors and the trust management company (the trust management rules). The assets accumulated in a mutual fund are jointly owned by the investors.

The share of the mutual fund represented by the assets transferred by an investor to the total assets of a mutual fund is reflected in a certificate indicating the investment units received by the investor. This certificate of investment units represents a non-documentary and non-issued nominal security. Investment units may be disposed of by the investors if all the requirements of the applicable Russian legislation are met. No derivatives, interest, or dividends with respect to investment units are allowed.

The assets of a mutual fund should be managed by a licensed trust management company. The fund's investment policy is defined in the trust management rules (including the investment declaration of the mutual fund), which should be registered with the FFMS.

Mutual funds may be organized in the form of open, interval, or closed mutual funds.

In an open mutual fund an investor may require the redemption of its investment unit(s) on any business day.

In an interval mutual fund, the redemption of the investment unit(s) may be required by an investor within the period established by the trust management rules at least once a year.

In a closed mutual fund, an investor generally does not have the right to require the redemption of its investment unit(s) before expiration of the trust management agreement. By contrast to the open and interval mutual funds, an investor in a closed mutual fund may participate in a general meeting of the owners of investment units.

Only cash may be invested in open and interval mutual funds. Other property indicated in the investment declaration may be invested in closed mutual funds, if it is allowed by the trust management rules.

The assets of a mutual fund should be kept and accounted for by a single licensed custodian company.

### 2.2 Laws

The current legislative framework for collective investments in Russia is based on the following legislative acts:

- Federal Law No. 156-FZ of 29 November 2001: On investment funds
- Federal Law No. 39-FZ of 22 April 1996: On the securities market

- Federal Law No. 46-FZ of 5 March 1999: On the defense of the rights and lawful interests of investors in the securities market
- Decree of the President of the RF No. 408 of 21 March 1996: On the approval of an integrated program of measures to provide for investors' and shareholders' rights

Based on these laws and decrees, the authorized government bodies the FFMS and Central Bank of Russia (the CBR) have issued regulations relating to collective investment.

These documents are as follows:

- Order of the Federal Service on Financial Markets No. 09-32/pz-n of 13 August 2009: On the approval of requirements to the size and procedure for calculation of the internal resources of joint stock investment fund
- Order of the Federal Service on Financial Markets No. 08-56/pz-n of 9 December 2008: On the transfer of property to pay for investment units of closed mutual funds and terms of the formation of closed mutual funds
- Resolution of the Government of the Russian Federation No.744 of 6 October 2008: On the approval of the lists of documents proving satisfaction to the licensing requirements which are to be filed by applicants for receiving the licenses for exercising the kinds of activities cited in the federal laws , on investment funds, and on non-governmental pension funds
- Order of the Federal Service on Financial Markets No. 08-19/pz-n of 20 May 2008: On the approval of the regulations on the composition and structure of assets of joint-stock investment and assets of mutual funds
- Order of the Federal Service on Financial Markets No. 08-17/pz-n of 15 April 2008: On registration of rights to investments units of mutual funds
- Order of the Federal Service on Financial Markets No. 07-50/pz-n of 24 April 2007: On the approval of the norms of the sufficiency of the equity capital of professional market-makers and management companies of investment funds, mutual and non-governmental pension funds
- Order of the Federal Service on Financial Markets No. 07-37/pz-n of 3 April 2007: On the approval of the procedure for securities management activity
- Order of the Federal Service on Financial Markets No. 07-21/pz-n of 6 May 2007: On the approval of the procedure for licensing types of professional activity on the securities market
- Resolution of the Government of the Russian Federation No. 45 of 26 January 2006: On the organization of licensing certain types of activities

- Order of the Federal Financial Markets Services No. 06-117/PZ-N of 10 October 2006: On the approval of regulations for the disclosure of information by equity securities issuer
- Order of the Federal Financial Markets Services No. 05-21/pz-n of 15 June 2005: On the approval of the regulations for the procedure and the terms for estimating the value of the net assets of joint-stock investment funds, the value of the net assets of mutual funds, the calculated value of the investment items of mutual funds, and also the value of the net assets of joint-stock investment funds per stock
- Order of the Federal Financial Markets Services No. 05-23/pz-n of 22 June 2005: On approval of regulations on the requirements for the procedure and time-limits for disclosure of information related to the activity of joint-stock investment funds and management companies of mutual funds and also for the content of the information to be disclosed
- Order of the Federal Financial Markets Services No. 04-442/PZ-N of 1 September 2004: On submission to the federal service on financial markets of electronic documents with an electronic digital signature
- Resolution of the Federal Securities Market Commission No 04-5/PS of 18 February 2004: On the regulation of activities of management companies of joint-stock investment funds and mutual funds
- Resolution of the Federal Securities Market Commission No 04-3/PS of 10 February 2004: On regulation of specialized custodians of joint stock investment funds, mutual funds, and non-state pension funds
- Resolution of the Federal Securities Market Commission No. 03-41/ps of 22 October 2003: On reporting of the joint-stock investment funds and the management companies of the mutual funds
- Resolution of the Federal Securities Market Commission No. 40/ps of 9 October 2002: On regulating the activities of specialized depositories of joint stock investment funds, mutual funds and non-state pension funds
- Resolution of the Government of the RF No. 684 of 18 September 2002: On standard rules of trust management of a interval mutual fund
- Resolution of the Government of the RF No. 633 of 27 August 2002: On standard rules of trust management of an opened mutual fund
- Resolution of the Government of the RF No. 564 of 25 July 2002: On the standard rules of trust management of closed mutual fund
- Resolution of the Federal Securities Market Commission No. 14/PS of 27 April 2002: On the approval of the procedure for keeping the register of mutual funds

- Resolution of the Federal Securities Market Commission No. 24 of 19 June 1998: On approval of the Regulations on licensing the activity of keeping the register of the owners of the nominal securities
- CBR Instruction No. 63 of 2 July 1997: On the procedure for performing trust management operations and accounting of these operations by credit organizations of the RF
- Resolution of the Federal Commission On Capital Market and Securities No. 12 of 19 June 1996: On the approval of Regulations on requirements on investment unit placement agents. (The Resolution is effective unless it contradicts Federal Law No. 156-FZ of 29 November 2001: On the investment funds.)
- Resolution of the Federal Commission On Capital Market and Securities No. 4 of 19 February 1996: On the approval of methodical recommendations on accounting and reporting in mutual funds. (This Resolution is restricted by Orders No. 34N of 29 July 1998 and No. 94N of 31 October 2000.)

### 2.3 Managers, trustees, and custodians

#### Minimum capital requirements for certain professional participants

Currently the minimum capital requirements for certain professional participants are as follows:

- RUB 10 million for broker activity
- RUB 5 million for dealer activity
- RUB 40 million for trust management activity with respect to the assets of investment funds
- RUB 40 million for custodial activity
- RUB 10 million for the securities' management activity

Separate capital requirements apply to those professional participants who combine different types of professional activities in the Russian securities market (for instance, RUB 60 million for trust management activity with respect to the assets of investment funds combined with securities' management activity; RUB 50 million for custodial activities combined with the activities of a specialized custodian of investment funds).

In case no specific capital requirements are stipulated in the legislation with respect to certain combinations of the professional activities in the Russian

securities market, the greater of the capital requirements of the activities to be combined will apply.

The minimum capital requirements for a joint stock fund are RUB 35million.

As of 14 May 2010 the official CBR exchange rate was RUB 29.8591/ USD 1.

The amount of capital is calculated using a specific methodology and must be kept above the established level during the entire term of the license.

### Other general requirements for certain professional participants:

- The activity of the applicant should comply with the legislation and official normative acts in regard to the securities market.
- The amount of capital and financial ratios should comply with the normative and other risk limitations.
- The licensee engaged in brokerage, dealing or trust management activity must employ at least one specialist responsible for internal accounting of operations with securities.
- The licensee must employ at least one specialist responsible for internal control.
- The management, controller and specialists must satisfy the requirements of the FFMS.
- If the licensee performs custodial, consulting or valuation activities in combination with other types of activities, a separate division engaged exclusively in these activities must be established.
- The licensee must be available for supervision by the FFMS.

### Specific requirements for managers, trustees, and custodians

These are established by the FFMS and include the following.

#### *Managers of joint stock and mutual funds*

The trust management company of a joint stock or a mutual fund must comply with the following requirements:

- A trust management company must be established only as a commercial organization (open or closed joint-stock company (OAO or ZAO), limited liability company (OOO) pursuant to applicable Russian legislation. The Russian Federation, its regional, local, and municipal bodies, should not have any shareholding in the capital of the trust management company.

- Management of the fund's assets must be established as the sole permitted activity in the manager's founding documents (the manager also can manage the assets of other joint stock, mutual, or private pension funds).
- A trust management company is allowed to provide services for the management of securities.
- The representatives of the trust management company must have a qualification certificate from the FFMS for operating in the securities market.
- A legal entity may not perform the functions of the manager's executive body. The manager's executive director must have at least one-year related work experience as a department manager or another subdivision of a professional participant of the securities market.
- The amount of fees paid by joint stock and mutual funds to the auditor, custodians, managing company, etc., should not exceed 10 percent of the average net assets of a joint stock or a mutual fund.
- The term of a license for a management company is unlimited.

### *Custodians of joint stock and mutual funds*

The custodian of a joint stock or mutual fund must comply with the following requirements:

- A custodian must be organized as an open joint-stock company (OAO) or limited liability company (OOO). These companies should have a special license for performing custodial activities.
- A custodian should exercise control over the value of the net assets of the joint stock or mutual fund.
- A custodian should exercise control over the structure of assets of a joint stock or mutual fund, register all changes in its structure and provide the full list of the fund's assets for each working day.
- A custodian should perform control and registration functions in relation to the title to securities of the joint stock or mutual fund.
- A custodian should exercise control over the activities of a management company of a joint stock or mutual fund and inform FFMS on all violations and discrepancies discovered within three working days.
- If custodial activity is combined with other professional activities, a separate division for custodial activity must be established which must engage solely in this activity.

- The custodian has specific management and personnel requirements (a minimum of executive director and a specialist which have at least one year professional experience and a qualification certificate).
- The term of a license for custodians of joint stock and mutual funds is unlimited.

## 2.4 Investment restrictions

### General investment requirements

Investments may be made in the following assets:

- State securities of the Russian Federation and its regional bodies
- Municipal state securities
- Shares and bonds of Russian open joint stock companies (OAO's)
- State securities of foreign countries
- Shares of foreign joint stock companies and bonds of foreign commercial organizations
- Investment units of mutual fund
- Mortgage notes issued in compliance with the Russian law on mortgage notes
- Russian depositary receipts
- Other securities permitted as an object of investment by the FFMS

Apart from the above assets, the assets of a joint stock, interval, or closed mutual fund may include other property indicated in the investment declaration if permitted by the trust management rules.

In accordance with the applicable Russian legislation, the assets of a joint stock or mutual fund may also include shares of foreign joint-stock companies, units of foreign mutual funds, bonds of foreign commercial organizations, foreign depositary receipts if such securities have passed the listing procedure at one of the following stock exchanges:

- American Stock Exchange
- Hong Kong Stock Exchange
- Euronext Amsterdam, Euronext Brussels, Euronext Lisbon, Euronext Paris

- Closed Joint-Stock Company Stock Exchange Moscow Interbank Foreign Currency Exchange
- Irish Stock Exchange
- BME Spanish Exchanges
- Italian Stock Exchange (Borsa italiana)
- Korea Exchange
- London Stock Exchange
- Luxembourg Stock Exchange
- Nasdaq
- German Stock Exchange (Deutsche Boerse)
- New York Stock Exchange
- Open Joint-Stock Company Stock Exchange Russian Trading System
- Tokyo Stock Exchange Group
- Toronto Stock Exchange, TSX Group
- Swiss Exchange
- Shanghai Stock Exchange

Land plots, immovable property and rights relating to immovable property may be included in the assets of a joint stock fund or a closed mutual fund.

Securities issued by the managing company, custodian, appraiser or auditor of the fund, or their affiliated companies, may not constitute part of the fund's assets (i.e. the assets of a mutual or joint stock fund).

Depending on the structure of the fund's assets, funds may be divided into the following groups:

- Money market funds
- Bond funds
- Equity funds
- Mixed investment funds
- Direct investment funds (except for open and interval mutual funds)

- Venture investment funds (except for open and interval mutual funds)
- Funds of funds
- Rent funds
- Real estate funds (except for open and interval mutual funds)
- Mortgage funds (except for open and interval mutual funds)
- Index funds
- Credit funds (except for open and interval mutual funds)
- Commodity market funds (except for open mutual funds)
- Hedge funds (except for open mutual funds)
- Artistic valuables funds (except for open and interval mutual funds)

The following restrictions exist with respect to the investment portfolios of the different types of funds. The following limitations are established in the form of percentages of the fund's assets unless another basis is indicated below.

### Open mutual fund

#### *Money market fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 30 percent of investments in bonds of the Russian legal entities, state securities of the Russian regions and Russian municipal securities with the redemption period not exceeding one year, bonds of the foreign issuers, Russian and foreign depository receipts for such securities, and investment units of money market funds
- Maximum 10 percent of investments in securities of one issuer (except for state securities of the RF)
- Maximum 10 percent of investments in investment units of Russian and foreign mutual funds
- Investment in investment units of a single Russian or foreign mutual fund may not exceed 30 percent of investment units issued by such fund
- Maximum 10 percent of investments in non-marketable securities
- Maximum 30 percent of investments in foreign securities not admitted to trading on the Russian securities' market

#### *Bond fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Investments in debt instruments must not be less than 50 percent during two-thirds of the working days in any quarter
- Maximum 15 percent of investments in securities of one issuer (except for state securities of the RF)
- Maximum 10 percent of investments in Russian and foreign investment units of mutual funds and in shares of the Russian joint stock funds
- Investment in investment units of a single Russian or foreign mutual fund or in shares of a Russian joint stock fund may not exceed 30 percent of investment units/shares issued by such fund
- Maximum 10 percent of investments in non-liquid securities
- Maximum 10 percent of investments in securities intended for circulation among qualified investors (5 percent for non-marketable ones)
- Maximum 20 percent of investments in shares of Russian and foreign joint stock companies
- Maximum 70 percent of investments in foreign securities not admitted to trading on the Russian securities' market

#### *Equity fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 40 percent of investments in debt instruments
- Investments in shares of Russian and foreign joint stock companies, units of mutual funds and depositary receipts for shares must be not less than 50 percent during two-thirds of the working days in any quarter
- Maximum 15 percent of investments in securities of one issuer (except for the Russian state securities)
- Maximum 40 percent of investments in investment units of Russian and foreign mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a single Russian or foreign mutual fund or in shares of a Russian joint stock fund may not exceed 30 percent of the investment units issued by such fund

- Maximum 10 percent of investments in securities intended for circulation among qualified investors (5 percent for non-marketable ones)
- Maximum 10 percent of investments in non-liquid securities
- Investment in common shares of a single closed joint-stock company must be not less than 25 percent of the total number of the placed common shares of such company
- Maximum 70 percent of investments in foreign securities not admitted to trading on the Russian securities' market

### *Mixed investment fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Investments in securities must not be less than 70 percent during two-thirds of the working days in any quarter
- Maximum 15 percent of investments in securities of one issuer (except for the Russian state securities)
- Maximum 15 percent of investments in investment units of Russian and foreign mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a single Russian or foreign mutual fund or in shares of a Russian joint stock fund may not exceed 30 percent of the investment units issued by such fund
- Maximum 10 percent of investments in securities intended for circulation among qualified investors (5 percent for non-marketable ones)
- Maximum 10 percent of investments in non-marketable securities
- Investment in common shares of a closed joint-stock company must be not less than 25 percent of the total number of the placed common shares of such company
- Maximum 70 percent of investments in foreign securities not admitted to trading on the Russian securities' market

### *Fund of funds*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 15 percent of investments in securities of one issuer, investment fund or mortgage cover (except for state securities of the RF)

- Investments in shares of joint-stock funds units of Russian and foreign mutual funds and mortgage participation certificates must be not less than 50 percent during two-thirds of the working days in any quarter
- Maximum 35 percent of investments in investment units of Russian and foreign mutual funds, mortgage participation certificates, shares of joint-stock funds which are under the management of one management company
- Maximum 10 percent of investments in non-marketable securities
- Maximum 10 percent of investments in securities intended for circulation among qualified investors (5 percent for non-liquid ones)
- Investment in investment units of Russian and foreign mutual funds, mortgage participation certificates, shares of joint-stock funds may not exceed 30 percent of the investment units issued by each of such funds
- Maximum 70 percent of investments in foreign securities not admitted to trading on the Russian securities' market

#### *Index fund*

- If the investment units of such fund are not limited in turnover, then the investment restrictions are as follows:
  - Minimum 85 percent of investments in securities
  - Investments in securities must be proportional to the number of securities for which the index is calculated
  - Maximum 3 percent of the difference between the percentage share of securities of one issuer in the total value of securities for which the index is calculated and the percentage share of such securities in assets of the fund
- If investment units of the fund are intended for qualified investors:
  - Investments in Russian securities and foreign financial instruments must be proportional to the number of Russian securities and foreign financial instruments for which the index is calculated
  - Maximum 3 percent of difference between the percentage share of Russian securities and foreign financial instruments of one issuer in the total value of securities and instruments for which the index is calculated and the percentage share of Russian securities and foreign financial instruments in assets of the fund

## Interval mutual fund

### *Money market fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 30 percent of investments in bonds of the Russian legal entities, Russian regional securities and Russian municipal securities with the redemption period not exceeding one year, bonds of foreign issuers, Russian and foreign depository receipts for such securities and investment units of money market funds
- Maximum 10 percent of investments in securities of one issuer (except for the Russian state securities of the RF)
- Maximum 10 percent of investments in investment units of Russian and foreign mutual funds
- Investment in investment units of a single Russian or foreign mutual fund may not exceed 30 percent of investment units issued by such fund
- Maximum 30 percent of investments in non-marketable securities
- Maximum 30 percent of investments in foreign securities not admitted to trading on the Russian securities' market

### *Bond fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Investments in debt instruments must not be less than 50 percent during two-thirds of the working days in any quarter
- Maximum 15 percent of investments in securities of one issuer (except for state securities of the RF)
- Maximum 10 percent of investments in Russian and foreign investment units of mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a single Russian or foreign mutual fund or in shares of a Russian joint stock fund may not exceed 30 percent of investment units/shares issued by such fund
- Maximum 50 percent of investments in non-marketable securities
- Maximum 10 percent of investments in securities intended for circulation among qualified investors (5 percent for non-liquid ones)

- Maximum 20 percent of investments in shares of Russian and foreign joint stock companies

#### *Equity fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 40 percent of investments in debt instruments
- Investments in shares of Russian and foreign joint stock companies, units of mutual funds and depositary receipts for shares must be not less than 50 percent during two-thirds of the working days in any quarter
- Maximum 15 percent of investments in securities of one issuer (except for state securities of the RF)
- Maximum 40 percent of investments in investment units of Russian and foreign mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a single Russian or foreign mutual fund or in shares of a Russian joint stock fund may not exceed 30 percent of the investment units issued by such fund
- Maximum 10 percent of investments in securities intended for circulation among qualified investors (5 percent for non-liquid ones)
- Maximum 50 percent of investments in non-marketable securities
- Maximum 15 percent of investments in common shares of a closed joint-stock
- Investment in common shares of a closed joint-stock company must be not less than 25 percent of the total number of the placed common shares of such company

#### *Mixed investment fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Investments in securities must not be less than 70 percent during two-thirds of the working days in any quarter
- Maximum 15 percent of investments in securities of one issuer (except for state securities of the RF)
- Maximum 15 percent of investments in investment units of Russian and foreign mutual funds and in shares of Russian joint stock funds

- Investment in investment units of a single Russian or foreign mutual fund or in shares of a Russian joint stock fund may not exceed 30 percent of the investment units issued by such fund
- Maximum 10 percent of investments in securities intended for circulation among qualified investors (5 percent for non-marketable ones)
- Maximum 50 percent of investments in non-liquid securities
- Maximum 15 percent of investments in common shares of a closed joint-stock company
- Investment in common shares of a closed joint-stock company must be not less than 25 percent of the total number of the placed common shares of such company

#### *Fund of funds*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 15 percent of investments in securities of one issuer, investment fund or mortgage cover (except for state securities of the RF)
- Investments in shares of joint-stock funds units of Russian and foreign mutual funds and mortgage participation certificates must be not less than 50 percent during two-thirds of the working days in any quarter
- maximum 35 percent of investments in investment units of Russian and foreign mutual funds, mortgage participation certificates, shares of joint-stock funds which are under the management of one management company
- Maximum 50 percent of investments in non-marketable securities
- Maximum 10 percent of investments in securities intended for circulation among qualified investors (5 percent for non-liquid ones)
- Investment in investment units of Russian and foreign mutual funds, mortgage participation certificates, shares of joint-stock funds may not exceed 30 percent of the investment units issued by each of such funds

#### *Index fund*

- If the investment units of such fund are not limited in turnover, then the investment restrictions are as follows:
  - Minimum 85 percent of investments in securities

- Investments in securities must be proportional to the number of securities for which the index is calculated
  - Maximum 3 percent of difference between the percentage share of securities of one issuer in the total value of securities for which the index is calculated and the percentage share of such securities in assets of the fund
- If fund intended for qualified investors:
  - Minimum 85 percent of investments in Russian securities and foreign financial instrument
  - Investments in Russian securities and foreign financial instruments must be proportional to the number of Russian securities and foreign financial instruments for which the index is calculated
  - Maximum 3 percent of difference between the percentage share of Russian securities and foreign financial instruments of one issuer in the total value of securities and instruments for which the index is calculated and the percentage share of Russian securities and foreign financial instruments in assets of the fund

#### *Commodity market fund*

- Investments in precious metals and receivables in precious metals from a bank (such receivables are to be settled in cash) and in financial instruments must be not less than 50 percent of the fund's assets during two-thirds of the working days in any calendar year
- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 10 percent of investments in investment units of mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a single mutual fund may not exceed 30 percent of investment units issued by such fund
- Maximum 15 percent of investments in securities of one issuer (except for state securities of the RF)
- Maximum 30 percent of investments in non-marketable securities

#### *Hedge fund*

- Maximum 25 percent of investments in cash deposits in a single bank

- Investments in shares of Russian and foreign open joint-stock companies, debt instruments, shares of joint stock funds and units of mutual funds, Russian and foreign depository receipts for this such securities, precious metals and receivables in precious metals from a bank (such receivables are to be settled in cash), financial instruments with exchange commodities as base assets must be not less than 70 percent during two-thirds of the working days in any quarter
- Maximum 30 percent of investments in investment units of mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a single mutual fund may not exceed 30 percent of investment units issued by such fund
- Maximum 70 percent of investments in non-marketable securities

### Closed mutual fund and joint stock fund

#### *Money market fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 30 percent of investments in bonds of Russian legal entities, Russian regional securities and Russian municipal securities with the redemption period not exceeding one year, bonds of foreign issuers, Russian and foreign depository receipts for such securities and investment units of money market funds
- Maximum 10 percent of investments in securities of one issuer (except for state securities of the RF)
- Maximum 10 percent of investments in investment units of Russian and foreign mutual funds
- Investment in investment units of a single Russian or foreign mutual fund may not exceed 30 percent of investment units issued by such fund
- Maximum 30 percent of investments in foreign securities not admitted to trading on the Russian securities' market

#### *Bond fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Investments in debt instruments must not be less than 50 percent during two-thirds of the working days in any quarter

- Maximum 25 percent of investments in securities of one issuer (except for state securities of the RF)
- Maximum 10 percent of investments in Russian and foreign investment units of mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a single Russian or foreign mutual fund or in shares of a Russian joint stock fund may not exceed 30 percent of investment units/shares issued by such fund
- Maximum 20 percent of investments in securities intended for circulation among qualified investors (10 percent for non-marketable ones)
- Maximum 20 percent of investments in shares of Russian and foreign joint stock companies

#### *Equity fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 40 percent of investments in debt instruments
- Investments in shares of Russian and foreign joint stock companies, units of mutual funds, and depositary receipts for shares must be not less than 50 percent during two-thirds of the working days in any quarter
- Maximum 35 percent of investments in securities of one issuer (except for the Russian state securities of the RF)
- Maximum 40 percent of investments in investment units of Russian and foreign mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a single Russian or foreign mutual fund or in shares of a Russian joint stock fund may not exceed 30 percent of the investment units issued by such fund
- Maximum 20 percent of investments in securities intended for circulation among qualified investors (10 percent for non-liquid ones)
- Investment in common shares of a closed joint-stock company must be not less than 25 percent of the total number of the placed common shares of such company

#### *Mixed investment fund*

- Maximum 25 percent of investments in cash deposits in a single bank

- Investments in securities must not be less than 70 percent during two-thirds of the working days in any quarter
- Maximum 35 percent of investments in securities of one issuer (except for the Russian state securities)
- Maximum 15 percent of investments in investment units of mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a mutual fund may not exceed 30 percent of the investment units issued by such fund
- Maximum 20 percent of investments in securities intended for circulation among qualified investors (10 percent for non-marketable ones)
- Investment in common shares of a closed joint-stock company must be not less than 25 percent of the total number of the placed common shares of such company

#### *Direct investment funds*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 10 percent of investments in shares of joint-stock companies included into the quotation lists of the stock exchanges and debt instruments (except for debt instruments issued by Russian legal entities in which the fund owns more than 25 percent of their placed common shares; investments in ordinary shares of a joint stock company which are not included into a quotation list of the stock exchanges must be not less than 25 percent of shares issued by such company)
- Investment in the charter capital of a single limited liability company must be not less than 25 percent of the charter capital of such company

#### *Venture investment fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 30 percent of investments in marketable securities included in quotation list of stock exchanges (except for the "I" quotation list of stock exchanges)
- Investments in shares and bonds of Russian companies which are included in the I quotation lists of the stock exchanges, securities which are not included into the quotation lists of the stock exchanges and share in charter capital of a Russian limited liability company must be

- o not less than 10 percent one year after the initial placement is completed;
- o not less than 30 percent three years the initial placement is completed; and
- o not less than 50 percent six years the initial placement is completed,

#### *Fund of funds*

- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 15 percent of investments in securities of one issuer, a single investment fund or mortgage collateral (except for the Russian state securities)
- Investments in shares of joint-stock funds units of Russian and foreign mutual funds and mortgage participation certificates must be not less than 50 percent during two-thirds of the working days in any quarter
- Maximum 35 percent of investments in investment units of Russian and foreign mutual funds, mortgage participation certificates, shares of joint-stock funds which are under the management of one management company
- Maximum 20 percent of investments in securities intended for circulation among the qualified investors (10 percent for non-liquid ones)
- Investment in investment units of Russian and foreign mutual funds, mortgage participation certificates, shares of joint-stock funds may not exceed 30 percent of the investment units/shares issued by each of such funds

#### *Rent fund*

- Investments in real estate and rights on real estate assets lease the real estate (including the rights to assets) must not be less than 50 percent during two-thirds the working days in any year
- Maximum 40 percent of investments in debt instruments
- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 30 percent of investments in investment units of mutual funds and in shares of Russian joint stock funds

- Investment in investment units of a single mutual fund may not exceed 30 percent of the investment units issued by such fund
- Maximum 15 percent of investments in securities of one issuer (except for state securities of the RF)

#### *Real estate fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Investments in real estate and rights to lease real estate assets, property rights under the agreements of participation in joint construction of real estate, property rights on real estate object completed by construction, property rights under construction or reconstruction agreements and design documentation for the construction or reconstruction of real estate assets must not be less than 40 percent during two-thirds the working days in any year
- Maximum 20 percent of investments in investment units of mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a mutual fund may not exceed 30 percent of the investment units issued by such fund
- Maximum 15 percent of investments in securities of one issuer (except for state securities of the RF)

#### *Mortgage funds*

- Amount of claims under loan agreements and the cost of mortgage deeds and mortgage securities must not be less than 65 percent of assets during two-thirds of the working days in a year
- Maximum 30 percent of investments in claims under the loan agreements for participation in share construction of immovable property
- Maximum 10 percent of investments in claims under one loan agreement
- Amount of claims secured by construction projects in progress may constitute maximum 30 per cent of the assets' value

#### *Index fund*

- If investment units of such fund are not limited in turnover, then the investment restrictions are as follows:
  - Minimum 90 percent of investments in securities

- Investments in securities must be proportional to the number of securities for which the index is calculated
  - Maximum 3 percent of difference between the percentage share of securities of one issuer in the total value of securities for which the index is calculated and the percentage share of such securities in assets of the fund
- If fund intended for qualified investors:
  - Minimum 90 percent of investments in Russian securities and foreign financial instrument
  - Investments in Russian securities and foreign financial instruments must be proportional to the number of Russian securities and foreign financial instruments for which the index is calculated
  - Maximum 3 percent of difference between the percentage share of Russian securities and foreign financial instruments of one issuer in the total value of securities and instruments for which the index is calculated and the percentage share of Russian securities and foreign financial instruments in assets of the fund

#### *Credit fund*

- Amount of claims under loan agreements must not be less than 65 percent of assets during two-thirds of the working days in a year
- Maximum 20 percent of investments in monetary claims on property (including property rights) which was pledged and acquired in accordance with the applicable Russian civil law

#### *Commodity market fund*

- Investments in precious metals and receivables in precious metals from a bank (such receivables are to be settled in cash), and also in financial instruments must be not less than 50 percent during two-thirds of the working days in any quarter
- Maximum 25 percent of investments in cash deposits in a single bank
- Maximum 10 percent of investments in investment units of mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a single mutual fund may not exceed 30 percent of investment units issued by such fund

- Maximum 15 percent of investments in securities of one issuer (except for the Russian state securities)

#### *Hedge fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Investments in cash deposits (including foreign currency), shares of Russian and foreign open joint-stock companies, debt instruments, shares of joint-stock funds and units of mutual funds, Russian and foreign depositary receipts for this such securities, precious metals and receivables in precious metals from a bank (such receivables are to be settled in cash), financial instruments with exchange commodities base must be not less than 70 percent during two-thirds of the working days in any quarter
- Maximum 30 percent of investments in investment units of mutual funds and in shares of Russian joint stock funds
- Investment in investment units of a single mutual fund may not exceed 30 percent of investment units issued by such fund

#### *Artistic valuables fund*

- Maximum 25 percent of investments in cash deposits in a single bank
- Investments in artistic valuables must be not less than 40 percent during two-thirds of the working days in any quarter

## 2.5 Borrowing

The managing company may make borrowings only for the purpose of exchanging or redeeming specific investment units if the cash funds of the mutual fund are not sufficient. In certain cases stipulated by the regulations of the FFMS the managing company is entitled to enter into REPO arrangements. The amount of such borrowing which should be repaid from the mutual fund's funds should not exceed 20 percent of the mutual fund's net assets. The managing company may not grant loans from the assets of a joint stock fund.

## 2.6 Accounts and prospectus

The following data must be published by a joint stock fund or the managing company of a mutual fund in accordance with the applicable laws of the Russian Federation:

- Prospectus for the issuance of shares of a joint stock fund and disclosure of the information with respect to the Charter and investment declaration of such fund
- Trust management rules
- Information on registration of amendments or addenda to the trust management rules
- Information on repayments to the owners of investment units if the mutual fund is liquidated
- Information on suspension of distribution, redemption and exchange of investment units. This information should include the reasons for such suspension.
- Information on firm-name of a joint stock fund, on firm-name of the managing company of the mutual fund, location of the agents on issue, redemption, and exchange of investment units
- Audited balance sheet of the joint stock fund and audited balance sheet of the assets forming the mutual fund at year end
- Audited balance sheet and P&L of the managing company of the mutual fund at year-end
- Report of changes to net assets of the joint stock fund or of the mutual fund
- Information on compensation to the managing company and the expenses payable out of the assets of the joint stock fund or the assets forming the mutual fund
- Information on the value of the net assets of the joint stock fund or the mutual fund with attachments and other related documents;
- Information on assignment of the rights and liabilities of the manager of the mutual fund from one managing company to another

## 2.7 Supervision

The supervisory authority for investment funds in Russia is the Federal Financial Markets Service of the Russian Federation.

Address: Russia, 119991 GSP-1 Moscow, Leninsky prospekt, 9

Telephone: +7 (495) 935-87-90, fax +7 (495) 935-87-91

Web site: [www.fcsm.ru](http://www.fcsm.ru)

## 2.8 Fund ownership

Currently there is no limit on the percentage of shares held in a joint stock fund or percentage of units held in a mutual fund by a single person or group of persons.

## 2.9 Fund structure

The following entities may not invest in a joint stock fund:

- Managing company of the joint stock fund
- Custodian of the joint stock fund
- Registrar of the joint stock fund
- Auditor and appraiser which have concluded agreements with the fund

The following entities may not invest in a mutual fund:

- Managing company of the mutual fund
- Agents responsible for the distribution, redemption, and exchange of investment units
- Custodian of the mutual fund
- Registrar of the mutual fund
- Auditor of the fund

## 2.10 Stock exchange

The shares of certain joint stock funds and investment units of certain mutual funds are quoted on the stock exchange.

## 2.11 Bank secrecy

Pursuant to Russian legislation, data subject to banking confidentiality requirements may be communicated to the banks, courts, prosecutors, auditors, Russian tax, and customs authorities only in cases strictly limited by law.

In 2001 Law No. 115-FZ of 7 August 2001 (On Resistance to Money Laundering) was adopted (the law entered into force on 1 February 2002). In accordance with this law, certain settlements exceeding RUB 600,000 may be subject to obligatory control.

Also, in May 2001 the Russian Federation ratified the Convention on Money Laundering of 8 November 1990.

## 2.12 Fund set-up

To obtain a professional securities license, an applicant must apply to the FFMS.

### Joint Stock Funds

A joint stock fund is entitled to pursue its activities only under a license. The license fee to be paid to obtain a license for joint stock fund is RUB 20,000.

The term of license is unlimited.

### Mutual fund management companies and custodians

The license fee to be paid to obtain a license for management companies of mutual funds or a license for custodians of joint stock and mutual funds is RUB 20,000.

FFMS shall notify the licensee in writing within five working days after taking the decision on the issuance of the license. The license fee is not returned to the applicant if the license is not provided.

The term of license for management companies as well as of license for custodians of mutual funds is unlimited.

As of 14 May 2010 the official CBR exchange rate was RUB 29.8591/ USD 1.

## 2.13 Foreign funds

If securities of foreign funds are traded or distributed in the Russian securities market (for instance, the securities are reflected in depot-accounts in the custody of a licensed Russian custodian), the prospectus for issuance of such securities is subject to registration with the FFMS.

Apart from the aforementioned, there are no legal restrictions on the distribution of mutual fund units in Russia with the exception of the special requirements established for certain types of investors. (The information regarding these certain types of investors is contained in Section 2.9.Fund structure.)

## 2.14 Bearer shares

Russian joint stock funds cannot issue bearer shares.

## Use of the internet

The internet is becoming more widely used in Russia as a marketing tool for the sale of investment units in the recent years and access to the Internet by most potential investors is improving. Daily quotations on investment units and information on the value of net assets and its net changes are published on the Internet. The recent by adopted Russian legislation provides for obligatory publishing the information on the net assets of investment funds in the Internet.

## KPMG in Russia

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