

LAW OF GEORGIA
ON FUNDED PENSIONS

Chapter I - General Provisions

Article 1 - Scope of the Law

1. This Law regulates relations associated with funded pensions.
2. The relations associated with funded pensions shall be implemented independently of the state pension and state compensation.
3. The purpose of this Law is to ensure the management of pension assets within the funded pension scheme, in accordance with the interests of participants.
4. This Law shall apply to:
 - a) employers;
 - b) citizens of Georgia, except for non-resident natural persons;
 - c) aliens permanently residing in Georgia and stateless persons, except for non-resident natural persons;
 - d) activities related to funded pensions carried out by asset management companies, specialised depositories, commercial banks, insurance companies and other entities.

Article 2 - Definition of terms

For the purposes of this Law, the terms used herein have the following meanings:

- a) affiliated person - in the case of any person:
 - a.a) an equity holder with more than 10 % of voting rights, or a holder of equity of less than 10 % who can directly or indirectly influence the process of decision-making by the person;
 - a.b) any other legal person, whose direct or indirect holder of more than 25 % of voting shares at the same time owns, directly or indirectly, more than 25 % of voting shares in that person;
 - a.c) a person making an investment or an administrative decision or any members of a supervisory body;
- b) asset management company - a legal entity with a fiduciary duty that is licensed by the National Bank or a relevant regulator of another state and recognised by the National Bank for the purpose of asset management, which carries out the management of pension assets on the basis of an asset management agreement, or an entity created or established for the purpose of asset management and/or the provision of investment advice by an international organisation, the member state of which is Georgia and which is not subject to licensing by the regulators of individual countries;
- c) asset placement strategy - an investment strategy that involves a targeted indicator for the placement of different classes of assets in an investment portfolio, a basis for determining the indicators, and permissible limits of deviation from a targeted indicator, which depend on the risk tolerance of the Pension Agency and/or an asset management company (companies), an investment period and investment objectives and which may change over time in accordance with the change of said parameters;
- d) defined contribution scheme - a pension scheme where pension contributions to be made in favour of a participant are calculated in accordance with the procedure determined by this Law and are reflected in an individual retirement account, and the final benefit is calculated only after taking into account the implemented pension contributions and revenue, expense, surplus revenue, loss and other incomes (if any) credited to an individual retirement account, and the pension is paid in accordance with this Law;
- e) employer - a person who remunerates work performed by an employee;
- f) employee - a natural person who:
 - f.a) performs obligations within the scope of the relations that are regulated by the civil legislation of Georgia and/or by the labour legislation of Georgia or another state;
 - f.b) performs obligations related to his/her service in the armed forces or law-enforcement bodies of Georgia or in other equivalent bodies;
 - f.c) is a head (director) or an acting head (director) of an enterprise or an organisation;
 - f.d) is employed in a public institution in accordance with the Law of Georgia on Public Service;
- g) lump-sum payment - payment of the total value of the pension assets registered in an individual retirement account;



- h) National Bank - the National Bank of Georgia;
- i) self-employed - an individual entrepreneur, a natural person, who carries out the activities provided for by Article 1(3) of the Law of Georgia on Entrepreneurs, with regard to activities that are not subject to withholding at source;
- j) income of a self-employed person:
- j.a) in the case of an individual entrepreneur - taxable income received from entrepreneurial activities provided for by the Tax Code of Georgia;
- j.b) in the case of persons provided for by Article 1(3) of the Law of Georgia on Entrepreneurs - taxable income;
- k) individual retirement account - an accounting form created for participants by the Pension Agency that reflects contributions made in favour of participants, the results of pension asset management, and the amounts of money withdrawn in accordance with this Law, and all related expenses;
- l) participant - a natural person who makes pension contributions and/or in favour of whom pension contributions are made in the funded pension scheme of the Pension Agency;
- m) fiduciary - a person responsible to participants in relation to pension assets, who:
- m.a) exercises any powers or control in the process of pension asset management, except in cases provided for by law for the purposes of regulation by the National Bank;
- m.b) provides the Pension Agency with investment advice on the basis of a respective agreement;
- m.c) records transactions and processes information related to such transactions, and maintains and/or keeps records about participants;
- n) pension - a cash benefit received as a result of participating in the funded pension scheme, which is reflected in an individual retirement account of a participant and which is paid to a participant in the amount and in accordance with the procedure determined by this Law;
- o) programmed withdrawal - the periodic withdrawal of a pension from an individual retirement account in accordance with this Law;
- p) investment policy document - a document developed by the Investment Board that defines an investment strategy and principles and by which the Pension Agency and/or an asset management company (companies) is (are) guided when making decisions on the management of the pension assets of the participants;
- q) retirement age - the age determined by the Law of Georgia on State Pensions;
- r) pension assets - a unity of assets registered in an individual retirement account. The Budgetary Code of Georgia shall not apply to pension assets;
- s) pension contribution - a sum of money paid in the amount and in accordance with the procedure determined by this Law, in favour of a participant, for the purpose of being reflected in his/her individual retirement account. This amount is paid by an employer, an employee and the State if the participant is employed, and/or by a self-employed person and the State, if the participant is self-employed;
- t) Supervisory Board - the Supervisory Board of the Pension Agency, which consists of the Minister of Finance of Georgia, the Minister of Economy and Sustainable Development of Georgia, the Minister of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia, and the Chairperson of the Investment Board, and each member of which occupies the position of a member of the Supervisory Board based on his/her own position;
- u) government security - any security issued by the state of Georgia;
- v) State Treasury - the Treasury Service, a state subordinated agency of the Ministry of Finance of Georgia;
- w) Investment Board - the Investment Board of the Pension Agency that determines policy related to pension assets;
- x) electronic pension contribution administration system - an electronic system of the Pension Agency supported with information technologies and an appropriate database;
- y) specialised depository - a legal entity or a branch thereof with a fiduciary duty that is licensed by the National Bank or a relevant regulator of another state and recognised by the National Bank, which provides the Pension Agency with specialised depository services on the basis of a respective agreement;
- z) investment horizon - a period of time during which the Pension Agency and/or an asset management company (companies) plan(s) to place an investment in assets of a certain class or in an investment portfolio, taking into account risk tolerance determined in accordance with an asset placement strategy, and a desired investment income;
- z₁) investment portfolio - a set of investment instruments, in which the composition of instruments depends on the investment period, the investment objectives of an investor and risk tolerance;
- z₂) temporary special administration regime - a temporary administration regime of the Pension Agency, which starts in accordance with this Law and which aims to ensure the continuity of activities related to the investment of pension assets by the National Bank;
- z₃) open-end fund instrument - investment through an entity or an instrument which is organised and acts as an investment company in accordance with the legislation of another state, or as an investment fund in accordance with the legislation of Georgia, and which is authorised to issue an unlimited number of units or equity securities of own equity participation (segregated or total), which constitutes property proportionate to equity participation in such a company or fund. An open-end fund instrument also includes an open-end unit trust, and investment trust and other investment instruments provided for by the legislation of another state, which operate on the basis of aggregation;



z₄) Revenue Service - a legal entity under public law within the governance of the Ministry of Finance of Georgia;

z₅) disability - a condition defined by the Law of Georgia on Medical and Social Examination;

z₆) selection commission - a commission that ensures the selection of the candidates for members of the Investment Board;

z₇) salary - income received from the provision of services that is taxed at source, as well as income received in the form of salary as provided for by Article 101 of the Tax Code of Georgia, in accordance with the tax legislation of Georgia (except for income that, in accordance with Article 104 of the Tax Code of Georgia, does not belong to income received from a Georgian source, and for income received from royalties, rent, leases, and investment income);

z₈) annual salary/annual income - for a participant, salary/income received from 1 January until 31 December of a year, and for a new member of the funded pension scheme, salary/income received from the day of joining until 31 December of the same year;

z₉) non-resident - a person defined by the Tax Code of Georgia.

Chapter II - Funded Pension System

Article 3 - Funded pension scheme

1. The funded pension scheme is a defined contribution scheme.

2. Joining the funded pension scheme shall be mandatory for all employees, in the part of a salary income, except for employees who have attained the age of 60 (in the case of female employees, the age of 55) before the entry into force of this Law.

3. Joining the funded pension scheme is voluntary for all employees who have attained the age of 60 (in the case of female employees, the age of 55), before the entry into force of this Law, in the part of a salary income, and for self-employed persons, in the part of the income of a self-employed person.

4. The pension contributions of an employed or a self-employed participant shall be financed by the employer, the employee and the State in the amount and in accordance with the procedure determined by this Law.

5. Employees who have attained the age of 40 before the entry into force of this Law and who do not wish to be participants shall be entitled, in accordance with Article 22 of this Law, to leave the funded pension scheme.

6. The pension contributions of employed participants shall be financed as follows:

a) during the payment of salaries, an employer shall make a pension contribution, through an electronic system, to an individual retirement account of the employed participant, in the amount of 2 % of taxable salary to be paid to the employee;

b) on behalf of an employed participant, an employer shall make a pension contribution, through an electronic system, to an individual retirement account of the employee, in the amount of 2 % of taxable salary to be paid to the employee;

c) a self-employed participant shall make a pension contribution in the amount of 4 % of his/her annual income;

d) the State shall transfer, in favour of a participant, to an individual retirement account of an employed person, 2 % of the amount of the taxable salary of an employed person and/or of the income of a self-employed person, the total of which does not exceed GEL 24 000 received by a participant as annual salary and/or by a self-employed person as income. The State shall transfer 1 % if the amount received by a participant as annual salary and/or by a self-employed person as income is from GEL 24 000 to GEL 60 000. The State shall make a pension contribution after it has been confirmed through notification by the Pension Agency that the pension contribution(s) provided for by sub-paragraphs (a) and (b) and/or (c) of this paragraph has (have) been reflected in the individual retirement account of the participant. The State shall not make a pension contribution if the amount of the annual taxable salary of an employed person and/or of the income of a self-employed person exceeds GEL 60 000.

Chapter III – The Pension Agency

Article 4 - Establishment of the Pension Agency

1. The Pension Agency is an independent legal entity under public law established on the basis of this Law, which is responsible for the implementation, management and administration of the funded pension scheme.

2. The structure, powers, procedures for activity and other organisational issues of the Pension Agency shall be determined by the statute of the Pension Agency, which shall be approved by the Government of Georgia.

3. The restrictions provided for by the legislation of Georgia shall not apply to the limits of remuneration of employees of the Pension Agency.



Article 5 - Supervision of the activities of the Pension Agency

1. The Supervisory Board shall supervise the activities of the Pension Agency, except for investment activities.
2. The National Bank shall regulate the investment activities of the Pension Agency in accordance with this Law and other legal acts.

Article 6 - Powers and obligations of the National Bank

1. The National Bank shall, as part of its prudential regulation of the investment activities of the Pension Agency, examine:
 - a) the compliance of an investment policy document with the requirements established by Article 27 of this Law;
 - b) the compliance of the structure, the procedures related to the management of assets and the material-technical resources of the Pension Agency with the minimum requirements established by the National Bank, which are necessary for investment activities related to pension assets;
 - c) the compliance of the methodology for preparing an asset placement strategy, of investment decisions and a procedure for selecting asset management companies with the minimum requirements established by the National Bank. However, the National Bank shall not assess the investment decisions of the Pension Agency;
 - d) the compliance of the accounting, settlement, administrative and information systems, and the means of communication with stakeholders, of the Pension Agency with the requirements established by this Law and the National Bank;
 - e) the compliance of the investment activities of the Pension Agency with the limits determined by an investment policy document.
2. The National Bank shall be authorised to:
 - a) establish additional regulatory rules for a specialised depository providing services to the Pension Agency. These rules may relate to their equity, the experience of staff, hardware and software, maximum price of service or to any other issue that the National Bank considers necessary for the purposes of the enforcement of this Law;
 - b) request and receive from the Pension Agency, and natural persons or legal persons providing services to the Pension Agency, any information (including confidential) that is necessary for exercising the powers determined by this Law;
 - c) request and receive accounting documents from the Pension Agency, a specialised depository or an asset management company (companies) in the form and with a periodicity established by the National Bank;
 - d) inspect on site the Pension Agency, a specialised depository or an asset management company (companies) in accordance with this Law and other legislative and subordinate normative acts of Georgia;
 - e) establish additional principles and rules, which shall apply to the process of selection of open-end fund instruments by the Pension Agency;
 - f) give a binding instruction and/or a public recommendation to the Pension Agency, within the competence determined by this Law, on the remedy of deficiencies if significant violations are detected, with an indication of a reasonable time limit.
3. The National Bank shall be obliged to reflect in its annual report the compliance of the investment activities of the Pension Agency with this Law and the requirements of the National Bank.
4. The National Bank shall establish:
 - a) the methodology for calculating the value of pension assets, including closing a trading day and rounding off values;
 - b) the minimum credit rating of financial investment instruments denominated in permissible national currency and foreign currency provided for by Article 27 of this Law, in which pension assets may be invested in accordance with this Law and other legislative and subordinate normative acts of Georgia.
5. The National Bank shall provide the Pension Agency with written information on the deterioration or possible deterioration of the financial or organisational condition of a specialised depository, provided that the National Bank has such information.
6. The National Bank shall implement a temporary special administration regime, and the grounds for the initiation of such a regime shall be the loss of more than 1 % of the pension assets, resulting from the investment of the pension assets and activities related thereto and not from a change in market conditions, or a systematic failure to comply with the significant instructions of the National Bank, or a condition where the Pension Agency is temporarily unable to perform its functions related to investment activities and which envisages the carrying out by the National Bank of a temporary action related to investment activities for the purpose of ensuring their continuity. The procedure for the implementation and operation by the National Bank of a temporary special administration regime shall be determined by the National Bank.
7. The National Bank shall exercise other powers determined by this Law.

Article 7 - Administration of a funded pension scheme

1. The Pension Agency shall provide technical support for joining the funded pension scheme and shall administer pension contributions through an electronic pension contribution administration system in accordance with this Law, and shall create individual retirement accounts for each participant.



2. Where salaries are paid from a bank account, the obligations of employers and employees related to making pension contributions shall be fulfilled through an electronic pension contribution administration system.
3. Where salaries are paid from a bank account, an electronic pension contribution administration system shall generate relevant information for the State Treasury, which constitutes grounds for the State to fulfil the obligations determined by this Law.
4. If an employer pays a salary to an employee in cash, the employer shall, in accordance with this Law, calculate a pension contribution and address it to the Pension Agency in favour and in the name of the employee.
5. Where salaries are paid in cash, the ground for the State Treasury to fulfil the obligations determined by this Law shall be a request from the Pension Agency, which arises only if the amount addressed by the employer to the Pension Agency in accordance with paragraph 4 of this article is not less than the amount of pension contribution appropriate to the salary paid by an employer, which is specified in the income declaration.
6. A self-employed person may make a voluntary pension contribution when declaring his/her annual income.
7. In the case of a self-employed person, the ground for the State Treasury to fulfil the obligations determined by this Law shall be a request from the Pension Agency, which arises only if the amount addressed by a self-employed person to the Pension Agency in accordance with paragraph 6 of this article is not less than the amount of pension contribution appropriate to the salary paid by the employer, which is specified in the income declaration.
8. The Pension Agency shall be authorised to verify the information provided to the Pension Agency by an employer or a self-employed person through the information support of the Revenue Service.
9. The Revenue Service shall provide the Pension Agency with information, on the basis of which the Pension Agency shall examine the facts of the due fulfilment by employers and participants of the obligation to make pension contributions, and/or shall detect the facts of excess payment of money, due to which:
 - a) if an employer and/or an employee fail to fully or partially fulfil the obligation, the Pension Agency shall provide respective information in electronic form to the employer, the participant and the Revenue Service, which shall take measures provided for by the legislation of Georgia based on said information;
 - b) if the fact of excess payment of money is detected, the Pension Agency shall administer this money in accordance with the procedure developed by the Pension Agency.
10. The Pension Agency shall manage and administer an electronic pension contribution administration system, including through third persons.

Article 8 - Rights and duties of the Pension Agency

1. The Pension Agency shall register employees and self-employed persons joining a funded pension scheme in the funded pension scheme and shall create an individual retirement account for each participant.
2. The Pension Agency shall manage pension assets as a fiduciary, in the interests of participants and their heirs.
3. The Pension Agency shall analyse the funded pension scheme, assess risks, develop a vision related to the development and improvement of the funded pension scheme, and prepare respective recommendations and submit them to the Supervisory Board at least once a year, and shall communicate and hold consultations with stakeholders in order to improve and develop the pension system, constantly look after the interests of participants and the growth of their number.
4. For the purpose of the smooth administration of the funded pension scheme, the Pension Agency shall have the following rights and duties:
 - a) to open accounts in the National Bank and/or commercial banks;
 - b) to manage and administrate the electronic pension contribution administration system;
 - c) to enter into agreements with an asset management company (companies), a specialised depository and persons providing any services and/or goods necessary for the carrying out of investment activities or administrative activities;
 - d) to enter into agreements with persons providing accountancy, audit, legal, and actuarial services, and other services necessary for the Pension Agency;
 - e) request and receive information on any transactions carried out on behalf of the Pension Agency from an asset management company (companies), a specialised depository, an open-end fund instrument or persons providing other services;
 - f) administer the process of the payment of pensions;
 - g) enter into agreements on the acquisition and administration of immovable or movable property (including equipment and software) necessary for the activities of the Pension Agency;
 - h) hire employees for the Pension Agency and establish a competitive compensation structure in accordance with this Law;
 - i) prepare an annual budget of the Pension Agency to submit to the Supervisory Board for approval;
 - j) review issues related to pension contributions.
5. The Pension Agency shall draft legal acts related to procedures for paying pension contributions, the forms of submitting information and the



administration of funds paid in excess.

6. For the purpose of the fulfilment of the obligations of the Pension Agency determined by this Law and the effective administration of the funded pension scheme, any administrative body shall, within its competence, provide the Pension Agency with the personal data of participants in accordance with the legislation of Georgia.

7. In order to exercise the powers granted by this Law, the director of the Pension Agency shall issue both individual administrative acts and normative administrative acts.

8. The Pension Agency shall, on the basis of research conducted by an independent party, provide the substantiation of the appropriateness of the change of the limits of expenses determined by Article 38(7) of this Law, 6 months before the change of the limits of expenses by the source of funding of the Pension Agency.

Article 9 - Director of the Pension Agency

1. The Supervisory Board shall select through a competition and appoint to office, and may dismiss, a director of the Pension Agency, who shall be in charge of the activities of the Pension Agency. A director of the Pension Agency shall be appointed to office for a term of 5 years.

2. The procedure and conditions for holding a competition for the selection of a director of the Pension Agency shall be determined by this Law and the statute of the Pension Agency.

3. The procedure for appointing an acting director of the Pension Agency, in the case of the absence of the director of the Pension Agency or his/her inability to fulfil official duties, shall be determined by the statute of the Pension Agency.

4. A director of the Pension Agency shall hold a higher education degree in the field of economics, finance or business law, and shall have at least 5 years of work experience in a managerial position in a financial institution. A person with a criminal record or a person who has been declared bankrupt in any state or incompetent to manage a financial institution shall not be appointed as director of the Pension Agency.

5. If a new director of the Pension Agency is not appointed by the time the term of office of the director of the Pension Agency expires, the current director of the Pension Agency shall continue to exercise his/her powers for no more than 90 calendar days after his/her term of office expires.

6. A director of the Pension Agency shall represent the Pension Agency in relations with third parties and shall exercise the powers granted to the Pension Agency by this Law and the statute of the Pension Agency.

7. A director of the Pension Agency shall prepare the annual budget and the structure of the Pension Agency taking into account the proposals defined in Article 13(1)(e) and (g) of this Law and shall submit them to the Supervisory Board for approval.

8. A director of the Pension Agency shall develop, in accordance with international best practice, and submit to the Supervisory Board for approval, the procedures and principles according to which the activities of the Pension Agency shall be carried out, including the record keeping and administration of individual retirement accounts, and crediting pension contributions, expenses, surplus revenue, loss, other income, and returns and losses to individual retirement accounts.

9. A director of the Pension Agency shall issue the following legal acts in accordance with this Law:

- a) on appointing to office and dismissing employees of the Pension Agency;
- b) on the issues submitted to the Pension Agency by the Supervisory Board and the Investment Board.

10. A director of the Pension Agency shall make proposals related to the payroll fund and the staff list of the Pension Agency, except in cases provided for by this Law, which shall be taken into consideration in the annual budget of the Pension Agency.

11. The obligations provided for by the Law of Georgia on Conflict of Interest and Corruption in Public Institutions shall apply to a director of the Pension Agency.

12. A director of the Pension Agency shall not provide professional services to an asset management company or a specialised depository within 12 months from the dismissal of the director of the Pension Agency.

13. A director of the Pension Agency shall, according to the results of each year, submit a report of the activities of the Pension Agency to the Parliament of Georgia.

14. A director of the Agency shall be dismissed:

- a) on the basis of his/her application that he/she shall submit to the Supervisory Board;
- b) if his/her Georgian citizenship is terminated;
- c) if a court's judgment of conviction against him/her in a criminal case enters into legal force;
- d) if a court declares him/her missing or dead;
- e) if he/she is recognised as a beneficiary of support by a court decision, unless otherwise determined by a court decision;
- f) if he/she occupies a position incompatible with his/her status or carries out activities incompatible with his/her position;
- g) if he/she violates the requirements established by this Law and/or improperly exercises the powers granted by law and improperly fulfils the



obligations provided for by law;

h) if he/she dies.

Article 10 - Supervisory Board

1. The Supervisory Board shall be composed of four members. The members of the Supervisory Board shall be:

- a) the Minister of Finance of Georgia;
- b) the Minister of Economy and Sustainable Development of Georgia;
- c) the Minister of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia;
- d) the Chairperson of the Investment Board.

2. The Supervisory Board shall elect a chairperson of the Supervisory Board from among its members for a term of 2 years.

3. The chairperson of the Investment Board shall not be a chairperson of the Supervisory Board.

4. When electing a chairperson of the Supervisory Board, voting for oneself by the members of the Supervisory Board shall be inadmissible.

5. The Supervisory Board shall adopt decisions by a majority vote of those present at a meeting of the Supervisory Board. In the case of equal votes, the vote of the chairperson of the Supervisory Board shall be decisive.

6. The Supervisory Board shall:

- a) approve the annual budget of the Pension Agency, the number of the employees of the Pension Agency (except for the employees of the Investment Service of the Pension Agency) and the amounts of their remuneration;
- b) supervise the activities of the director of the Pension Agency and give him/her instructions;
- c) appoint upon nomination by the Investment Board and dismiss a senior investment officer;
- d) appoint and dismiss a director of the Pension Agency;
- e) define and supervise the internal audit mechanism of the Pension Agency;
- f) approve the procedure and conditions for defining the periodicity of programmed withdrawals;
- g) approve the rules (procedures) for submitting a claim to the Pension Agency by the heir of a participant;
- h) approve the legal acts of the director of the Pension Agency, except for legal acts within the scope of activities of the Investment Board, the senior investment officer, and the Investment Service of the Pension Agency;
- i) ensure an independent audit of the Pension Agency;
- j) carry out other activities determined by this Law.

7. The Supervisory Board may disagree with the amounts of remuneration of a senior investment officer and the employees of the Investment Service of the Pension Agency and the amount of expenses related to their activities only by giving a reasoned refusal.

8. Other rules and procedures related to the activities of the Supervisory Board shall be determined by the statute of the Pension Agency.

9. The members of the Supervisory Board shall not be remunerated for their activity in the Supervisory Board.

Article 11 - Selection Commission

1. The Selection Commission shall select candidates for members of the Investment Board through transparent selection procedures and shall submit them to the Parliament of Georgia for approval.

2. The procedures for the selection of candidates for members of the Investment Board shall be determined and approved by the Selection Commission in accordance with this Law.

3. The Selection Commission shall be composed of seven members. The members of the Selection Commission shall be: the Minister of Finance of Georgia, the Minister of Economy and Sustainable Development of Georgia, the Minister of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia, three Members of the Parliament of Georgia, and one independent member.

4. An independent member of the Selection Commission shall be nominated by the National Bank. An independent member shall not be an employee of the National Bank or a member of the Board of the National Bank. An independent member shall have at least 10 years of professional experience in the financial sector, including at least 5 years of work experience in a managerial position in the field of finance, investment and/or risk management.

5. The three Members of the Parliament of Georgia shall be nominated as members of the Selection Commission by the Parliament of Georgia. The term



of office of a member of the Selection Commission determined by this paragraph shall be terminated early upon the termination of his/her office as Member of the Parliament of Georgia.

6. The Selection Commission shall have a chairperson who shall be elected by the Selection Commission by a majority of the total number of its members. Members of the Selection Commission, except for an independent member, shall not be remunerated for their activity in the Selection Commission. The remuneration of the independent member of the Selection Commission shall be ensured by the National Bank. Other expenses related to the activities of the Selection Commission shall be financed from the annual budget of the Pension Agency.

Article 12 - Composition of the Investment Board

1. For the purposes of defining a pension assets investment policy, an Investment Board shall be established within the Pension Agency, which shall be composed of five members.

2. The members of the Investment Board shall be elected by the Parliament of Georgia for a term of 5 years by a majority of the total number of its members. If a new member of the Investment Board is not elected by the time the term of office of the member of the Investment Board expires, the member of the Investment Board shall continue to exercise his/her powers until a new member of the Investment Board has been elected.

3. The Investment Board shall elect a chairperson of the Investment Board, for a term of its authority, from among the members of the Investment Board, by a majority of the total number of its members.

4. When electing a chairperson of the Investment Board, voting for oneself by the members of the Investment Board shall be inadmissible.

5. A bona fide person, who has at least 10 years of professional experience in the financial sector, in the field of finance, investment, economics, risk management or actuarial services, may be elected as a member of the Investment Board.

6. For each vacant position of member of the Investment Board, the Selection Commission shall announce a competition at both local and international levels, including by publishing an announcement in at least one international financial publication. For each vacant position of member of the Investment Board, the Selection Commission shall consider at least two candidates, based on the list of selection criteria, which is prepared by the Investment Board. The candidates for the membership of the Investment Board shall be selected by the Selection Commission taking into account their professional skills and experience, by a majority of the total numbers of its members.

7. A member of the Investment Board shall not at the same time be an heir of any degree determined by the legislation of Georgia of a member of the Selection Commission, the director of the Pension Agency or a member of the Government of Georgia, or a person affiliated with a member of the Selection Commission, the director of the Pension Agency, a member of the Government of Georgia, or the head of or a person hired by an asset management company (companies), a specialised depository or any entity providing other services to the Pension Agency, or a beneficial owner holding equity in an asset management company (companies), a specialised depository or any entity providing other services to the Pension Agency, or a person affiliated with an asset management company (companies), a specialised depository or any entity providing other services to the Pension Agency.

8. A person with a criminal record or a person who has been declared bankrupt in any state or incompetent to manage a financial institution shall not be a member of the Investment Board.

9. A member of the Investment Board shall be dismissed in accordance with the procedure established by the Rules of Procedure of the Parliament of Georgia if:

a) a court's judgment of conviction against him/her enters into legal force;

b) a court has declared him/her missing or dead;

c) he/she is recognised as a beneficiary of support by a court decision in accordance with the legislation of Georgia or other state, unless otherwise determined by a court decision;

d) he/she has resigned or passed away;

e) he/she violated the requirements established by this Law and/or improperly exercised the powers granted by law and improperly fulfilled the obligations provided for by law;

f) he/she did not participate in the meetings of the Investment Board on three consecutive occasions, without good reason as provided for by the statute of the Pension Agency.

10. A member of the Investment Board shall be restricted from receiving any gift, credit or payment from an asset management company (companies), a specialised depository or a person affiliated with them, or other entity providing services to the Pension Agency.

11. Membership of the Investment Board is a remunerative activity and shall be financed from the budget of the Pension Agency.

12. A member of the Investment Board shall not provide professional services to an asset management company or a specialised depository within 12 months from the end of the term of his/her membership of the Investment Board.

Article 13 - Rights and duties of the Investment Board

1. The Investment Board shall:

a) draw up an investment policy document in accordance with this Law and shall submit it to the director of the Pension Agency for approval without the right to amend it;



- b) if necessary, periodically revise an investment policy document, and update the investment policy document, including the asset placement strategy, in accordance with this Law;
- c) carry out the monitoring and assessment of all activities related to the investment of pension assets, at least once a quarter;
- d) carry out the assessment of the compliance of investment activities with the investment policy document, and, in the case of the detection of non-compliance, require the senior investment officer to submit for approval, within a reasonable time, a plan of measures to be taken in order to ensure the compliance of the investment portfolio;
- e) for the purpose of preparing the annual budget of the Pension Agency, draw up proposals related to the annual expenses of investment activities, including the number of employees and salary expenses of the Investment Service of the Pension Agency, and other charges envisaged by contractual relationships with entities providing services, and submit them to the director of the Pension Agency;
- f) select a specialised depository (depositories) and an asset management company (companies);
- g) define and, for the purpose of preparing the annual budget of the Pension Agency, submit to the director of the Pension Agency proposals concerning the amount of the remuneration of a senior investment officer.

2. If the Supervisory Board does not consider or partially considers a draft annual budget of the Pension Agency prepared on the basis of the proposals defined in paragraph 1(e) and (g) of this article, it shall be obliged to submit a substantiated position thereon to the Investment Board.

3. The Investment Board shall be obliged to ensure the increasing of the involvement of asset management companies and open-end fund instruments, within their competence, in the process of investment of pension assets.

4. The Investment Board shall establish the procedure and criteria for selecting asset management companies, and the criteria and the rules (procedures) for establishing the amount of pension assets to be transferred for management to asset management companies and the time limits for the transfer.

5. Taking into account trends in financial markets, the Investment Board shall publicly declare a plan related to the equity ratio of funds placed through asset management companies and open-end fund instruments in the total annual investment, which shall cover a period of the following three years.

6. The Investment Board shall, with due consideration of this Law, develop and submit to the National Bank for approval the rules (procedures) related to the activities of the Investment Board.

Article 14 - Investment Service of the Pension Agency and senior investment officer of the Investment Service of the Pension Agency

1. For the purpose of investing pension assets, the Investment Service shall be established within the Pension Agency, which shall be headed by the senior investment officer.

2. Employees of the Investment Service of the Pension Agency shall be appointed upon nomination by the senior investment officer and may be dismissed by the director of the Pension Agency.

3. The senior investment officer shall elaborate the structure of the Investment Service of the Pension Agency in agreement with the Investment Board, and shall submit it to the director of the Pension Agency for approval.

4. A senior investment officer shall exercise the powers provided for by this Law through the Investment Service.

5. The Pension Agency shall provide a senior investment officer and the Investment Service with resources necessary for exercising the powers and performing the duties determined by this Law and the statute of the Pension Agency, including human and material and technical resources, which shall be envisaged in the budget of the Pension Agency in accordance with this Law.

6. For a transparent and competitive selection competition, the Investment Board, taking into account the requirements established by itself, shall select and submit to the Supervisory Board for appointment a candidate for senior investment officer. The decision in favour of the candidate for senior investment officer shall be made by a majority of the total number of the members of the Supervisory Board. The rights and duties of a senior investment officer shall be determined by this Law and the statute of the Pension Agency.

7. A bona fide person, who has at least 10 years of professional experience in the financial sector, including at least 3 years of work experience in a managerial position in the field of finance, investment and/or risk management, may be appointed to a position of senior investment officer.

8. A senior investment officer shall participate in the development of a pension assets investment policy in accordance with this Law.

9. A senior investment officer shall be responsible for the investment of pension assets in accordance with an investment policy document.

10. Other rights and duties of a senior investment officer shall be determined the statute of the Pension Agency.

11. The obligations provided for by the Law of Georgia on the Conflict of Interest and Corruption in Public Institutions shall apply to a senior investment officer. A senior investment officer shall also be restricted from receiving any gift, credit or payment from an asset management company, a specialised depository or a person affiliated with them, or other entity providing services to the Pension Agency. A senior investment officer shall be obliged to annually submit an official's asset declaration to the Legal Entity under Public Law called the Civil Service Bureau.

12. A senior investment officer shall not provide professional services to an asset management company or a specialised depository within 12 months from his/her dismissal.

13. The Supervisory Board may dismiss a senior investment officer on the basis of an application from the Investment Board.



Article 15 - Fiduciary

1. Members of the Investment Board and a senior investment officer shall be fiduciaries for the purposes of this Law.
2. A fiduciary duty shall not apply to the members of the Supervisory Board, except for the chairperson of the Supervisory Board.
3. The employees of the Pension Agency that are directly connected to investment activities related to pension assets shall be considered as fiduciaries.

Article 16 - Meetings of the Supervisory Board and procedure for holding them

1. A meeting of the Supervisory Board shall be held as appropriate, but no less than once a quarter. A meeting of the Supervisory Board may be held by using electronic communication means.
2. Meetings of the Supervisory Board shall be conducted by the chairperson of the Supervisory Board, and in his/her absence, by the acting chairperson of the Supervisory Board or another member of the Supervisory Board.
3. Each member of the Supervisory Board shall have one vote and shall not transfer his/her own voting right to another person. The Supervisory Board shall be authorised to adopt decisions if no less than three members of the Supervisory Board are present at the meeting of the Supervisory Board. In the case of equal votes, the vote of the chairperson of the Supervisory Board shall be decisive.
4. The Supervisory Board shall be authorised to invite an employee of the Pension Agency to a meeting of the Supervisory Board.

Article 17 - Meetings of the Investment Board and procedure for holding them

1. Meetings of the Investment Board shall be held as appropriate, but no less than once a quarter. Meetings of the Investment Board may be held by using electronic communication means.
2. Meetings of the Investment Board shall be conducted by the Chairperson of the Investment Board, and in his/her absence, by the acting chairperson of the Investment Board or another member of the Investment Board.
3. Each member of the Investment Board shall have one vote and shall not transfer his/her own voting right to another person. The Investment Board shall be duly authorised to adopt decisions if no less than three members are present at a meeting of the Investment Board. In the case of equal votes, the vote of the chairperson of the Investment Board shall be decisive.
4. The director of the Pension Agency and the senior investment officer shall be authorised to attend the meetings of the Investment Board without a right to vote.
5. The Investment Board shall be authorised to invite an employee of the Pension Agency to a meeting of the Investment Board.

Article 18 - Sources of funding of the Pension Agency; annual budget of the Pension Agency

1. The activities of the Pension Agency shall be financed from the pension assets of participants, as an annual service fee for pension assets, which is expressed as a percentage of pension assets. The Pension Agency shall be authorised to determine the periodicity of withdrawal of the fee.
2. A draft annual budget of the Pension Agency shall contain separate headings for:
 - a) the budget of investment activities, including the budget of the Investment Service of the Pension Agency, and service commission fees to be paid to an asset management company (companies) and a specialised depository (depositories) and the expenses of the Investment Board;
 - b) the management and administration expenses of the Pension Agency;
 - c) the distribution of general expenses.
3. The percentage of the annual service fee shall be specified in the annual budget of the Pension Agency both in total and separately for investment activities and for managerial and administrative activities.
4. The director of the Pension Agency shall, no later than 1 November of each budget year, submit to the Supervisory Board for approval a draft budget of the Pension Agency for the following year.

Article 19 - Reporting and accountability by the Pension Agency

1. The Pension Agency shall be obliged to publish an annual report of activities carried out by the Pension Agency on the official website of the Pension Agency no later than 5 months from the end of the calendar year. The report shall include the following information:
 - a) an annual financial report in line with international standards, which has been audited by one of the four largest audit companies of the world and selected by the Parliament of Georgia. The selected audit company shall be able to continuously audit the annual financial reports only three times;



b) information on the overall absolute profitability in the context of each investment portfolio defined in Article 27(4) of this Law, including on the profitability, by classes of assets, against a respective targeted indicator;

c) information on the value and the proportion of pension assets invested in accordance with investment portfolios defined in Article 27(4) of this Law, and targeted and factual distribution of the classes of assets;

d) information on the results of the activities of each asset management company, their targeted indicators and the rate of deviations from them - separately, for financial instruments denominated in national and in foreign currency;

e) report on all other charges, including on the commission fees for specialised depositories and the fees for other services and financial transactions;

f) other information provided for by the legislation of Georgia and/or required by the National Bank.

2. The Pension Agency shall be obliged to submit to the Parliament of Georgia an overview of activities carried out within 6 months by the Pension Agency, no later than 3 months from the end of the first 6 months of the calendar year.

3. The Pension Agency shall be obliged to submit to the Parliament of Georgia an annual report of activities carried out by the Pension Agency, no later than 5 months from the end of the calendar year.

4. The calculation and making public of the total value of pension assets at smaller intervals may be determined by the statute of the Pension Agency.

5. The Pension Agency shall be authorised to publish other information (including unaudited financial reports) at intervals determined by the Pension Agency.

Article 20 - Audit

1. The Internal Audit Service shall be established within the Pension Agency, which shall be accountable only to the Supervisory Board. The head of the Internal Audit Service shall be appointed upon nomination by the Supervisory Board and may be dismissed by the director of the Pension Agency.

2. All records and documents shall be made available to the Internal Audit Service, including information on the activities of the employees of the Pension Agency and members of the Investment Board.

3. The structure, powers and procedures for the activity of the Internal Audit Service shall be determined by the statute of the Pension Agency.

4. The Supervisory Board shall annually ensure the conduct of an independent audit of the Pension Agency in accordance with the legislation of Georgia.

Chapter IV - Participation in the Funded Pension Scheme

Article 21 - Participation in the funded pension scheme

1. Employees shall become participants after the entry into force of this article upon receiving their first salary, except for employees who have attained the age of 60 (in the case of female employees, the age of 55) by the entry into force of this Law.

2. Employees shall have the right to refuse to participate in the funded pension scheme in accordance with this Law.

3. Employees who have attained the age of 60 (in the case of female employees, the age of 55) by the entry into force of this Law, and self-employed persons, may become participants voluntarily, in accordance with this Law.

4. Employees who have attained the age of 60 (in the case of female employees, the age of 55) by the entry into force of this Law, and self-employed persons, shall become participants after the entry into force of this article, upon making their first contribution.

Article 22 - Refusal to participate in the funded pension scheme

1. Employees, who have attained the age of 40 by the entry into force of this Law and do not wish to be participants, shall be authorised to apply to the Pension Agency in writing and leave the funded pension scheme in accordance with the procedure determined by the Pension Agency, within 5 months after automatically joining the funded pension scheme under a mandatory procedure, but no earlier than 3 months after joining the scheme. Otherwise, the employee shall continue to be a participant.

2. Employers shall be prohibited from persuading or dissuading employees, or otherwise influencing them in relation to the refusal to participate in the funded pension scheme.

3. If an employee refuses to participate in the funded pension scheme in accordance with paragraph 1 of this article:

a) the contributions made by an employer on behalf of an employee and in favour of an employee to his/her individual retirement account and the investment income associated with these contributions, excluding respective charges, shall be taxed in accordance with the legislation of Georgia, and shall be returned to the employee under the procedure determined by the Pension Agency;

b) the contributions made by an employer in favour of an employee to the individual retirement account and the investment income associated with



these contributions, excluding respective charges, shall be returned to the employer or his/her successor under the procedure determined by the Pension Agency;

c) the contributions made by the State in favour of an employee to the individual retirement account and the investment income associated with these contributions, excluding respective charges, shall be transferred to the State Treasury Single Account under the procedure determined by the Pension Agency.

4. An employee who refuses to participate in the funded pension scheme in the case provided for by paragraph 1 of this article may rejoin the funded pension scheme at any time under the procedure determined by the Pension Agency. Upon rejoining, the pension contributions of the employee, employer and the State shall begin upon the payment of the first salary to the employee after his/her rejoining, and the participant in question shall be considered as having joined the funded pension plan under a mandatory procedure and his/her rights related to the pension assets on his/her individual retirement account in the Pension Agency shall be determined by this Law.

5. The payment of the first salary to an employee who has joined in accordance with paragraph 4 of this article shall result in the creation of a primary information record on the participant in the electronic pension contribution administration system, which will confirm the joining by the employee of the funded pension scheme and create grounds for opening an individual retirement account.

Article 23 - Continuity of participation in the funded pension scheme

1. An employed participant, the receipt of whose salary is temporarily suspended, shall temporarily suspend making pension contributions to the funded pension scheme. The participant shall resume making pension contributions upon the resumption of the receipt of salary. If the participant stops making pension contributions due to termination of labour relations, or maternity leave or newborn adoption leave, or temporary or long-term incapacity for work, the pension assets shall remain in his/her individual retirement account in accordance with this Law.

2. A self-employed participant who suspends making pension contributions may resume making pension contributions at any time.

3. A participant who decides to leave Georgia permanently may request to receive the value corresponding to the pension assets available in his/her individual retirement account, by means of a lump-sum payment or a programmed withdrawal. This request shall be satisfied if the participant presents a duly attested document confirming the lawful right to permanently reside in another state.

4. In the case provided for by paragraph 3 of this article, the value of the pension assets proportionate to the contributions made by the State in favour of the participant shall be deducted from the amount to be received by the participant from his/her individual retirement account, and the remaining amount to be received shall be taxed in accordance with the legislation of Georgia.

Chapter V - Pension Assets and Investing Pension Assets

Article 24 - Right of a participant to pension assets

1. The pension assets that are reflected in the individual retirement account of a participant shall be the property of the participant. The right to dispose of the said property shall arise only upon reaching retirement age or in other cases provided for by this Law.

2. The property rights of a participant to pension assets shall not be pledged or encumbered, transferred to a third person or otherwise alienated in order to meet or fulfil a claim against the participant. The pension assets available in the individual retirement account of a participant shall not be subject to enforcement, shall not be included in the bankruptcy assets of a participant or the Pension Agency and shall not be subject to any type of settlement procedure.

Article 25 - Individual retirement accounts in the Pension Agency

1. Pension contributions shall be reflected in the individual retirement account of participants.

2. The Pension Agency shall create an individual retirement account for a participant upon his/her joining the funded pension scheme and shall ensure the availability of information for him/her on the individual retirement account through remote electronic access. Issues related to the creation of an individual retirement account, the methodology of calculating the value of an individual retirement account and other issues related to individual retirement accounts shall be determined by the Pension Agency.

3. The value of an individual retirement account shall be calculated and the information thereon shall become accessible to the participant at least once a quarter.

4. The Pension Agency shall develop a methodology for calculating the value of pension assets and shall submit it to the National Bank for approval.

5. If the Pension Agency finds that an employer, an employee or a self-employed person contributed an excess amount, the administration of the excess amount shall be carried out under the procedure determined by the Pension Agency.

Article 26 - Specialised depository

1. The Investment Board shall be obliged to select one or several specialised depositories, on which it shall impose an obligation to store the pension assets, and shall conclude a depository service agreement with the specialised depository (depositories) thereon. A specialised depository and persons



employed by a specialised depository, which have discretionary powers in relation to pension assets, shall be fiduciaries for the purposes of this Law.

2. The Investment Board shall select a specialised depository through a competition. The conditions and procedures for conducting a competition, including the requirements for the preliminary selection of a specialised depository, shall be determined and approved by the Investment Board. The legislation of Georgia on public procurement shall not apply to the said selection process.

3. A specialised depository may provide services to more than one entity, but it shall register and store the pension assets of the Pension Agency and operations and records related thereto separately from its own assets and records and/or the assets and records of other entities.

4. A specialised depository registered in Georgia, which provides services to the Pension Agency, shall be licensed and meet the requirements established by the National Bank. An entity providing depository services that is registered outside Georgia shall be licensed by a relevant regulator of another state or recognised by the National Bank. Such a specialised depository shall be active, insolvency proceedings shall not be pending against it, and it shall meet the requirements of the legislation of a respective state.

5. A specialised depository shall not, at the same time:

- a) act as an asset management company;
- b) be a person affiliated with an asset management company or a member of the Supervisory Board or of the Investment Board;
- c) borrow funds from or lend funds to an asset management company or a person affiliated therewith.

6. A specialised depository shall perform the following functions:

- a) receive and store securities that constitute the pension assets;
- b) receive and store copies of transaction documents on the transfers and the payment of financial resources that constitute the pension assets;
- c) make entries in the relevant accounts of the register of pension assets stored with the specialised depository;
- d) provide the Pension Agency with all necessary information to assist the Pension Agency in fulfilling the obligations determined by this Law;
- e) ensure the compliance of the documents on the acquisition and administration of the pension assets with the legislation of Georgia and other requirements established by the Pension Agency.

7. A specialised depository agreement concluded between the Pension Agency and the specialised depository shall include at least the following issues:

- a) the obligations of the specialised depository;
- b) the terms and form of the fulfilment of obligations by the specialised depository;
- c) the amount of remuneration of the specialised depository and the procedure for calculating the remuneration;
- d) other requirements established by the legislation of Georgia.

8. Where the license of a specialised depository is revoked, or in the event of a substantial violation or the improper fulfilment of a specialised depository agreement, or the initiation of insolvency proceedings against a specialised depository, the Pension Agency shall send a notification to the specialised depository on the termination of the specialised depository agreement and shall immediately notify the National Bank and the Investment Board thereof.

9. Each change of specialised depository shall be carried out in such a manner as to ensure the smooth delivery of specialised depository services to the Pension Agency.

10. In the case of the termination of a specialised depository agreement, the specialised depository shall transfer the pension assets stored with it and the documents related to the fulfilment of the obligations by the specialised depository to a new specialised depository within the time limits determined by the agreement or additionally agreed between the parties.

11. The pension assets stored with a specialised depository in accordance with this article shall not be the property of the specialised depository, they shall not be used for the purposes of fulfilling the obligations of the specialised depository, they shall not be part of the assets of the specialised depository to which bankruptcy procedures may apply, and they shall not be subject to any settlement procedures, except for the settlement that is associated with the process of investment of pension assets.

12. If the Investment Board establishes that the placement of pension assets in Georgia with one specialised depository is not justified, a second specialised depository may be selected for the placement of pension assets in Georgia. In this case, a specialised depository shall be selected and an agreement shall be concluded with the specialised depository in accordance with the procedure established by this article.

Article 27 - Investing pension assets

1. Pension assets may be invested only in compliance with the requirements of this Law, in order to maximise real returns in an investment horizon (taking into account inflation), in the interests of participants and in accordance with good investment principles.

2. Good investment principles are:

- a) the maximisation of real returns (taking into account inflation) over a long-term period, as a result of the investment of pension assets;



- b) the diversification of investments;
- c) the security of pension assets in the conditions of a long-term investment;
- d) maintaining adequate liquidity.

3. Pension assets shall be invested in an investment portfolio with three different types of risk and expected profitability. A participant shall have the right to solely decide which investment portfolio or combination of investment portfolios best suits his/her tolerance to risk. A participant shall, within 1 month after joining the funded pension scheme, state his/her decision, by means of remote electronic access and/or an application, as to which investment portfolio or combination of investment portfolios best suits him/her.

4. Until a participant exercises his/her right under paragraph 3 of this article, the pension assets shall be invested in accordance with the following principles:

- a) the pension assets of a participant who is under the age of 40 at the time of joining the scheme - a high-risk investment portfolio;
- b) the pension assets of a participant who is aged from 40 to 50 at the time of joining the scheme - an average-risk investment portfolio;
- c) the pension assets of a participant who is aged 50 or over at the time of joining the scheme - a low-risk investment portfolio.

5. A participant may fully or partially change the investment portfolio and/or the asset management company chosen by him/her in accordance with this Law and at intervals determined by the Supervisory Board in agreement with the Investment Board. The period shall be at least 12 months. The changes may affect the funds available in an individual retirement account and/or future pension contributions.

6. With due consideration of the principles determined by this article, the Investment Board shall draw up an investment policy document, according to which pension assets shall be invested.

7. For the purposes of the investment of pension assets, an investment policy document shall clearly specify at least the following issues in the context of each type of investment portfolio:

- a) investment objectives;
- b) an asset placement strategy and the maximum permissible limits of deviation from the asset placement strategy for each class of assets and targeted investment indicators;
- c) an overall risk profile and the matrix of tolerance to individual risks, with an indication of an investment horizon of its validity;
- d) a procedure, in accordance with which investment decisions are made, including the selection, monitoring, and assessment of an asset management company, a specialised depository or an entity providing other services related to investment activities, as well as the termination of an agreement with them in accordance with this Law. Investments in each investment portfolio shall be planned in such a way as to expect, by the end of an investment horizon, a positive real return on the investment (taking into account inflation) with high confidence (with the probability of 95 % or over).

8. Each investment portfolio shall provide for a different investment horizon that shall be determined by the Investment Board in accordance with the requirements established by this Law. In addition:

- a) the investment horizon of a low-risk investment portfolio shall be at least 5 years;
- b) the investment horizon of an average-risk investment portfolio shall exceed the investment horizon of a low-risk investment portfolio;
- c) the investment horizon of a high-risk investment portfolio shall exceed the investment horizon of an average-risk investment portfolio.

9. The returns on investment made by means of each investment portfolio and the efficiency of investment policy shall be assessed taking into account the riskiness of the investment portfolio compiled based on the length of investment horizon and the investments made.

10. The Investment Board shall determine the procedure and the periodicity for revising an investment policy document. An investment policy document shall be revised at least once a year.

11. The Investment Board shall be obliged to consider the necessity of amending an investment policy document for the purpose of responding to significant fluctuations in financial markets and the risks caused by them.

12. The types of investment portfolios referred to in paragraph 3 of this article and the allowable investment limits, in the context of broad classes of assets, shall be determined as follows:

- a) a low-risk investment portfolio:
 - a.a) financial resources and deposits - up to 75 %;
 - a.b) debt securities - up to 100 %;
 - a.c) equity securities - up to 20 %;
- b) an average-risk investment portfolio:
 - b.a) financial resources and deposits - up to 50 %;
 - b.b) debt securities - up to 75 %;



b.c) equity securities - from 20 % to 40 %;

b.d) other types of assets - up to 10 %;

c) a high-risk investment portfolio:

c.a) financial resources and deposits - up to 25 %;

c.b) debt securities - up to 50 %;

c.c) equity securities - from 40 % to 60 %;

c.d) other types of assets - up to 10 %.

13. The maximum limits of placement in financial investment instruments denominated in foreign currency, in the context of investment portfolios, shall be determined as follows;

a) a low-risk investment portfolio – 20 %;

b) an average-risk investment portfolio – 40 %;

c) a high-risk investment portfolio – 60 %.

14. The National Bank and the Investment Board shall be authorised to submit to the Supervisory Board recommendations regarding changes of investment limits and restrictions provided for by this Law, provided that these limits and restrictions hinder the optimal placement of pension assets in the best interests of participants.

15. The Investment Board shall, for each asset management company (if any), approve a detailed investment guideline for each type of investment portfolio, which shall include at least a targeted indicator of return (threshold), the limit of deviation of risks to the threshold with respect to the targeted indicator, permissible and prohibited investments, credit risks, an investment horizon, rating thresholds, in accordance with the investment policy document and this Law.

16. Pension assets may be invested in the following financial investment instruments denominated in foreign currency:

a) financial resources, including bank accounts in commercial banks licensed by the bank regulator of the State, against which insolvency proceedings are not pending and the licence of which is not suspended;

b) government securities;

c) debt securities issued by international financial institutions;

d) securities issued by the State, a self-governing unit or a state agency, provided that they are properly secured by a respective state;

e) corporate debt securities, which are registered by a relevant regulator and are placed through a public or private offer;

f) shares of enterprises or global depository receipts, which are registered by a relevant regulator of the capital market of the state and are placed through a public offer, and trade in which is carried out on a stock exchange, provided that they are continuously supervised by a relevant regulator;

g) open-end fund instruments;

h) other financial instruments and/or non-financial assets that may be allowed by the National Bank for investment.

17. Pension assets may be invested only in the following financial investment instruments denominated in national currency:

a) financial resources, including bank accounts in commercial banks licensed by the National Bank, against which insolvency proceedings are not pending and the licence of which is not revoked;

b) government securities, securities issued by a self-governing unit;

c) debt securities issued by international financial institutions;

d) corporate debt securities, which are registered by a relevant regulator in Georgia and are placed through a public or private offer;

e) shares of enterprises, which are placed through a public offer in the list of stock exchanges licensed in Georgia or other state and the continuous supervision of which is carried out by a relevant regulator;

f) open-end fund instruments registered and regulated in Georgia;

g) other financial instruments and/or non-financial instruments that may be allowed by the National Bank for investment.

18. The National Bank shall establish a minimum allowed rating for any type of investment instrument and/or issuer provided for by this article.

19. The National Bank shall be authorised to establish additional requirements for any type of investment instrument and/or issuer provided for by this article.

20. Pension assets shall not be invested:



- a) in assets, the alienation of which is not permitted by law;
- b) in options, other agreements related to futures and forward transactions and securities and financial assets, except for derivatives to be used for a hedging strategy, which serve the reduction of risks, and at the same time do not increase open positions;
- c) in immovable property or tangible assets;
- d) in any property of an asset management company, a specialised depository, a member of the Supervisory Board and a member of the Investment Board or a person affiliated with them;
- e) in securities that are issued by:
 - e.a) an asset management company or a person affiliated with it;
 - e.b) a specialised depository providing services to the Pension Agency and/or to an asset management company, or a person affiliated with a specialised depository;
- f) in other financial instruments and/or non-financial instruments determined by the National Bank.

21. Investing more than 5 % of pension assets in the securities issued by one issuer (except for the financial resources and bank deposits) shall be inadmissible.

22. Owning more than 10 % of the securities in circulation of one issuer shall be inadmissible.

23. The restrictions provided for by paragraphs 21 and 22 of this article shall not apply to the securities issued by international financial institutions that are recognised by the National Bank or the Government of Georgia and have no less than AA- (or equivalent) credit rating.

24. Pension assets shall not be alienated to:

- a) a specialised depository that provides services to these pension assets;
- b) an asset management company that provides services to these pension assets;
- c) a member of the Supervisory Board or a member of the Investment Board;
- d) any person that is affiliated with the asset management company, the specialised depository, or a member of the Supervisory Board or a member of the Investment Board.

25. An asset management company shall not issue a loan or a guarantee in favour of the person referred to in paragraph 24(d) of this article.

26. An asset management company shall exercise its voting right with respect to all equity securities that are under its management, on behalf of participants, only in the interests of participants and their heirs.

Article 28 - Asset management company

1. The Investment Board shall be authorised to make a decision on the transfer of pension assets for management to an asset management company, in compliance with the established criteria and procedures. In such case, the Pension Agency shall conclude a respective agreement with an asset management company.

2. An asset management company shall be obliged to manage pension assets in accordance with an asset management agreement and a detailed investment guideline approved by the Investment Board, which shall be prepared on the basis of an investment policy document. An asset management company and persons employed by an asset management company, which have discretionary powers in relation to pension assets, shall be fiduciaries for the purposes of this Law.

3. An asset management company that is a legal person registered in Georgia shall have a licence issued in accordance with the legislation of Georgia. Such an asset management company shall meet the following requirements:

- a) it shall have continuously carried out activities for the past 3 years, and insolvency proceedings or licence suspension or revocation procedures shall not be pending against it;
- b) it shall not be a person affiliated with the specialised depository selected by the Pension Agency, with a member the Supervisory Board or a member of the Investment Board;
- c) it shall not borrow funds from or lend funds to a specialised depository or a person affiliated with a specialised depository.

4. The National Bank shall be authorised to establish a minimum allowed rating and/or additional requirements for an asset management company registered in Georgia.

5. An asset management company that is registered outside Georgia shall meet the following requirements:

- a) it shall be licensed by a relevant regulator of the state where it is registered. The National Bank shall establish a minimum allowed credit rating for asset management companies registered outside Georgia;
- b) it shall have continuously carried out activities for the past 10 years, and insolvency proceedings or licence suspension or revocation procedures shall not be pending against it;



c) it shall not be a person affiliated with the specialised depository selected by the Pension Agency, with a member the Supervisory Board or a member of the Investment Board;

d) it shall not borrow funds from or lend funds to a specialised depository or a person affiliated with a specialised depository;

e) it shall have at least 3 years of experience of managing the accumulated assets of third persons (private and institutional).

6. The National Bank shall be entitled to establish additional requirements for an asset management company registered outside Georgia.

7. The Investment Board shall select one or more asset management companies through transparent selection procedures. The Investment Board shall establish the procedures and criteria for selecting asset management companies.

8. The pension assets stored with an asset management company in accordance with this article shall not be the property of the asset management company, they shall not be used for the purposes of fulfilling the obligations of the asset management company, they shall not be part of the assets of the asset management company to which insolvency procedures may apply, and they shall not be subject to any settlement procedures.

Article 29 - Right to select an asset management company (companies)

1. An employee, who remains a participant by virtue of the right provided for by Article 22 of this Law, as well as a self-employed person who voluntarily joins a funded pension scheme, shall have the right to select an asset management company (companies) for managing the full amount or part of the pension assets and/or pension contributions available in his/her individual retirement account.

2. In addition to a participant provided for by paragraph 1 of this article, any other participant shall have the right to select an asset management company (companies) for managing only part of the pension assets available in his/her individual retirement account that have been accumulated from the amount received as a taxable annual salary that exceeds GEL 60 000.

3. If a participant does not exercise a right as granted under paragraphs 1 and 2 of this article, his/her pension assets shall be invested by the Pension Agency in accordance with the procedure established by this Law.

4. The National Bank shall establish the eligibility criteria for asset management companies, in relation to the asset management companies defined in this article.

5. The Pension Agency shall, in accordance with the criteria established by the National Bank, determine the list of asset management companies which shall have an opportunity to manage the pension assets provided for by this article.

6. A participant shall select an asset management company by means of remote electronic access or on the basis of an application developed by the Pension Agency, which he/she shall complete and submit in writing.

7. The Pension Agency shall determine the procedures and conditions for transferring pension assets for management to an asset management company, and the maximum amount of service fee and the periodicity of transferring pension assets.

8. Asset management companies and investments shall be subject to an investment policy document and the provisions of this Law that are related to the investment of pension assets.

9. If a participant selects an asset management company in accordance with this article, the asset management company shall transfer the pension assets for storage to a specialised depository, which shall not be a person affiliated with the asset management company and shall meet the requirements established by this Law.

Article 30 - Direct investment in open-end fund instruments by the Investment Board and/or an asset management company

1. The Investment Board and/or an asset management company shall be authorised to make a decision on investing pension assets in open-end fund instruments within the scope of its (their) fiduciary duty.

2. Each pension asset within an open-end fund instrument shall meet the minimum requirements established by this Law and the investment policy document.

3. An investment made in an open-end fund instrument shall not exceed 40 % of the pension assets at the end of each reporting year.

4. The Investment Board and/or an asset management company shall select one or more open-end fund instruments on the basis of the comparison, through a transparent procedure, of the conditions of the standard prospectus of open-end fund instruments. The legislation of Georgia on public procurement shall not apply to the said selection process.

5. An open-end fund instrument, which will be used by the Pension Agency for investment, shall be licensed by a relevant regulator.

6. The National Bank shall establish a minimum allowed credit rating for open-end fund instruments.

7. The Investment Board shall consider an issue of selection of an appropriate specialised depository for the open-end fund instrument, to safeguard the pension assets of participants. The requirements determined by this Law for specialised depositories shall not apply to the pension assets that are invested in open-end fund instruments.

8. The Pension Agency or an asset management company acting on behalf of the Pension Agency may execute a standard signature document with an open-end fund instrument, which shall determine the issue of remuneration of the open-end fund instrument and the procedure for calculating the



percentage proportion of total pension assets in relation to its expenses and the relevant investment.

9. The restriction on investment in the securities of one issuer shall not apply to investment in one open-end fund instrument, provided that the investment policy of this open-end fund instrument requires diversification that meets the requirements established by this Law.

Article 31 - Annual reports for participants

1. The Pension Agency shall, at least once a quarter, provide a participant with information on the total value of the pension assets available in his/her individual retirement account, which shall indicate the dates of making pension contributions and the return on investment. This information may be provided in electronic form. The procedure and form of providing information to participants shall be determined by the Pension Agency in accordance with the legislation of Georgia.

2. Upon the request of a participant, the Pension Agency shall be obliged to provide the participant with written information on the value of total pension assets available in his/her individual retirement account.

Article 32 - Payment of pensions at retirement age

1. A participant, after he/she reaches retirement age, shall be entitled to receive the value corresponding to the total pension assets available in his/her individual retirement account, by means of a lump-sum payment or a programmed withdrawal.

2. A participant, after he/she reaches retirement age, shall also be entitled to apply to the Pension Agency to acquire an insurance annuity product with the pension assets available in his/her individual retirement accounts, for the purpose of receiving a pension.

3. The Pension Agency shall be entitled to determine another form of issuing to the participant, as a pension, the pension assets available in his/her individual retirement account and provide the participants with this form.

4. A participant shall be entitled to receive the total amount of the value of the pension assets from his/her individual retirement account, if he/she reached the retirement age no later than 5 years after the date of commencement of making pension contributions.

5. The pension Agency shall determine the minimum limit of the value of total pension assets, within which a participant shall be entitled to receive a pension by means of a lump-sum payment.

6. A participant shall receive the total amount of money corresponding to the pension assets available in his/her individual retirement account after he/she has notified the Pension Agency, in accordance with the procedures established by this article, of the desire to receive the pension assets.

7. The Supervisory Board shall, on the basis of statistical data on life expectancy, approve the procedures and conditions for determining the periodicity of programmed withdrawals for the purpose of issuing pension assets to participants who did not withdraw pension assets in accordance with paragraph 4 of this article.

8. In order to calculate the amount of money to be paid through programmed withdrawal, the value of the total pension assets available in the individual retirement account of a participant at the time of retirement shall be divided by the remaining life expectancy of the participant, which shall be based on the data of the Legal Entity under Public Law called the National Statistics Office of Georgia on the age distribution and life expectancy of the population.

9. The amount of money to be paid through programmed withdrawal shall be calculated annually, in the month when the age of the participant changes. The schedule of payments shall not be different on the grounds of the state of health, race, religious beliefs, gender, or nationality of a participant or any other discriminatory grounds.

10. The Pension Agency shall notify a participant in writing of the approaching of his/her retirement age 6 months before the retirement age and shall ensure his/her access to the standard application form.

11. A participant who decides to retire when he/she reaches retirement age shall be obliged to notify the Pension Agency of the decision in writing, and request at least 30 calendar days before reaching the retirement age that the payment of pension start after he/she reaches retirement age.

12. A participant shall be entitled to postpone the date of retirement and request a pension at any time after reaching retirement age. In such case, the participant shall notify the Pension Agency in writing of the date of his/her retirement, 30 days before such date.

13. After a participant reaches retirement age, the employer and the State shall make pension contributions in favour of the participant, provided that the participant makes pension contributions to the Pension Agency.

14. If the participant decides to retire after reaching retirement age, he/she may, on the basis of an application, stop making pension contributions from salary. The participant may not continue making pension contributions after he/she starts receiving pension.

15. The Pension Agency shall start paying a pension from the individual retirement account of a participant no later than 30 calendar days after receiving notification of the date of the retirement of the participant.

16. The Pension Agency shall periodically compare and verify the data and, if it identifies a discrepancy, make appropriate adjustments to the pension assets available in an individual retirement account. The Pension Agency may request that a participant return any amount of money paid to him/her by mistake.

17. The Pension Agency shall determine the procedure and form for determining and recording the participants and their heirs who require representatives and/or guardians in accordance with the legislation of Georgia.



Article 33 - Payment of pension in the case of the disability of a participant

1. A participant shall be entitled to receive a pension before reaching retirement age due to his/her disability, provided that he/she is granted an appropriate status in accordance with the legislation of Georgia. In this case, the participant shall receive a pension in one of the forms provided for by Article 32(1) and (2) of this Law.
2. The Pension Agency shall determine the forms and procedures on the basis of which a participant shall exercise the right granted under this article and request a pension before he/she reaches retirement age.

Article 34 - Transferring pension assets to the heir of a participant

1. If a participant dies, the amount corresponding to the pension assets available in his/her individual retirement account shall be transferred to his/her heir (heirs) in accordance with the procedures determined by this Law and other legislative and subordinate normative acts of Georgia.
2. Pension assets may be transferred by means of a lump-sum payment or by transferring the pension assets to the individual retirement account of the heir of a participant, according to the choice of the heir. If the heir of a participant chooses a lump-sum payment, the amount to be transferred to him/her shall be taxed in accordance with the legislation of Georgia.
3. The heir of a participant shall submit a claim to the Pension Agency in accordance with the rules (procedures) approved by the Pension Agency.
4. After receiving every all claims from the heir of a participant, the Pension Agency shall adopt documents confirming the legitimacy of his/her claims and shall make a decision on transferring the pension assets to the heir of the participant.
5. The Pension Agency may request the return of any amount of money if it is established that it was transferred to an heir of a participant by mistake.

Chapter VI - Breach of Fiduciary Duty and its Consequences

Article 35 - Breach of fiduciary duty

1. A fiduciary shall manage pension assets only in the interests of participants and their heirs, with due consideration of the requirements established by this Law. Protecting other interests shall be a breach of fiduciary duty. A fiduciary, when performing his/her/its duties, shall be obliged to:
 - a) act in good faith;
 - b) act with the care that a reasonably prudent person would exercise in a similar position and under similar circumstances;
 - c) act with the belief that his/her/its actions are in the best interest of the owners of the pension assets.
2. If a fiduciary does not have the knowledge necessary to make a decision, or the capacity to conduct an expert examination, he/she shall seek an opinion on this matter from a specialist with appropriate qualifications in the relevant field.
3. A breach of fiduciary duty shall be a violation by a fiduciary only of the obligation provided for by this article, including the use of pension assets in his/her/its own interests or in the interests of affiliated persons, or concluding a transaction in relation to pension assets with a party affiliated with the fiduciary.
4. An action of a fiduciary performed in the process of carrying out investment activities in compliance with the requirements established by this article shall not be a breach of fiduciary duty, irrespective of its consequences.
5. Liability as provided for by the legislation of Georgia shall be imposed on a person for breaching fiduciary duty.

Article 36 - Consequences of a breach of fiduciary duty

1. The Pension Agency may request a fiduciary to compensate for damage caused by their breach of fiduciary duty.
2. The compensation for damage caused by a breach of fiduciary duty shall be regulated by the legislation of Georgia.
3. The funds recovered as a result of compensation for damage caused by a breach of fiduciary duty shall be transferred to the individual retirement account of the respective participant or his/her heir, in proportion to the damage caused by the breach of fiduciary duty.

Article 37 - Interference by an employer in the process of the joining by an employee of a defined contribution scheme and the failure of an employer to pay the pension contributions of a participant and own pension contributions to the Pension Agency

1. Interference by an employer in the process of the joining by an employee of a defined contribution scheme in the Pension Agency shall be a violation of this Law.



2. The failure of an employer to pay the pension contributions of a participant and own pension contributions to the Pension Agency shall be a violation of this Law and shall result in the imposition of an administrative penalty.

Chapter VII - Transitional and Final Provisions

Article 38 - Transitional provisions

1. By 15 August 2018, the Government of Georgia shall ensure the approval of the statute of the Legal Entity under Public Law called the Pension Agency.
2. By 15 September 2018, the Supervisory Board shall ensure the appointment of a director of the Legal Entity under Public Law called the Pension Agency in accordance with the procedure established by this Law.
3. By 1 December 2018, the National Bank shall ensure the adoption of the legal acts provided for by this Law.
4. By 1 December 2018, the Legal Entity under Public Law called the Pension Agency shall ensure the adoption of the legal acts provided for by this Law.
5. The Supervisory Board shall be deemed duly constituted consisting of three members before a chairperson of the Investment Board is elected.
6. The first chairperson of the Supervisory Board shall be elected by the Government of Georgia.
7. One hundred per cent of the budget of the Pension Agency for the first three years shall be financed from the State Budget of Georgia. The expenses of the Pension Agency for the following 10 years shall not exceed 0.5 % of the pension assets, and after this period elapses, 0.25 %.
8. The Parliament of Georgia shall elect two members of the first composition of the Investment Board provided for by Article 12(1) of this Law for a period of 3 years.
9. Within 5 years of the entry into force of this Law, pension assets shall be invested only in a low-risk investment portfolio.
10. Within 5 years of the entry into force of this Law, the limit for the investment of pension assets (except for financial resources and bank deposits) in the securities issued by one issuer referred to in Article 27(21) shall be 15%.
11. The activities of the Selection Commission shall be financed from the State Budget of Georgia in the first year.
12. Within 9 months of the entry into force of this Law, the Ministry of Finance of Georgia shall submit to the Government of Georgia a package of legislative amendments related to the indexation of state pensions, to ensure the maintenance of the wage replacement rate.
13. The Government of Georgia shall determine a procedure defined in this Law for ensuring the fulfilment of an obligation provided for by the funded pension scheme, to be fulfilled in 2019 with respect to the funding contributions to be made in the scheme by the State, as well as the co-funding contributions by an employer in the case of persons employed in budgetary organisations.

Article 39 - Entry into force of this Law

1. This Law, except for Articles 7, 21 and 29, shall enter into force upon its promulgation.
2. Articles 7 and 21 of this Law shall enter into force on 1 January 2019.
3. Article 29 of this Law shall enter into force on 1 January 2021.

President of Georgia

Giorgi Margvelashvili

Kutaisi

21 July 2018

No 3303-ᄁᄁ

