



Pursuant to Article 35, paragraph 1, subparagraph 1.1, of the Law No. 03 / L-209 on the Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, No. 77/16 August 2010) and Article 7, paragraph 4, Article 13 and Article 20 of the Law No. 04 / L-101 on Pension Funds in Kosovo (Official Gazette of the Republic of Kosovo, No. 10/8 May 2012), the Board of the Central Bank of the Republic of Kosovo in the meeting held on 29 June, 2017 approved the following:

**REGULATION  
ON  
PENSION ASSETS AND VALUATION OF PENSION ASSETS**

**Article 1  
Aim and Scope**

1. The aim of this Regulation is to define the method and principles for pension assets valuation and the manner and time limitations for the Custodian to submit required reports to the Kosovo Pension Saving Trust, to the Pension Fund and to the Pension Provider as well as to the Central Bank of Republic of Kosovo (CBK).
2. This Regulation applies to the Kosovo Pension Savings Trust, Supplementary Employer Pension Funds and Supplementary Individual Pensions (hereinafter: Pension Funds) and Director/Managers of pension assets.

**Article 2  
Definitions**

1. All terms used in this Regulation are as defined in Article 1 of the Law No. 04 / L-168 on Amending and Supplementing the Law No.04 / L-101 on Pension Funds of Kosovo and Article 1 of the Law No. 04 / L-101 on Pension Funds of Kosovo (hereinafter: Law on Pension Funds) and/or as further defined for purposes of this Regulation:
  - 1.1. **“Equity portfolio”** includes shares of pension funds stock, whether in the form of ordinary or preferred shares;
  - 1.2. **“Fair market value”** is the amount a willing buyer of asset will pay a willing seller of asset. To determine fair market value is assumed that the buyer and the seller have substantially equal knowledge of the facts and circumstances on the asset in the

transaction, act in their best interests, neither party act under pressure or other external influence and have reasonable time for completing the transaction;

- 1.3. **“Pension assets”** consist of the following:
  - 1.3.1. Assets that are categorized as investment assets, and
  - 1.3.2. Assets that are not categorized as investment assets and include the following:
    - 1.3.2.1. Cash;
    - 1.3.2.2. Contributions receivable, not more than eighteen (18) days past due, only if such contributions are included in the participants’ individual accounts;
    - 1.3.2.3. Non-investment property owned and in the actual control and real possession of the pension fund, acquired in accordance with the terms and conditions prescribed in this Regulation;
- 1.4. **“Investment property”** refers to an interest in land and/or building, owned by the pension fund or its affiliate, as may be allowed as direct investment in accordance with Section 9 of the Law on Pension Funds of Kosovo or other applicable laws;
- 1.5. **“Non- investment property”** includes movable and immovable properties acquired by the pension fund from investment properties;
- 1.6. **“Financial instrument”** includes equity portfolio, investments in bonds, debts or obligations and of all types of (eligible) investments;
- 1.7. **“Short-term financial instruments”** consist of cash, bank deposits, certificates of deposit, money market instruments and other instruments that have maturity dates of one (1) year or less as of the valuation date;
- 1.8. **“Mid-term financial instruments”** includes government bonds, corporate bonds, mortgages, preferred shares with fixed redemption dates, and other instruments that are not readily convertible to cash and that have maturity dates longer than one (1) year but less than five (5) years as of the valuation date;
- 1.9. **“Long-term financial instruments”** all securities that are not categorized as Short - term or Medium-term.
- 1.10. **“Custodian”** a fiduciary that is a licensed bank and a legal entity in Kosovo, or a branch of a foreign bank that is a legal entity licensed to do business in Kosovo by the CBK, or licensed to do business in any member state of the Organization of Economic Co-operation and Development by that state’s banking regulatory authority that provides custodial and depository services to the Pension Funds or to persons providing Supplementary Individual Pensions relating to pension assets on the basis of a custodial agreement.

**Article 3**  
**Segregation of Pension Assets**

1. Pension funds providing both Defined Contribution and Defined Benefit pension arrangements must segregate the assets and the related investments and accounting thereof in such a fashion that assets belonging to participants and beneficiaries of Defined Contributions are separate and distinct from assets belonging to participants and beneficiaries of a Defined Benefit pension.
2. There shall be no co-mingling of Defined Contribution and Defined Benefit pension assets regarding their management, investment, accounting and custody.

**Article 4**  
**Non-Investment Property as Pension Fund's Property**

1. Non-investment property owned and held by a pension fund shall be included as pension fund property asset if acquired as follows:
  - 1.1. loans, mortgages, liens, judgments, or other debts in the course of its investment activities and/or administration of its pension program or arrangements;
  - 1.2. By gift, devise or bequest that do not impose restrictions. In case that gift, devise or bequest imposes restriction the effective date of acquisition, for purposes of this Regulation is the date such restriction no longer apply.

**Article 5**  
**Restrictions on the Possession of Immovable and Movable Property**

1. Real property allowed as pension fund asset under Article 4 of this Regulation cannot be held for a period longer than 2 (two) years from the date of acquisition.
2. Movable property allowed as pension fund asset under Article 4 of this Regulation cannot be held for a period longer than 6 (six) months from the date of acquisition.
3. Notwithstanding paragraphs 1 and 2 of this Article, on the pension fund request, the CBK may extend the term of holding the immovable or movable property if, in its assessment, the forced sale of the property would be against the best interest of the pension participants and beneficiaries.

**Article 6**  
**Calculation of Pension Assets for Defined Contribution Pensions**

1. The Custodian shall calculate pension assets for Defined Contribution Pensions on a daily and monthly basis.

2. Calculation on a daily basis of investment returns of pension assets shall be done at the end of each calendar day by comparing the aggregate value of pension assets from the previous day with the current day's assets valuation. The difference of the two valuations minus assets received or withdrawn during the day represents the net investment return for the current day.
3. Calculation on a monthly basis of investment returns of pension assets shall be done at the end of each calendar month by comparing the aggregate value of the pension assets from the previous month with the current month assets valuation. The difference of the two valuations minus assets received or withdrawn during the month represents the investment net investment return for the current month.
4. The rate of return on investment of pension assets is the percentage resulting from the proportion of investment return to the amount of pension assets that are held at the end of the day or of the previous month.
5. Pension funds shall adjust the investment return from pension assets by making a similar calculation with respect to other pension assets that are not with the Custodian in order to reach the total investment return for allocation for the respective month.
6. If expenditures from investment activities are covered from the tax revenue with which the pension assets are charged, the net return from investment of pension assets shall be calculated on the principle: gross returns minus taxes charged for the investment of those assets.

## **Article 7**

### **Principles for Valuation of Pension Assets**

1. Pension assets shall be valued at their market or realizable values under the following principles:
  - 1.1. Equity portfolio shall be valued at their "last sale price" quoted by the Stock Exchange on the trading date immediately prior to the valuation date. Unquoted shares whose fair market value cannot be readily measured shall be valued at net realizable value.
  - 1.2. Short-term financial instruments, other than government securities, are valued at net realizable values. Government securities are to be valued at the time of acquisition at their discounted values. Valuations subsequent to acquisition date shall be at amortized values.
  - 1.3. Medium and long-term financial instruments are to be valued at amortized values. Any premium or discount arising on the purchase of these assets is amortized to income over the period remaining to maturity.
  - 1.4. Investment in mutual fund or participation interest in other investment funds are valued based on their Net Asset Values (NAV) last quoted on the trading date

immediately prior to the valuation date. If applicable NAV quotations are unavailable these types of investment are to be valued at net realizable values.

- 1.5. Financial instruments purchased in the free market are valued based on respective realizable values on the valuation date by calculating and recognizing value changes between the trading date and the settlement date.
- 1.6. Investment properties are to be valued based on price quotes and other reliable reference available in the open market. If these valuation bases are unavailable, investment properties are to be valued in the manner prescribed for the valuation on non-investment properties.
- 1.7. Non-investment properties are to be valued at their fair market values as determined by a qualified independent appraiser, less allowance for reasonable selling expenses. All real properties are to be valued at least once a year. Valuations may be done more frequently where the market conditions indicate that the carrying values of the assets are materially different from the values obtaining in the free market.
- 1.8. Mortgages and loans are to be valued, not exceeding the fair market value of their collateral funds, at carrying costs less a provision for obligations in arrears.
- 1.9. If a financial instrument is or becomes a non-performing, the value of such instruments shall not be greater than its net realizable value.
- 1.10. Purchases with dividend or with interest involving equity shares or other financial instruments shall be valued without including the dividend or interest until these income components are actually received.
- 1.11. Contributions receivable shall be valued at cost. No value is assigned to such receivables that were not paid with the period of 30 days.
- 1.12. Office furniture and equipment shall not be assigned any value.
- 1.13. In determining values of investment assets, interest and discount rates shall be rounded at the maximum of 0, 25%.
- 1.14. Non-investment pension assets whose market values cannot be determined may be valued at realizable values, if available. If, in no way, the market value of non-investment pension assets can be determined, then the value should be determined using the acquisition and historical costs.
- 1.15. The CBK may allow other bases of valuation as may be consistent with the requirements of Organization of Economic Co-operation and Development (OECD), the European Union and/or standards formulated under International Accounting Standards for valuation of pension assets.

## **Article 8**

### **Reporting by Pension Assets Custodian**

1. Within 12 hours following the end of any day, the custodian shall submit a daily report to the pension fund and a schedule of pension assets under its custody. The custodian shall submit separate reports for Defined Contribution pension assets and Defined pension assets.

2. Within the first 10 days following the end of any calendar month, the custodian must submit a monthly report to the Pension Fund and a schedule of pension assets under its custody. The custodian must submit separate reports for Defined Contribution pension assets and Defined Benefit pension assets.
3. Reports under paragraphs 1 and 2 of this Article shall contain the following information:
  - 3.1. A listing of all assets under its custody as of the end of the current day or month and the previous day or month indicating their respective values according to the principles and guidelines prescribed under this Regulation;
  - 3.2. A calculation of the rate of investment return of Defined Contribution pension assets under its custody.
4. In addition to the reports specified in paragraphs 1 and 2 of this Article, the custodian shall submit all other reports as may be required under the terms of the agreement between Custodian and the pension fund.
5. The Custodian shall submit to the CBK such other reports and information on pension assets under its custody as may be required by the CBK.

#### **Article 9**

##### **Allocation of Investment Returns to Individual Pension Accounts**

1. Pension funds that provide Defined Contribution pension shall allocate the total investment return calculated in accordance with Article 6 of this Regulation to the individual accounts of the participants. The allocation shall be made according to methods and procedures adopted by the pension fund.
2. Pension funds that provide Defined Benefit pension shall allocate the total investment return calculated in accordance with Article 6 of this Regulation to fund the technical provisions required under this Regulation for Defined Benefit pension.

#### **Article 10**

##### **Implementation and measures**

Violation of this Regulation will be subject to measures as set forth in the Law on Pension Funds.

#### **Article 11**

##### **Abrogation**

Upon entry into force of this Regulation, the Rule 6 on Pension Assets and Valuation of Pension Assets dated July 25, 2002 and any other CBK provision which contradicts this Regulation shall be abrogated.

**Article 12**  
**Entry into force**

This Regulation shall enter into force 15 days after its adoption by the Board of the Central Bank of the Republic of Kosovo.

Chairman of the Board of the Central Bank of Kosovo

Prof. Dr. Bedri Peci