

LAW OF GEORGIA
ON COLLECTIVE INVESTMENT UNDERTAKINGS

Article 1 – Scope of the Law

This Law defines types of collective investment undertakings and lays down rules for their establishment and operation.

Article 2 – Definition of terms

1. Unit – registered intangible equity security evidencing the share of its holder in the unit investment trust and, in case of termination of the undertaking, allowing for obtaining proceeds and other rights determined by this Law.
2. Unit investment trust – collective investment scheme consisting of monetary funds investors have entrusted with managing rights, and of property derived from managing the monetary funds. The right to share of the undertaking shall originate and be certified with the security (unit) issued by the asset management company. Unit investment trust shall be unincorporated undertaking.
3. Open-ended unit investment trust – an undertaking that continuously allocates units that shall be redeemed at any time.
4. Interval unit investment trust – an undertaking that continuously allocates units that shall be redeemed within timeframe defined by the regulations of the undertaking.
5. Closed-end unit investment trust – an undertaking that allocates units as needed without the obligation to redeem them.
6. Stock fund – a joint stock company that may be managed by a person or a group of persons whose sole business is to invest pooled financial assets in financial instruments and to execute related financial transactions. A stock fund shall be a publicly accountable enterprise.
7. Venture capital fund (early stage fund) – a stock fund whose sole business is to invest financial assets in start-up (not older than two years) companies or in business ideas. The venture capital fund may not involve more than 50 investors. No more than 20% of assets of the venture capital fund may be invested in publicly offered securities. The venture capital fund may not take a loan of exceeding the 20% of own assets of the fund.
8. Private equity fund – a stock fund whose sole business is to invest financial assets in existing companies for further restructuring the companies. While investing, a private equity fund shall be obliged to purchase the controlling block of shares in the company's capital. The private equity fund may not involve more than 50 investors. It may attract financial funds by means of both equity and debt financial instruments.

Article 3 – Collective investment undertakings and their types

1. Operation of regulated collective investment undertakings shall be allowed in Georgia.
2. A company carrying out activities similar to that of a collective investment undertaking (investing in financial instruments) may not be deemed to be a collective investment undertaking. The above type of unregistered investment company may be established and may operate in any form as defined by the Law of Georgia on Entrepreneurs, considering that even if the title of the company specifies words 'investment fund', it may not advertise such a title and may not render relevant services before a supervising authority registers the company as an collective investment undertaking.
3. The types of regulated collective investment undertakings shall be:
 - a) unit investment trust (that may be open-ended, interval, or closed-end):



b) sophisticated (experienced) investors' undertaking for collective investment (SIUCI)

c) stock fund(including venture capital fund or private equity fund);

d) other types of collective investment undertakings regulated by the legislation of Georgia.

4. A bank, an insurance company, a brokerage firm, a pension scheme, an industrial and/or financial company, and a holding shall not be considered as a collective investment undertaking.

5. A collective investment undertaking may not carry out any business activity, except for investing in financial instruments and executing related financial transactions. It may not have property except for money, assets equivalent to money, and financial instruments. The requirements of this paragraph shall not apply to a collective investment undertaking that is an incorporated and a publicly accountable company.

6. The profits or losses (including dividends, interests or other revenues) gained or incurred by a collective investment undertaking through investing financial assets of investors in financial instruments and through executing related financial transactions shall not belong to the collective investment undertaking that is not a company incorporated under this Law.

7. Surplus (in the form of proceeds, dividends (excluding dividends from a collective investment undertaking), etc.) on investments made by equity holders, shareholders, or unit holders of a collective investment undertaking shall be considered as additionally invested money until the persons leave the collective investment undertakings (before the equity, shares, stocks or units are sold). Returns of equity holders, shareholders or unit holders of collective investment undertakings shall arise at the moment when earnings in the form of dividends have been received from the collective investment undertakings and/or at the moment when equity, shares, or units of the collective investment undertakings have been sold (on settlement day). The income received upon leaving a collective investment undertaking shall make up the positive difference between received and invested sums.

8. A collective investment undertaking shall have an auditor who must not be a connected person. A holder of more than 5% of equity/shares/units of a collective investment undertaking may conduct an independent audit at his/her own expense.

9. The supervisory authority shall adopt regulations (including registration and reporting procedures) for collective investment undertakings that shall set different requirements for various types of collective investment undertakings according to the norms laid down by law.

Article 4 – Procedure for establishing collective investment undertakings

1. A collective investment undertaking shall send an application for registration to the supervisory authority within 10 working days from its establishment.

2. The supervisory authority shall review the application mentioned in paragraph 1 of this article within two weeks from receiving it. If the application is incomplete, the supervisory authority may request the collective investment undertaking to specify (complete) the information.

3. If the supervisory authority fails to reply within the term defined in paragraph 2 of this article, the collective investment undertaking shall be deemed registered.

4. A collective investment undertaking may not start operation (investing) without being registered by the supervisory authority.

5. Additional requirements for sophisticated (experienced) investors' collective investment undertakings shall be as follows:

a) initial capital of sophisticated (experienced) investors' collective investment undertakings may not be less than GEL 500 000 (five hundred thousand). The above minimum amount shall be accumulated within one year from registration by the supervisory authority;

b) the number of participants of sophisticated (experienced) investors' collective investment undertakings may not exceed 50 persons. If the above maximum number is exceeded, the collective investment undertaking shall be registered as a stock fund;

c) a person or a group of persons holding the asset management licence may manage the assets of sophisticated (experienced)



investors' collective investment undertakings. A contract with a manager of sophisticated (experienced) investors' collective investment undertakings, as well as the service types, conditions, and investment criteria shall be regulated by the agreement concluded between the investors and shall not be subject to additional regulation;

d) an asset management company shall keep records of and store the units, equities, or shares of sophisticated (experienced) investors' collective investment undertakings, unless otherwise provided for by the agreement concluded between them;

e) sophisticated (experienced) investors' collective investment undertakings shall not advertise for issued shares, equities, or units to increase interest in them and to sell them.

Article 5 – Application of collective investment undertakings

An application of a collective investment undertaking submitted to the supervisory authority shall include:

a) company details;

b) names and addresses of a manager(s), specialised depositor (if any), auditor (within two months after registration) or of other employee(s);

c) all addresses that a participant (investor) of the collective investment undertaking should know to have the complete information about the undertaking for making an informed decision;

d) conditions for introducing a new participant (investor) into the collective investment undertaking;

e) fees to be paid in favour of a manager(s) for managing the collective investment undertaking;

f) regulations of the collective investment undertaking.

Article 6 – Obligations of collective investment undertakings

1. A front page of an agreement (charter) on attracting monetary funds shall include a logo of the collective investment undertaking.

2. The agreement may not envisage a specific income promises for a participant (investor) of the sophisticated (experienced) investors' collective investment undertaking.

3. If a connected person provides services to a sophisticated (experienced) investors' collective investment undertaking or if a manager or a registered owner of the undertaking is a connected person, the collective investment undertaking shall be obliged to make that information public.

4. If information in the application provided for in Article 5 of this Law changes, a collective investment undertaking shall be obliged to notify the supervisory authority about the change within seven working days.

5. A manager and/or a management company of a collective investment undertaking shall be obliged to submit annual and semi-annual financial statements, as well as progress reports, the content or special form of which shall be defined by the regulations of the supervisory authority. The deadline for submitting statements shall be the same as defined for a publicly accountable enterprise, unless otherwise defined by the supervisory authority.

Article 7 – Participants (investors) of sophisticated (experienced) investors' collective investment undertakings

1. A participant (investor) of a sophisticated (experienced) investors' collective investment undertaking shall himself/herself declare conformity and assert that he/she is aware of the participation risks related to the undertaking.

2. A manager of a sophisticated (experienced) investors' collective investment undertaking shall be held liable under the legislation of Georgia for a person entitled by him/her to become a participant (investor) of the undertaking not being an experienced



investor.

Article 8 – Requirements for an asset management company

1. Only a person holding an appropriate licence may manage assets of a collective investment undertaking and/or a pension scheme.
2. An asset management company shall be registered as a limited liability company or a joint-stock company according to the Law of Georgia on Entrepreneurs.
3. An asset management company shall carry out its activity on the basis of the charter of a collective investment undertaking or a scheme, the investment declaration and regulations, the agreement concluded between the collective investment undertaking and the asset management company, or the agreement on transferring the right of management by trust and the licence issued by the supervisory authority
4. An asset management company must sign an agreement on depository services with a central depository, a specialised depository, or a depository, which is compulsory for pension schemes and for all cases when the number of registered holders of units, equity, or shares of a collective investment undertaking exceeds 50 persons.
5. An asset management company may not be a person connected to a founder or to a holder of significant equity (unit, equity or shares) of a collective investment undertaking or a scheme, to whom it renders its services in asset management. Furthermore, an asset management company may not be a person connected to the depository with whom it signs an agreement for providing services to the collective investment undertaking.
6. An asset management company may sign an agreement with other legal persons if it is provided for in the asset management agreement. In that case, the asset management company shall be liable to unit holders, equity holders, and shareholders of a collective investment undertaking or a pension scheme for the assets transferred by the asset management company to other person.
7. An asset management company shall invest in assets, only on the basis of an agreement with a depository except for the cases defined in this Law and/or laid down in regulations adopted by the supervisory authority. The conditions of the agreement shall be agreed upon with the founder of the collective investment or pension scheme, unit holders /equity holders/shareholders and/or persons authorised to represent the collective investment undertaking. The agreement must provide for the requirements provided for by the legislation of Georgia.
8. Transfer of participants' assets by a collective investment undertaking and a collective scheme to an asset management company for managing assets shall be the transfer into nominal ownership and shall not result in the transfer or the change of the right to ownership of the assets.

Article 9 – Functions of asset management companies

The functions of an asset management company shall be as follows:

- a) implementing investment policy of a collective investment undertaking or a pension scheme on the basis of the undertaking regulations;
- b) managing investment portfolios and monetary funds, including issuance, sale, and redemption of securities (units) of a collective investment undertaking, rendering nominal undertaking/scheme asset ownership services and performing other operations defined by the regulations of the supervisory authority;
- c) storing and keeping records of investment resources and/or securities, keeping a register of investors (including investment unit holders), issuing extracts from the register and distributing revenues;
- d) assessing and periodically re-assessing assets of a collective investment undertaking and a pension scheme;
- e) communicating with depository and other market participants in the process of managing the undertaking assets and implementing investment policy, as well as defending the interests of the undertaking in its relations with third persons;



f) submitting periodically reports on the company activity to a founder, unit holders, and a supervisory authority of the undertaking/scheme, in the form developed and within the timeframes determined by the supervisory authority.

Article 10 – Agreement on transferring the right of management by trust to management companies

1. An asset management company shall provide for standard conditions forming the content of an agreement on transferring the right of management by trust to a management company. The persons transferring the right to manage their funds by trust shall give their consent to those conditions only by means of joining the agreement.
2. The agreement on transferring the right of management by trust to a management company may be joined only by purchasing a unit of the unit investment trust or the pension scheme issued by the asset management company managing the assets of the unit investment trust or the pension scheme.
3. Monetary funds shall be transferred to an asset management company for pooling them in the unit investment trust/scheme in order to commingle the monetary funds with those transferred by other investors for further investment according to the undertaking regulations.
4. The agreement on transferring the right of management by trust to a management company shall cover:
 - a) the terms and conditions for suspending the undertaking activity and for terminating the agreement
 - b) the terms and conditions for transferring assets of the undertaking to other management company if the undertaking is liquidated or licence of the management company is revoked.
5. Common property of unit holders that is owned based on equity ownership right shall be considered as property of a unit investment trust/scheme.
6. Unit holders of a unit investment trust/scheme shall assume the risk of loss related to change of market price for the unit investment trust/scheme property.
7. An asset management company shall perform any legal and other actions related to the unit investment trust/scheme property, sign agreements with depositories, auditors, assessors, and third persons as the management company managing the assets of the unit investment trust/scheme.

Article 10¹ – Supervising authority of collective investment undertakings

The National Bank of Georgia shall be the supervising authority of collective investment undertakings.

Law of Georgia No 1630 of 20 November 2013 – website, 3.12.2013

Law of Georgia No 2148 of 21 March 2014 – website, 27.3.2014

Law of Georgia No 2955 of 12 December 2014 – website, 23.12.2014

Law of Georgia No 4194 of 3 September 2015 – website, 10.9.2015

Law of Georgia No 450 of 10 March 2017 – website, 22.3.2017

Article 11 – Final provision

This Law shall be enacted upon promulgation.



President of Georgia

Mikheil Saakashvili

Kutaisi

24 July 2013

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