

Number 23

THE ESTABLISHMENT, ACTIVITIES AND SUPERVISION OF FUNDS FOR OCCUPATIONAL
RETIREMENT BENEFITS LAW OF 2006

Directive 2/2010 pursuant to section 32 on the investment framework of prudent
management of the Funds for Occupational Retirement Benefits

In exercising the powers under paragraph (7) of section 32 of the Establishment, Activities
and Supervision of Funds for Occupational Retirement Benefits Law Of 2006, the Competent
Authority issues the following Directive:

PART I
TITLE, INTERPRETATION

- Short title 1. This Directive shall be referred to as the “investment framework of
prudent management of the Funds for Occupational Retirement Benefits
Directive 2 of 2010”.
- Interpretation 2. In this Directive, unless the context otherwise requires:

“Common fund” shall mean open-ended collective investment
undertaking, in the sense of section 13 of the Open-Ended UCITS and
Related Issues Law of 2004, as applicable from time to time.

“Undertaking” shall mean every natural or legal person that carries out
economic or commercial activities, regardless of whether or not these
activities are gainful.

It shall include every undertaking governed by private or public law, over
which a public authority may exercise, directly or indirectly, a dominant
influence by virtue of their ownership of it, their financial participation in
it or the rules that govern it.

It is presumed that dominant influence is exerted when the public
authority directly or indirectly-

- a) holds the major part of the subscribed capital of the undertaking, or
- b) controls a majority of the voting rights attaching to the shares in the
undertaking, or
- c) is in a position to appoint at least half of the members of the
administrative, management or supervisory body of the undertaking.

“Subsidiary undertaking” shall have the meaning ascribed to it in section
148 of the Companies Law.

¹ Regulatory Administrative Act

“deposit” shall mean the sum of money defined in section 2 of the Banking Law of 1997 until 2009, as applicable from time to time.

“holding company” shall have the meaning assigned to it in section 148 of the Companies Law

“Law” shall mean the Establishment, Activities and Supervision of Funds for Occupational Retirement Benefits Law of 2006, as applicable from time to time

“Group” shall mean the group to which the undertaking belongs, and which comprises of –

- a) the holding company,
- b) its subsidiaries,
- c) the entities, in which the holding company or its subsidiaries hold a participation, directly or by way of control, of at least 10% of the voting rights or 20% of the capital,
- d)
 - i. The undertaking or undertakings, which, although not associated with the holding company with the links referred to in paragraphs (b) and (c), have been placed along with the holding company under single management following an agreement concluded with the holding company or in accordance with the terms of their articles of association, or
 - ii. The undertaking or undertakings which, although not associated with the holding company with the links referred to in paragraphs (b) and (c), their administrative, management or supervisory bodies consist in their majority of the same persons holding office during the financial year and until the consolidated financial statements are drawn up.

“Undertakings for collective investment in transferable securities (UCITS)” shall mean the Open-ended Undertakings for Collective Investments in Transferable Securities, in the sense of section 8 of the Open-ended UCITS and Related Issues Law of 2004, as applicable from time to time;

“regulated market” means the multilateral system managed or operated by a market operator, as defined in paragraph 1 of section 2 of the Investment Services and Activities and Regulated Markets Law of 2007, as applicable from time to time, and

“financial instruments” means any of the instruments specified in Part III of the Third Appendix of the Investment Services and Activities and Regulated Markets Law of 2007 as applicable from time to time.

Terms used in this Directive and are not interpreted otherwise, shall have the meaning assigned to them by the Law.

PART II

OBJECTIVE, SCOPE OF APPLICATION AND INVESTMENT FRAMEWORK OF PRUDENT MANAGEMENT

Objective 3. In accordance with this Directive, the Competent Authority lays down the quantitative investment rules every fund must implement, beyond those set out in paragraph (5) of section 32 of the Law.

Scope of application 4. This Directive shall apply for the funds that fall within the scope of application of the Law.

Quantitative Investment Rules 5.
1) The maximum volume of investment in assets, which are not admitted to trading on a regulated market, including immovable property and other alternative investments, such as venture capital and commodities is limited to 40% of the overall assets of the fund.

For the purposes of this Directive, investments in deposits are assets, which are admitted to trading on a regulated market.

2) The maximum volume of investment in alternative investments, other than immovable property is limited to 15% of the overall assets of the fund.

3) Having regard to the provisions of paragraph 5(b) of section 32 of the law, the maximum volume of investment in investments expressed in each individual currency other than the Euro, in which the fund's liabilities are expressed, is restricted to 10% of the overall assets of the fund.

4) The maximum volume of investment in an undertaking or, in the event that the undertaking belongs to a group, the investment in the undertakings that belong to the same group as the said undertaking, is restricted to 10% of the overall assets of the fund.

Having regard to the provisions of subparagraphs 5(3) and 5(8) of this Directive and paragraph 1(f) of section 32 of the Law, government securities of the Republic of Cyprus, government bonds of other EU member states with a rating that is at least equal to that of the Republic of Cyprus as specified by credit rating agencies, bonds that are guaranteed by the Republic of Cyprus and the deposits in banks or cooperative credit institutions established in the Republic of Cyprus or in other member states of the EU, are excluded from the restriction of this paragraph.

5) The maximum volume of investment in debt instruments of the same issuer is restricted to 10% of the overall debt instruments issued by said issuer.

- 6) The maximum volume of investment in shares of the same issuer is restricted to 5% of his issued share capital.
- 7) The maximum volume of investment in each immovable property is restricted to 10% of the overall assets of the fund.
- 8) The investment rules of subparagraphs 5(4) to 5(7) shall also be applicable to assets of the UCITS or of other collective investment undertakings that have been established as a common fund or unit trust, but not for the same undertakings that manage the above-mentioned undertakings.
- 9) For investments of the fund in deposits with banks or cooperative credit institutions, the management committee of the fund shall take into consideration the rating of said institutions, as it is determined by credit rating agencies, or, alternatively the capital adequacy and liquidity ratios of the said institutions.

PART III
MISCELLANEOUS PROVISIONS

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| Penalties | 6. Anyone who breaches the provisions of this Directive shall be guilty of an offence punishable in accordance with the provisions of section 43 of the Law. |
| Transitional provisions | 7. <ol style="list-style-type: none"> 1) Any fund operating at the date of entry into force of this Directive and which does not meet the quantitative investment rules of subparagraphs 5(1) to 5(3), is obliged to gradually reduce its investments in said investment categories, so as to comply fully with them within a reasonable timeframe from the entry into force of this Directive. <p style="margin-left: 40px;">Provided that, a fund that, at the time of the entry into force of this Directive, has complied with the quantitative investment rules of subparagraphs 5(1) to 5(3) and at a subsequent stage it does not meet said rules solely and exclusively due to the change in the value of its investments, must comply fully within a reasonable timeframe.</p> <ol style="list-style-type: none"> 2) Any fund operating at the date of entry into force of this Directive and which does not meet the quantitative investment rules of subparagraphs 5(4) to 5(7), is obliged to comply fully with them within one year from the entry into force of this Directive. |
| Entry into force | 8. This Directive shall enter into force on the date of its publication in the Government Gazette. |

Note: With this Directive, which was issued in the Official Gazette of the Republic no. 4402 on 31 December 2009, R.A.A. 456, is annulled.

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