



Banking and Payments Authority of Kosovo

Pursuant to the provisions of UNMIK Regulation No. 2001/35, On Pensions in Kosovo, date of 22 December 2001,

For the purpose of execution of Section 16 in relation to Sections 10 and of the UNMIK Regulation No. 2001/35 (the “Pensions Regulation”) in the matter of proper and prudential investment of pension assets of Pension Funds and, where applicable, Pension Providers.

Governing Board of the Banking and Payment Authority of Kosovo (BPK), at its meeting held on July 25, 2002 adopts the following:

Rule 9 on Investment of Pension Assets

Section 1 Scope and Purpose of this Rule

1.1 Scope of Rule

This Rule applies to investment of pension assets of Supplementary Employer Pension Funds (“Pension Fund”) and, where applicable, to Supplementary Individual Pensions (“Pension Provider”).

1.2 Purpose of the Rule

This Rule prescribes guidelines for the proper and prudential investment of pension assets pursuant to the provisions of Section 16 in relation to Section 10 of the Pensions Regulation.

Section 2 General Provisions

2.1 Definitions

All terms used in this Rule are as defined and stated in the Pensions Regulation and/or as further defined in this Rule.

“Asset manager” is the entity defined under Section 1 of the Pensions Regulation that carries on the business of asset management in accordance with the applicable laws, regulations and rules recognized in Kosovo.

“Board of directors” means the highest governing body of the pension entity consisting of the members of the board of that governing body.

“Derivative product or derivative” is a financial asset or liability whose value depends on (or its derived from) other assets or liabilities (the underlying assets). Derivatives are financial products that include a wide assortment of instruments, such as forwards, futures, puts and calls, warrants, swaps, or composites. In this Rule, any investment that is structured to effect derivative product characteristic is considered a derivative product.

“Investment principles” refer to the investments policies and investment performance objectives adopted by the pension entity for the investment of pension assets whether expressed in the Pension Bylaws, Pension Rules or in the investment directives.

“Investment directives” refer to the orders or instructions made by the pension entity to the asset manager(s) specifying the terms, conditions and manner of investing pension assets.

“Open-end entities” refer to entities organized and operating as pure investment companies and are authorized to issue unlimited number of equity shares (in fractional or whole units) representing proportional equity ownership in such entities in favor of the shareowner (investor). This term includes mutual funds, unit trusts and other similar pure investment entities.

“OECD” refers to the Organization of Economic Co-operation Development.

“Pension entity” refers to Pension Funds and, where applicable, Pension Providers.

“Proscribed parties”, with respect to the pension entity, include the entity itself and any of the following:

- a) A member of its governing body or board.
- b) The custodian holding all or part of the pension assets of the pension entity, or
- c) The asset manager investing any or part of the pension assets.
- d) Any person or individual who is an affiliated entity in relation to the individuals or entities mentioned in paragraphs a), b) and c) above.

“Securities” includes equity portfolio, investments in bonds, debts or other

obligations and all other types of (eligible) investments.

Section 3

Conditions in the Investment of Pension Assets

3.1 Common Conditions

Investment of pension assets, subject to the specific conditions prescribed by Section 3.2 of this Rule, must comply with the following common conditions:

- a) Nature of asset and investment. Pension entities must invest their assets only in the classes of permitted (eligible) investments prescribed under this Rule or in cash in the course of deposit to the custodian or for cash and bank deposits representing amounts as are reasonably necessary to conduct its pension operations.
- b) Determination of eligibility. The eligibility of investment is determined at the time of its making or acquisition. If the determination of eligibility is based on amount, the limitation is based on the amount of total investment assets as of the last asset valuation date, as reported to the BPK.
- c) Investment principles and directives. Investment of pension assets must be in accordance with the statement of investment principles and in conformity with investment directives adopted and issued by the pension entity consistent with the requirements of the Pensions Regulation and these Rules.
- d) Rectification of breaches or violations. Investments made in breach or violation of the investment principles and directives must be corrected and rectified immediately. Breaches and deviations, of previously conforming investments, arising from cause or causes beyond the control of the board of directors or asset manager of the pension entity may be rectified or corrected within such time and manner that is least detrimental to the interests of the participants which period of time is not greater than 6 months from the date of such breach or deviation.
- e) Compliance matters. The governing bodies of pension entities providing pensions shall submit to the BPK, together with quarterly and yearly reports, a statement certified by a duly authorized officer, attesting that all investment assets of the entity are in compliance with the conditions, restrictions and limitations prescribed in the Pensions Regulation and this Rule and in conformity with the statement of investment principles and investment directives adopted by the entity; provided that, if otherwise, the certified statement must clearly indicate the nature of the violation, breach

or deviation, identifying the particular non-complying investment asset and describing the manner and the time frame for rectification and/or correction.

3.2 Specific Conditions

- a) Diversification rules. At any one time, investment of pension assets is subject to the following specific conditions:
 - (i) Stocks or equity shares shall not be greater than 5% of the total shares issued by one issuer.
 - (ii) Bonds shall not be greater than 30% of any single bond issue.
 - (iii) Total investments in any one entity, including its affiliate entities, shall not be greater than 5% of the total pension assets.
- b) Rating requirements. For the further protection of the quality of pension assets, the BPK may, from time to time, prescribe minimum investment grades or ratings of securities in the determination of eligibility of the investment. Investment grade or rating conditions shall form part and parcel of this Rule on the date set by written directive of the BPK prescribing such requirement(s).

Section 4 Eligible (Permitted) Investments

4.1 Securities Issued and/or Located Outside of Kosovo

Pension assets may be invested only in the following international types and classes:

- a) Monetary funds, including bank accounts and deposits with banks that are licensed by a bank regulatory authority of a member state of the OECD, and whose license remains in force and in good standing.
- b) Securities issued by any member state of the OECD.
- c) Securities issued by local governments in member states of the OECD to the extent guaranteed by the respective state.
- d) Securities registered with the capital markets regulator of any member state of the OECD and placed for public offering and actively listed or traded in the Stock Exchange that is appropriately regulated and supervised in such state(s).
- e) Mutual funds and other investment funds (open-end entities) subject to

the approval in the OECD member state of their establishment and for which compliance requirements are prescribed by the appropriate regulatory or supervisory authority within such member state relating to the conduct of business activities of such open-end entities.

- f) All other types and classes of international securities as may be authorized, from time to time, by effective laws, statutes, regulations and rules issued by competent authorities in Kosovo.

4.2 Securities Issued and/or Located within Kosovo

- a) Monetary funds, including bank accounts and deposits with banks that are licensed by the BPK and conducting banking business in Kosovo in good standing with the regulatory requirements of the BPK.
- b) Securities issued by competent authority in Kosovo, to the extent guaranteed by such authority.
- c) Securities issued by public and/or private enterprises that are registered with the capital markets regulator in Kosovo provided that such securities are listed and traded in securities exchange(s) licensed in Kosovo or in a member state of the OECD and subject to regulation and supervision of the applicable capital market authority in such state.
- d) Mutual funds and other investment funds (open-end entities) subject to the approval in Kosovo and for which compliance requirements are prescribed by the appropriate regulatory or supervisory authority in Kosovo relating to the conduct of business activities of such open-end entities.
- e) All other types and classes of domestic securities as may be authorized, from time to time, by effective laws, statutes, regulations and rules issued by competent authorities in Kosovo.

Section 5 Prohibited Investments

5.1 Prohibited Investments

Pension assets cannot be invested in the following types of classes:

- a) Securities that are either unlisted or not publicly traded.
- b) Assets that cannot be legally conveyed, sold, disposed of or otherwise alienated.

- c) Derivatives securities, options, futures, forward and other agreements with respect to securities and other financial assets.
- d) Real or physical assets not listed on organized markets and for which valuation is uncertain including, but not limited to, precious objects, works of arts, antiques, coins, collections, and motor vehicles.
- e) Securities issued by proscribed parties as defined under this Rule.
- f) Securities that are not of the types or classes permitted under the Pensions Regulation, this Rule and/or securities acquired not in accordance with the investment principles and directives of the pension entity at the time of their acquisition.
- g) Such other assets or securities as are specified by the SRSG and/or laws, statutes, regulations and rules promulgated by competent authorities.

Section 6 Transitional Provisions

6.1 Diversification of Investments

In order to assure a smooth transition to the diversification rules prescribed under Sections 10.5 and 10.6 of the Regulation and Section 3.2 of this Rule as the amount of assets becomes sufficient to diversify efficiently. Pension Funds and Pension Providers shall be deemed to have complied with the rules on diversification of investments if the following conditions are fulfilled:

- a) The investments made are in accordance with the terms and stipulations contained in their Statements of Investment Principles approved by the BPK.
- b) The assets of the Pension Fund, or when applicable the Pension Provider, are kept and safeguarded by an independent Custodian in accordance an asset custodial agreement in conformity to the requirements of Rule 8 of these Rules.
- c) The assets are invested only in asset classes set forth in this Rule and the Pensions Regulation and there is no investment in the prohibited categories of investment pursuant to this rule and the Pensions regulation.
- d) The amount of the assets does not exceed Five Hundred Thousand (500,000) Euro.

- e) The Pension Fund or Pension Provider has submitted to the BPK an acceptable plan for increasing the diversification of its investments.

Section 7
Entry into Force

This Rule shall enter into force on July 25, 2002.

Managing Director