

BOSNIA AND HERZEGOVINA  
FEDERATION OF BOSNIA AND HERZEGOVINA  
SECURITIES COMMISSION OF THE FEDERATION  
OF BOSNIA AND HERZEGOVINA

Pursuant to the provisions of Article 46, paragraph (7), Article 53, paragraph (1) and Article 57, paragraph (4) of the Law on Voluntary Pension Funds (Official Gazette of FBiH, 104/16), and Article 12 of the Law on Securities Commission (Official Gazette of FBiH, 39/98, 36/99, 33/04, 92/13 and 6/17), the Securities Commission of the Federation of Bosnia and Herzegovina, at its 545<sup>th</sup> session held on November 23, 2017, adopted the following

**Rulebook  
on Permitted Investments and Additional Investment Restrictions of the Voluntary  
Pension Fund**

**Article 1**

This Rulebook regulates in detail:

- a) Permitted investments of voluntary pension fund assets,
- b) Market considered to be regulated,
- c) Institutions considered as the counterparty,
- d) Money market instruments in which the voluntary pension fund is permitted to invest,
- e) Additional restrictions of voluntary pension fund investments,
- f) Conditions and restrictions related to techniques and instruments for efficient fund asset management,
- g) Operations involving fund assets,
- h) Exposure calculation,
- i) Contents, method and place of publishing the statement on investment principles.

**Article 2**

The fund shall be an open-end or closed-end voluntary pension fund which may be established by a voluntary pension fund management company (hereinafter: management company), pursuant to an approval by the Securities Commission of the Federation of Bosnia and Herzegovina (hereinafter: the Commission), managing a voluntary pension fund (hereinafter: the fund), or investing cash assets for its own name and for the common account of fund members pursuant to the provisions of the Law on Voluntary Pension Funds (hereinafter: the law).

**Article 3**

When managing the fund assets, the management company shall comply with all provisions of the fund prospectus relating to fund asset management.

**Article 4**

- (1) An organized market, for the purpose of the law, shall mean the market of the Federation of Bosnia and Herzegovina and the Republika Srpska, European Union Member States (hereinafter: the EU) and third countries which are members of the Organisation for Economic Co-operation and Development (hereinafter: the OECD), which meets the requirements for organized markets, pursuant to the provisions of the law governing the capital market of the Federation of Bosnia and Herzegovina and/or EU Member State or an OECD member.

- (2) Official listing, for the purpose of the law, shall mean the listing in the Federation of Bosnia and Herzegovina and the Republika Srpska, the EU Member States and third countries which are members of the OECD for which the provisions of the law governing the capital markets, appropriate regulations and/or relevant rules of the organized market prescribe stricter listing requirements and investor protection than those of the least strict segment of the regulated market referred to in paragraph (1) hereof.
- (3) For the purpose of the law, another regulated market is the market which meets the following conditions:
- a) With regard to the regulated market, the management company has prescribed all the necessary procedures and operations ensuring due professional care, pursuant to the rules of operation prescribed by the law and the rulebook regulating organizational requirements of management companies,
  - b) With regard to the regulated market, the fund depositary has prescribed all the necessary procedures and operations for the clearing and settlement of securities,
  - c) They possess the approval, are regulated and subject to control by competent authorities pursuant to the national legislation of countries of their registration,
  - d) Their members and persons in charge of keeping the registry of dematerialized financial instruments are subject to control by competent authorities pursuant to the national legislation of countries of their registration,
  - e) Transactions are cleared and settled within an acceptable timeframe,
  - f) It is permitted to invest on such markets in open-end investment funds, voluntary pension funds and other pension savings entities from the country in which the market is based,
  - g) They operate regularly, i.e. trading is carried out continuously within the prescribed timeframe,
  - h) They meet the market liquidity requirements considering the number of participants and the possibility of continuous fair pricing of financial instruments traded in those markets,
  - i) They are open to the public.
- (4) The management company shall establish in its internal procedures an efficient verification system to ascertain whether the markets of OECD members referred to in paragraphs (1) – (3) hereof meet the requirements to be considered as regulated markets, official listing and other regulated markets, as prescribed in paragraphs (1) – (3) hereof.
- (5) The management company shall document and keep each verification referred to in paragraph (4) hereof within the deadlines as prescribed by the law and pertinent regulations.

### ***Transferrable securities***

#### **Article 5**

Transferrable securities as financial instruments referred to in Article 46, paragraph (1), points a) and b) of the Law in which the fund is permitted to invest shall mean those meeting the following criteria:

- a) The potential loss which the fund may suffer due to keeping of such instruments is limited to their purchase price,
- b) Appropriate information on them is available in the form of regular, accurate and comprehensive information on securities,
- c) They are freely transferrable,

- d) Acquiring them is in accordance with the principles, strategy and investment goals of the fund,
- e) The risks of transferrable securities are appropriately included in the fund risk management system.

### ***Money market instruments***

#### **Article 6**

- (1) Money market instruments as referred to in Article (3), point v) of the law shall mean the instruments meeting the following conditions:
  - a) Their maturity or remaining maturity is 397 days or less, and
  - b) Their return is subject to volatility of the money market.
- (2) The instruments referred to in paragraph (1) hereof are:
  - a) Money market instruments traded in a regular market referred to in Article 46, paragraph (1), point a) of the law, and
  - b) Money market instruments referred to in Article 46, paragraph (1), point f) of the law.

#### **Article 7**

The fund may invest in money market instruments referred to in Article 46, paragraph (1), point a) of the law, whose value may be determined precisely at any time, or for which precise and reliable pricing methodology and systems are available, meeting the following criteria:

- a) They provide for calculating the fund net asset value in accordance with the value at which the financial instrument held in assets could be subject to a transaction at market conditions concluded by well-informed and unrelated parties willing to participate in the transaction,
- b) They are based on market data or valuation models, including the methods based on depreciation costs.

#### **Article 8**

- (1) Money market instruments referred to in Article 46, paragraph (1), point f) of the law shall mean the money market instruments meeting the following criteria:
  - a) They meet the criteria as set out in Article 6, paragraph (1), and Article 7 hereof,
  - b) Appropriate information on them available, providing for an appropriate assessment of the credit risk related to investing in such instruments, taking into consideration paragraphs (2), (3) and (4) hereof,
  - c) They are freely transferrable.
- (2) For money market instruments referred to in Article 46, paragraph (1), point f), sub-points 2) and 4) of the law or for instruments issued by a local or regional self-governance unit of the Federation of Bosnia and Herzegovina or the Republika Srpska or an EU Member State or a public international organization which are not guaranteed by the member state, or issued by a federal unit in case of a federal state which is an EU Member State, the appropriate information referred to in paragraph (1) hereof shall contain the following:
  - a) The information on the issuance or issuance scheme, and the legal and financial status of the money market instrument issuer,
  - b) Updated information referred to in point a) hereof on a regular basis, and in the event of a material event,
  - c) The information referred to in point a) hereof confirmed by a qualified third party, independent and unaffected by the issuer,
  - d) Available and reliable statistical data on the issuance or issuance scheme.

- (3) For money market instruments referred to in Article 46, paragraph (1), point f), sub-point 3) of the law, the appropriate information referred to in paragraph (1) hereof shall contain the following:
  - a) The information on the issuance or issuance scheme, and the legal and financial status of the money market instrument issuer,
  - b) Updated information referred to in point a) hereof on a regular basis, and in the event of a material event,
  - c) Available and reliable statistical data on the issuance or issuance scheme, or other data providing for the assessment of the credit risk related to investing in such an instrument.
- (4) For money market instruments referred to in Article 46, paragraph (1), point f), sub-point 1) of the law, the appropriate information referred to in paragraph (1), point b) hereof shall contain the information on the issuance or issuance scheme, or the information on the legal and financial status of the money market instrument issuer.

### ***Managing liquidity***

#### **Article 9**

- (1) When investing fund assets in transferrable securities and money market instruments, the management company shall take into consideration the liquidity of such financial instruments and their margin effect on the overall fund portfolio liquidity.
- (2) The management company shall take care continuously of the fund portfolio liquidity by estimating periodically whether the fund portfolio contains a sufficient percentage of liquid assets so that the liquidity demands resulting from termination of fund membership could be satisfied, as envisaged by Article 69 of the law.
- (3) When estimating the liquidity referred to in paragraph (2) hereof, the management company shall also take care of the fund assets and liabilities, by harmonizing the fund assets with the fund liabilities considering the execution of fund asset investments, requests for membership termination and regular scheduled payments from the fund. Simultaneously, the management company shall carry out stress tests which provide for estimating the fund's liquidity resilience towards outstanding circumstances and other relevant risks which affect the fund liquidity, including the regulation risk.
- (4) The management company shall document each estimate referred to in paragraphs (1) and (2) hereof and keep it within the deadlines prescribed by the law and pertinent regulations.

#### **Article 10**

- (1) In case of debt securities and money market instruments issued in tranches within the issuance programme, unmatured traded securities shall be used for calculating investment restrictions referred to in Article 47, point k), and Article 49, paragraph (1) of the law.
- (2) The size of an investment fund which receives multiple investor payments made after a call of the management company addressed to investment funds based on previously assumed obligations to make payments of investors' assets in accordance with the investment fund prospectus shall mean the total sum of paid capital and the sum of capital to be paid by investors, as of the date of the investment fund's start of operation.

## **Article 11**

The entities referred to in Article 46, paragraph (1), point f), sub-point 3) of the law shall be subject to credit rating control by the competent authority of the Member State pursuant to the laws governing the capital market and credit institutions or satisfy the rules of control by the competent authority of OECD member states which are equal to the rules prescribed by the laws governing the capital market and credit institution operations, if they meet the following criteria:

- a) Their registered office is in an EU Member State or an OECD member state which is a part of the G-10;
- b) They have a satisfactory credit quality according to an internally selected credit risk assessment model,
- c) It may be proven, based on an analysis of the counterparty, that they are subject to credit rating control by the competent authority of a state referred to in point a) hereof, pursuant to the rules of control which are at least as strict as those prescribed by the *acquis communautaire*.

## **Article 12**

- (1) Special securitization entities referred to in Article 46, paragraph (1), point f), sub-point 4) of the law shall mean all entities established with the aim of carrying out securitization operations defined by the law regulating securitization.
- (2) The bank credit line referred to in Article 46, paragraph (1), point f), sub-point 4) of the law shall mean a banking service guaranteed by a financial institution meeting the requirements as set out in Article 46, paragraph (1), point f), sub-point 3) of the law.

## ***Financial derivatives***

### **Article 13**

- (1) For the purpose of the law, financial derivatives shall mean financial instruments meeting the following criteria:
  - a) Underlying assets of a financial derivative is composed of at least one of the following:
    1. Assets referred to in Article 46, paragraph (1), points a) and b) of the law, including financial instruments possessing one or several characteristics of the assets,
    2. Interest rates,
    3. Currency exchange rates or currencies,
    4. Financial indexes.
  - b) OTC derivatives with the conditions referred to in point a) hereof which meet the criteria referred to in Article 46, paragraph (1), point e), sub-points 2) and 3) of the law.
- (2) Investing in financial derivatives shall be permitted only with the purpose of protecting fund assets or efficient management of fund assets and liabilities.
- (3) Investing in financial derivatives with the purpose of speculating is prohibited.
- (4) The management company may not assume uncovered positions for the account of the fund. Short positions shall be covered by fund assets which are completely compatible with the underlying assets of the derivative. Long positions shall be completely covered by assets as referred to in Article 46, paragraph (1), point g) of the law or money market instruments issued by Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina and the Republika Srpska, and EU Member State or an OECD member state, or a central bank of an EU Member State, or an OECD member state.

- (5) Notwithstanding paragraph (4) hereof, short positions need not be covered by fund assets completely compatible with the underlying assets of the derivative, in the event that the management company has established and documented procedures, operations and models which can prove that fund assets represent an almost perfect substitute for the underlying assets of the derivative. The management company shall document and keep the proof of meeting the requirements as set out herein within the timeframe as defined by the law and regulations.
- (6) It is prohibited to create an exposure of capital assets, by using the financial derivatives or other instruments as referred to in Article 46, paragraph (1) of the law containing a derivative, exceeding investment restrictions as prescribed by the law and regulations adopted pursuant to the law, nor to create a negative exposure of the capital assets.
- (7) Financial derivatives referred to in Article 46, paragraph (1), point e) of the Law also include financial derivatives which meet the following criteria (credit derivatives):
- a) They provide for transferring of the credit risk associated with the underlying assets referred to in paragraph (1), point a) hereof, irrespective of other risks related to the underlying assets,
  - b) They do not result in a delivery or transfer of assets, apart from those as set out in Article 46, paragraph (1) of the law,
  - c) They are in accordance with the criteria for OTC derivatives as defined in Article 46, paragraph (1), point e), sub-points 2) and 3) of the law,
  - d) The risks of financial derivatives are appropriately included in the fund's risk management system,
  - e) In the cases in which there is a risk of information disparity between the management company and the counterparty when concluding an agreement on the credit derivative, as a result of the counterparty's access to non-public information on the issuer of the credit derivative underlying asset, such risks shall be subject to internal control mechanisms.
- (8) The fair value of the financial derivative referred to in Article 46, paragraph (1), point e), sub-point 3) of the law is the value at which the financial derivative held as fund assets may be traded according to market conditions, in a transaction concluded by well-informed and unrelated parties willing to partake in the transaction.
- (9) Derivatives with commodities as underlying assets shall not be considered financial derivatives in the sense of the law and paragraph (1) hereof.
- (10) Other parties to the contract as referred to in Article 46, paragraph (1), point e), sub-point 2) shall meet the following criteria:
- a) Their registered office is in an EU Member State or and OECD member state,
  - b) They have a satisfactory credit quality according to the internally selected credit quality assessment model,
  - c) Pursuant to the analysis of the counterparty, it is possible to prove that it is subject to credit rating by a competent authority of the country referred to in point a) hereof, pursuant to the rules of control which are at least as strict as those prescribed by the *acquis communautaire*.
- (11) The management company shall include gross currency exposure towards the underlying assets of financial derivatives in the fund assets currency exposure calculation referred to in Article 52, paragraph (2) of the law.

## ***Financial indexes as underlying assets of financial derivatives***

### **Article 14**

- (1) Financial derivatives of financial indexes referred to in Article 46, paragraph (1), point e), sub-point 1) of the law shall mean financial derivatives of indexes which meet the following criteria:
- a) They are sufficiently diversified by way of meeting the following criteria:
    - 1. The index is composed so that price volatility or trading activity of one of its components does not affect to an excessive extent the effect of the entire index,
    - 2. The index is composed of assets as referred to in Article 46, paragraph (1), point a) of the law, with the maximum weight of one index component being 20%, pursuant to the rules defining the index.
  - b) They represent an appropriate benchmark for the market to which they are related, i.e. they meet the following criteria:
    - 1. The index measures the effects of a representative group of basic components in a relevant and appropriate manner,
    - 2. The index is regularly reviewed and rebalanced based on publicly available criteria, to ensure that it continuously reflects the market to which it relates,
    - 3. Basic components are sufficiently liquid, which enables users to replicate the index if necessary.
  - c) They are appropriately published, so that they meet the following criteria:
    - 1. The publication procedure is based on prudential procedures for gathering prices and calculating and publishing index values, including the component pricing procedures in case when market prices are not available,
    - 2. Material information on questions such as the method of calculating the index, rebalancing methodology, changing of the index or any operating difficulty in providing accurate information, are provided regularly and are widely available.
- (2) If the composition of underlying assets of financial derivative fails to satisfy the criteria as set out in paragraph (1) hereof, such financial derivatives, if they meet the criteria as set out in Article 13, paragraph (1) hereof, shall be considered as financial derivatives of a combination of assets as referred to in Article 13, paragraph (1), point a), sub-points 1., 2., and 3. Hereof.

## ***Transferrable securities and money market instruments with underlying derivatives***

### **Article 15**

- (1) Transferable securities with underlying derivatives referred to in Article 47, point a) of the law shall mean financial instruments which meet the criteria as defined in Article 5 hereof and which contain a component meeting the following criteria:
- a) Based on the component, some or all cashflow otherwise resulting from the transferrable securities as the basic contract, may change according to the specified interest rate, price of the financial instrument, currency exchange rate, price index or interest rate index, credit rating or credit index, or other variable, and therefore fluctuate in the way in which an independent derivative fluctuates,
  - b) Economic characteristic and risks of the component and not closely related to the economic characteristics and risks of the securities which are the basic contract,
  - c) It has a material effect on the risk profile and pricing of the transferrable securities.
- (2) Money market instruments meeting the criteria as defined in Article 6, paragraph (1), and Article 7 hereof, and which contain a component meeting the criteria as defined in paragraph (1) of this Article, shall be considered as money market instruments with underlying derivatives referred to in Article 47, point a) of the law.

- (3) Transferrable securities or money market instruments shall not be considered to contain an underlying derivative if it contains a component transferrable by a contract, notwithstanding the transferrable securities or money market instruments. Such components shall be considered as separate financial instruments.

***Techniques and instruments used for effective portfolio management and borrowing***  
**Article 16**

- (1) Techniques and instruments referred to in Article 48 of the Law used for the purpose of efficient management of fund portfolio shall be limited to reverse repo operations and transactions involving purchase and repurchase.
- (2) Reverse repo operations and transactions involving purchase and repurchase referred to in paragraph (1) hereof may be concluded solely pursuant to a written agreement which must contain a provision providing for revocation or cancellation of the agreement on demand within 15 workdays. The maturity of the agreements may not exceed three months.
- (3) Reverse repo operations and transactions involving purchase and repurchase referred to in paragraph (1) hereof shall meet the following conditions:
  - a) They are economically acceptable, so that they are realized in a cost-effective manner,
  - b) They are used to raise additional capital or income for the fund with a risk level which is in accordance with the fund's risk profile, risk appetite and ability to handle risk, as well as the rules of risk diversification as defined in Article 47 of the law,
  - c) Their risks are appropriately included in the fund's risk management system.
- (4) Reverse repo operations and transactions involving purchase and repurchase referred to in paragraph (1) hereof may not exceed 10% fund net asset value.
- (5) The received collateral for reverse repo operations and transactions involving purchase and repurchase referred to in paragraph (1) hereof may only be transferrable securities and money market instruments referred to in Article 46, paragraph (1), points a) and b) of the law in which the fund is permitted to invest pursuant to the prospectus and/or fund statute and which management companies may not sell, re-invest nor pledge.
- (6) The use of reverse repo operations and transactions involving purchase and repurchase referred to in paragraph (1) hereof may not be in collision with the investment goals or investment principles and strategy, reduce the possibility of reaching investment goals, nor result in a change to the fund risk profile as stated in the fund prospectus and/or statute.
- (7) If securities are the collateral as referred to in Article 50, paragraph (2) of the law, the management company may not sell, re-invest nor pledge them.
- (8) If cash assets are the collateral as referred to in Article 50, paragraph (2) of the law, they may only be:
  - a) Deposited with credit institutions as referred to in Article 46, paragraph (1), point d) of the law,
  - b) Invested in debt securities and money market instruments as referred to in Article 46, paragraph (1), point a), sub-item 1) of the law,
  - c) Invested in cash funds or possess characteristics similar to those of cash funds,
  - d) Used to satisfy the demands of liquidity resulting from the termination of fund membership, as envisaged by Article 69 of the law.



- (9) Cash funds received as collateral and invested pursuant to paragraph (8) hereof shall be taken into consideration when calculating the investment restrictions as set out in Articles 47, 49 and 52 of the law.

***OTC market transactions***

**Article 17**

- (1) The management company shall be permitted to execute in the transactions of selling and buying securities for the account of fund assets in the OTC market only with persons considered as professional (institutional) investors in the sense of the law regulating the capital market.
- (2) Notwithstanding paragraph (1) hereof, the management company may, for the fund's account, conclude transactions with persons not considered as professional investors only if such transactions were not reasonably possible to be concluded in a regulated market, and the management company shall in its internal acts prescribe the situations, conditions and circumstances in which it is permitted to conclude such transactions, as provide that the transactions are executed under fair conditions.
- (3) For each transaction referred to in paragraph (2) hereof, the management company shall:
  - a) Explain and document the reasons for which it is executed,
  - b) Possess the evidence of execution pursuant to paragraph (2) hereof,
  - c) Keep the above-mentioned records in the manner prescribed by the law and regulations adopted pursuant to the law.

***Fund counterparty risk exposure***

**Article 18**

- (1) The management company shall calculate the fund's counterparty risk exposure in case of transactions of financial derivatives traded in regulated market or transactions of OTC derivatives as net exposure, or exposure based on the financial derivative market value.
- (2) The restriction of exposure to one entity as referred to in Article 47, point e) of the law shall also mean a restriction of the total exposure to related parties as referred to in Article 3, point p) of the law.
- (3) The total exposure to capital assets through financial derivatives shall be defined as total envisaged exposure.

***Transactions between funds managed by the same management company***

**Article 19**

- (1) The management company shall prescribe in its bylaws the situations, conditions and circumstances in which it is permitted to buy, sell or transfer assets, execute other transactions or usual operations in the capital market between funds and/or between funds and investment funds under its management, and ensure that they are not executed under conditions which differ from market conditions or which place a fund and/or investment fund into a more favourable position than the other.
- (2) For each purchase, sale or transfer of assets or a usual transaction in the capital market referred to in paragraph (1) hereof, the management company shall:
  - a) Explain and document the reasons for which it is executed,
  - b) Possess the evidence of execution pursuant to paragraph (2) hereof,
  - c) Keep the above-mentioned records in the manner prescribed by the law and regulations adopted pursuant to the law.

## **Article 20**

The management company may not invest fund's assets in stakes and shares of investment funds referred to in Article 46, paragraph (1), point c) whose shareholder is the management company, or any person related to the management company.

### ***Statement on investment principles***

## **Article 21**

- (1) In the statement on investment principles, in the section on strategic asset allocation referred to in Article 57, paragraph (1), point a) of the law, the management company shall state at least the following:
  - a) Persons in the management company responsible for making and implementing investment decisions,
  - b) The procedure of making investment decisions,
  - c) At least the information on investment and allocation of fund's assets as stated in the fund prospectus.
- (2) The statement on investment principles referred to in Article 57, paragraph (1) of the law, in the section on risk management, shall also contain, in addition to the contents as prescribed by Article 57, paragraph (1), points b) – d) of the law, the risks associated with investment and structure of fund's assets and liabilities, with a table displaying the risks and the degree to which they affect the fund and the management company, at least as in the manner described in the fund prospectus.
- (3) The statement on investment principles referred to in Article 57, paragraph (1) of the law shall be made available to fund members in the manner as stipulated in the contract referred to in Article 65, paragraph (1) of the law.

### ***Final provision***

## **Article 22**

This Rulebook shall come into force on the eighth day from the day of its publication in the Official Gazette of the Federation of Bosnia and Herzegovina.

Ref. No.: 01-02-2481/17  
In Sarajevo, November 23, 2017

President  
of the Securities Commission  
of the Federation of Bosnia and Herzegovina

Hasan Čelam, MSc