

Order №89
of the Head of Insurance State Supervision Service of Georgia
December 26, 2024
Tbilisi
On the Approval of the Rule on Investment of Pension Assets

Pursuant to paragraph 9 of Article 7 of Organic Law of Georgia “On Normative Acts”, subparagraph “h” of paragraph 3 of Article 51 and subparagraph “a” of Article 58 of Law of Georgia “On Voluntary Private Pension” and subparagraph “k” of Article 3, paragraph 3 and paragraph 4¹ of Article 4 of the Statute of LEPL Insurance State Supervision Service of Georgia approved by the Decree №102 of May 2, 2013 of the Government of Georgia, **I hereby order:**

Article 1

The attached “Rule on Investment of Pension Assets” shall be approved as presented here.

Article 2

This order shall enter into force from January 1, 2025.

Acting Head of LEPL

Insurance State Supervision Service of Georgia

Irakli Tutarashvili

Rule of Investment of Pension Assets

Article 1. General provisions

1. “Rule of Investment of Pension Assets” (hereinafter – the Rule) sets forth the rules for investing pension assets when carrying out voluntary private pension activities on the territory of Georgia.
2. Asset management company, insurer and pension company (hereinafter – founder of pension scheme) shall carry out the investment of pension assets in accordance with the types of assets eligible for investment, directions, investment limits and the rules on concentration and diversification towards them outlined in this Rule.
3. Investment policy of the founder of pension scheme shall be in compliance with the requirements set out in this Rule and shall take into consideration long-term best interests of the participants and beneficiaries by adhering to principles of sound investment.
4. Requirements (restrictions) related to investment laid down in this Rule do not apply to investments made in government securities.

Article 2. Definition of terms

1. For the purposes of this Rule, the terms used herein shall have the following meaning:
 - a) Eligible foreign country for investment – countries determined by the legal act of Insurance State Supervision Service of Georgia (hereinafter – the Service) where pension schemes are appropriately regulated, as well as Hong Kong – the special administrative region of the People’s Republic of China, the Republic of Singapore and the United Arab Emirates;
 - b) Investment portfolio - the collective amount of pension assets of pension scheme participants that has a defined investment risk profile and is managed according to a specific investment strategy;
 - c) Pension scheme currency – the currency defined by pension scheme rules and agreed between the parties in private pension agreement in which pension contributions are made by pension scheme participants and pension assets are managed in accordance with the provisions outlined in the Law of Georgia “On voluntary private pension”.
 - d) Other currency – any currency, other than the pension scheme currency.
 - e) Recognized foreign stock exchange – stock exchange included in the list approved by the corresponding legal act of the Governor of the National Bank of Georgia.

2. Other terms used in this Rule have the meanings defined in the Law of Georgia “On Voluntary Private Pension”, Law of Georgia “On Investment Funds” and in legislation on securities.

Article 3. Types of assets eligible for investment

The following types of assets are eligible for investment of pension assets:

- a) Cash and cash equivalents;
- b) Debt securities;
- c) Equity securities;
- d) Other assets.

Article 4. Cash and cash equivalents

1. Cash and cash equivalents are a type of assets that are placed in commercial banks licensed/authorized by National Bank of Georgia/the relevant authority of foreign country permitting investment, against which no insolvency proceedings are underway, their license or authorization is not revoked/suspended and to which the resolution regime provided by relevant legislation does not apply.
2. Cash and cash equivalents consist of cash placed in current accounts of commercial banks defined in paragraph 1 of this Article, deposits and certificates of deposit having less than 90 days remaining until their maturity date (C1), as well as deposits and certificates of deposit having 90 days or more remaining until their maturity date (C2).

Article 5. Debt securities

Debt securities are a type of assets consisting of:

- a) debt securities issued by Georgia or foreign country eligible for investment, guaranteed by respective country, provided that they meet credit rating requirements specified in Article 8 of this Rule (D1);
- b) securities issued by a municipality (local government) or government agencies, if they are duly guaranteed by the government of Georgia/a foreign country eligible for investment, as well as debt securities issued by international financial institutions, provided that they meet the of credit rating requirements specified in Article 8 of this Rule (D2);

- c) mortgage-backed securities issued by commercial banks licensed/authorized by the relevant authority of Georgia or a foreign country eligible for investment, provided that they meet the credit rating requirements specified in Article 8 of this Rule (D3);
- d) corporate debt securities issued through public offering on the relevant regulated markets of Georgia or a foreign country eligible for investment, provided that they meet the credit rating requirements specified in Article 8 of this Rule (D4);
- e) corporate debt securities issued through a private offering on the relevant regulated markets of Georgia or a foreign country eligible for investment, provided that they meet the credit rating requirements specified in Article 8 of this Rule (D5);
- f) securitization instruments issued through a private or public offering on the relevant regulated markets of Georgia or a foreign country eligible for investment, provided that they meet the credit rating requirements specified in Article 8 of this Rule (D6).

Article 6. Equity securities

Equity securities are a type of assets consisting of:

- a) shares of enterprises or global depositary receipts, which are issued through a public offering and are traded on a licensed stock exchange in Georgia and/or on a Recognized Foreign Stock Exchange (E1);
- b) shares of enterprises or global depositary receipts provided that the terms of the issue set out the obligation to list them on a licensed stock exchange in Georgia or on a Recognized Foreign Stock Exchange within six months of their issuance (E2).

Article 7. Other assets

Other assets are a type of assets consisting of:

- a) units of an open-end investment fund licensed/authorized/registered/recognized by the National Bank of Georgia or the relevant body of a foreign country that is allowed for investment, or investment fund units that is traded on a stock exchange licensed in Georgia or on Recognized Stock Exchanges of a foreign country (O1);
- b) units of an investment fund licensed/authorized/registered/recognized by the National Bank of Georgia or the relevant body of a foreign country eligible for investment, which are not provided for in subparagraph “a” of this Article (O2);

c) co-participation in a loan co-financed by international financial institutions or two or more commercial banks (O3).

Article 8. Credit rating requirements

1. Financial instruments specified in Article 5 of this Rule or the issuer of such financial instruments in which pension assets can be invested, except for the cases specified in paragraph 2 of this Article, must have a publicly available current credit rating higher than “BBB-”/“Baa3”, assigned by one of the following international rating agencies: Standard & Poors (S&P), Moody's or Fitch. If the credit ratings assigned by these international rating agencies are different, the average of all the ratings shall be taken into account.

2. In the case of a financial instrument specified in Article 5 of this Rule issued by a resident issuer in Georgia – the credit rating of the financial instrument or the issuer shall not be two notches below than the sovereign credit rating of Georgia, but not less than CCC, which shall be assigned by the international rating agencies specified in paragraph 1 of this Article or Scope Ratings.

3. In the case of placing cash (or their equivalents) in commercial banks licensed/authorized by the regulator of a foreign country for investment, the commercial bank shall have a credit rating of at least “A-” or “A3” assigned by the international rating agency specified in paragraph 1 of this Article.

4. The credit rating requirement specified in paragraph 2 of this Article also applies to commercial banks licensed in Georgia in which pension fund assets are invested (cash placement), except for the cases specified in subparagraph "a" of Article 9 of this Rule.

Article 9. Investment limits and concentration and diversification rules

In order to ensure compliance with the requirements of the Law of Georgia on “Voluntary Private Pension”, to ensure diversification of the pension fund and to avoid undue concentration in any specific asset, issuer, or a group of enterprises, the maximum allowable investment limits for the types of assets specified in Article 3 of this Rule are determined as follows:

a) For cash and cash equivalents, as well as for debt securities – up to 100% of pension assets, subject to the following limits:

a.a) no more than 25% of pension assets in the C1 and C2 direction for each commercial bank or subsidiary commercial bank. The amount placed in commercial banks not having a minimum

rating specified in Article 8 of this Rule shall not exceed 10% of total pension assets. In addition, at least 5% of pension assets shall always be in the C1 asset;

a.b) D1 direction – no more than 30% of pension assets per one issuer;

a.c) D2 direction – no more than 20% of the total amount of pension assets may be placed, while holding more than 30% of the total investment in financial instruments issued by single issuer is not permitted;

a.d) D3 direction – it is allowed to place no more than 30% of the total amount of pension assets. In addition, it is not allowed to hold more than 30% of the total investment in financial instruments issued by single issuer;

a.e) D4 direction – it is allowed to place no more than 30% of the total amount of pension assets;

a.f) D5 direction – it is allowed to place no more than 10% of the total amount of pension assets;

a.g) D4 and D5 directions– it is allowed to place no more than 10% of the total amount of pension assets in a single issuer, and in addition, it is not allowed to hold more than 30% of the total investment in financial instruments issued by single issuer;

a.h) D6 direction– it is allowed to place no more than 20% of the total amount of pension assets. In addition, it is allowed to place no more than 10% of the total amount of pension assets in a single issuer. It is not allowed to hold more than 20% of the total investment financial instruments issued by one issuer.

b) For equity securities – up to 60% of pension assets, subject to the following limits:

b.a) E1 direction – it is allowed to place no more than 60% of the total amount of pension assets;

b.b) E2 direction – it is allowed to place no more than 10% of the total amount of pension assets;

b.c) E1 and E2 directions – it is permissible to place no more than 10% of the total amount of pension assets in a single issuer, and, in addition, it is not permissible to own more than 30% of the total investment in financial instruments issued by a single issuer.

c) For other assets – up to 50% of pension assets, subject to the following limits:

c.a) O1 direction – it is allowed to place no more than 30% of the total amount of pension assets; in each fund, it is allowed to place no more than 10% of the total amount of pension assets; in addition, it is not allowed to hold more than 30% of the volume of the fund/sub-fund;

c.b) O2 direction – it is allowed to place no more than 15% of the total volume of pension assets; in each fund, it is allowed to place no more than 5% of the total volume of pension assets; in addition, it is not allowed to hold more than 30% of the volume of the fund/sub-fund;

c.c) O3 direction – it is allowed to place no more than 20% of the total amount of pension assets. In addition, it is not allowed to lend more than 10% of the total amount of pension assets to each borrower while co-participation in the loan shall not exceed 25% of the total loan.

d) The investment fund/sub-fund, the portfolio of which consists of at least 80% of D1 or D4 or D6 or E1 assets specified in this Rule, shall be subject to the requirements and limits established for the respective assets;

e) In the case of a financial instrument specified in Article 5 of this Rule issued by a Georgian resident issuer, no more than 10% of the total pension assets may be placed if the credit rating of the financial instrument or the issuer is one notch below than Georgia's sovereign credit rating, and if the credit rating is two notches below Georgia's sovereign rating, the allocation shall not exceed 2% of the total pension assets.

Article 10. Currencies and currency limits

1. The native currency of the pension scheme, as determined by the rules of the pension scheme, may only be:

- a) Georgian lari;
- b) US dollar;
- c) Euro.

2. The investment policy of pension assets may provide for the investment of no more than 60% of pension assets in a currency other than the native currency of the pension scheme.

Article 11. Rules for compliance with limits and requirements

1. Each pension scheme may have one or more investment portfolios and for each of them there shall be an investment policy document.

2. The limits provided for in Articles 9 and 10 of this Rule shall apply to each investment portfolio of the pension scheme.

3. When calculating currency limits, only open (unhedged) positions shall be considered.

4. The removal of a country from the list of foreign countries eligible for investment provided for in this Rule, where pension assets have already been invested, shall not automatically entail a violation of the requirements of this Rule. The above approach shall also apply to changes in credit

ratings established by this Rule. In the cases provided for in this paragraph, the Service is authorized to issue additional instructions.

Article 12. Assets prohibited for investment

It is prohibited to invest pension assets in:

- a) intellectual property, physical assets that are not registered on an organized market and having publicly unknown value, including antiques, works of art, coins and vehicles;
- b) options, futures and forwards and other contracts and financial assets related to securities, except for derivatives used in a hedging strategy to reduce risks without increasing open positions.
- c) other private equity securities/shares, except for those permitted by this Rule;
- d) the property of any person closely related to the founder of the pension scheme or the manager of pension assets or a member of their governing body and/or in equity securities issued by them.

Article 13. Breaches in limits

1. When making an investment, any investment decision must comply with the requirements of the Law of Georgia on “Voluntary Private Pension” and this Rule and the Investment Policy Document, except for the case when the investment portfolio exceeds/violates the limits/requirements specified in this Rule and this is not caused by a new investment decision (possibly due to unexpected market fluctuations). In this case, the pension asset manager and/or the pension scheme founder must immediately notify the Service in writing upon discovery of the violation. The notification must include detailed information about the violation, including the reason for the violation, the current situation and the measures taken/to be taken to eliminate it.
2. Any breach of the defined limit shall be corrected no later than six months from the first notification to the Service, unless a shorter period is requested by the Service in a particular case.
3. The pension asset manager and/or the pension scheme founder shall submit to the Service monthly updates on the status of the rectification of the breach from the first notification of the breach.
4. The pension scheme founder shall, in exceptional cases, be entitled to apply to the Service for an extension of the rectification period if, due to market conditions or other valid reasons, it is impossible to rectify the breach within the standard six-month period.

5. The request referred to in paragraph 4 of this Article shall include the precise period for the extension and a justification for the extension in a manner that allows for its verification. In addition, a detailed plan for eliminating the breach must be submitted, indicating relevant deadlines. Approval is a discretionary power of the Service and shall be issued only if the Service considers that it will benefit the stability of the pension scheme and the interests of the scheme participants.

6. The Service is authorized to issue the approval provided for in paragraph 5 of this Article on the condition that updated information is submitted to it more frequently or other monitoring measures are used, which the Service considers appropriate or necessary for the purpose of protecting the stability of the pension scheme and the interests of its participants.

Article 14. Investment Choice

1. The investment policy document of the investment portfolio shall clearly define the types, directions and currencies of assets in which pension assets may be invested. The investment policy document shall also provide for the target allocation of assets among these types, directions and currencies.

2. In the event that a pension scheme has more than one investment portfolio, the rules of the pension scheme shall provide for the right of the participant, upon joining the pension scheme or at any stage of participation in the pension scheme, to decide/change which investment portfolio is most suitable for his risk tolerance (investment choice). The frequency of changing the investment choice shall not be more than once every twelve months.

3. If, in the case provided for in paragraph 2 of this Article, the participant does not make an investment choice, the rules of the pension scheme shall provide for the default allocation of such participant's pension assets into the appropriate investment portfolios. The default allocation shall take into account the participant's age and the riskiness of the investment portfolio. In addition, the aforementioned rule shall provide for the allocation of the participant's pension assets from a high-risk investment portfolio to a lower-risk investment portfolio (as the retirement age approaches). The procedure for default allocation of pension assets of participants by age or age cohort provided for in this paragraph shall be described in the rules of the pension scheme. Default allocation shall become ineffective/will terminate if the participant makes an investment choice.

4. When making an investment choice or default allocation, it is not permitted to transfer/allocate part of the participant's pension assets to an investment portfolio. The investment policy document may establish the procedure for transferring/allocating pension assets when making an investment choice or default allocation.

5. The investment choice shall not be changed without the participant's consent.

Article 15. Consequences of failure to comply with the requirements established by this Rule

For failure to comply with the requirements established by this Rule by a pension company and insurer, the Service is authorized to apply sanctions established in accordance with the Law of Georgia "On Voluntary Private Pension".