

**L A W**  
**ON THE CAPITAL MARKET**

**IN THE EVENT THERE MAY BE DISCREPANCIES WHICH ARISE BETWEEN THE SERBIAN AND ENGLISH VERSIONS  
OF THE DOCUMENT, THE SERBIAN VERSION IS THE LEGALLY BINDING DOCUMENT.**

## **I. BASIC PROVISIONS**

### **Objectives and application**

#### **Article 1**

This Law shall regulate the following:

- 1) The public offering and secondary trading of financial instruments;
- 2) The regulated market, multilateral trading facility (hereinafter: MTF) and OTC markets in the Republic of Serbia (hereinafter the Republic);
- 3) The provision of investment services and activities, including the licensing and regulation of investment firms and other capital market participants as defined in this Law;
- 4) The financial and non-financial disclosure and reporting obligations of issuers and public companies as defined in this Law;
- 5) The prohibition of fraudulent, manipulative and deceptive acts and unlawful practices in connection with the purchase and sale of financial instruments, and the voting of securities issued by public companies;
- 6) Clearing, settlement and registration of transactions in financial instruments and the organization and competencies of the Central Securities Depository and Clearing House (hereinafter – Central Depository).
- 7) The organization and competencies of the Securities Commission (hereinafter: the Commission)

The objectives of this Law are:

- 1) The protection of investors;
- 2) Ensuring that the capital market is fair, efficient and transparent;
- 3) The reduction of systemic risk on the capital market.

### **Definition of Terms**

#### **Article 2**

Specific terms, in the context of this Law, shall have the following meanings:

- 1) Financial instruments are:
  - (1) Transferable securities;
  - (2) Money-market instruments;
  - (3) Units in collective investment undertakings;
  - (4) Options, futures, swaps, forward rate agreements and other derivatives relating to securities, currencies, interest rates or yields, or other derivative instruments, financial indices or financial measures which may be settled physically or in cash;
  - (5) Options, futures, swaps, forward rate agreements and other derivative financial instruments relating to commodities that:
    - Must be settled in cash,
    - May be settled in cash at the option of one of the parties, otherwise than by reason of a default or termination of agreement;
  - (6) Options, futures, swaps, and any other derivative financial instruments relating to commodities that can be physically settled provided that they are traded on a regulated market and/or a MTF;
  - (7) Options, futures, swaps, and any other derivative financial instruments relating to commodities that can be physically settled provided that they are not mentioned in sub-point (6) of this point and:
    - Which do not have commercial purposes,
    - Which have the characteristics of derivative financial instruments having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls;
  - (8) Derivative financial instruments for the transfer of credit risk;
  - (9) Financial contracts for difference;

(10) Options, futures, swaps, forward rate agreements and any other derivative financial instruments relating to climatic variables, freight rates, inflation rates, emission allowances or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative financial instruments relating to assets, rights, obligations, indices and measures not otherwise mentioned in this point, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognized clearing houses or are subject to regular margin calls;

2) Transferable securities means those classes of securities which are negotiable on the capital market, with the exception of instruments of payment. Transferable securities shall especially include:

(1) Shares in companies or other securities equivalent to shares in companies, which represent a holding in capital or voting rights of the company, and depositary receipts in respect of shares;

(2) Bonds or other forms of securitized debt, including depositary receipts in respect of such securities;

(3) Any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures;

3) Money-market instruments means those classes of instruments that are normally dealt in on the money market, such as treasury bills, commercial papers and certificates of deposit, excluding instruments of payment;

4) Investment firm means a person whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis.

5) Broker-dealer company means an investment firm whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis.

6) Authorized bank means an investment firm which is an organizational unit of a credit institution and whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis involving one or more financial instruments;

7) Credit institution means a person performing activities in accordance with the law governing banks i.e. credit institutions;

8) Investment services and activities relating to any of the financial instruments means:

(1) Reception and transmission of orders in relation to purchase and sale of financial instruments;

(2) Execution of orders on behalf of clients;

(3) Dealing on own account;

(4) Portfolio management;

(5) Investment advice;

(6) Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;

(7) Services pertaining to placing of financial instruments without a firm commitment basis;

(8) Operation of Multilateral Trading Facilities;

9) Ancillary services means:

(1) Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management;

(2) Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;

(3) Advice to companies on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of companies and similar issues;

(4) Foreign exchange services where these are connected to the provision of investment services;

(5) Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments;

(6) Services related to underwriting;

(7) Investment services and activities as well as ancillary services of the type included under point 1) sub-points (5), (6), (7) and (10) of this Article, related to the provision of investment services and activities or ancillary services;

10) Investment advice means the provision of personal recommendations to a client, either upon its request or at the initiative of the investment firm, in respect of one or more transactions relating to financial instruments;

11) Investment recommendation means investment research and financial analysis or other forms of general recommendation for the public within the meaning of Chapter VI of this Law that explicitly or tacitly recommends or suggests an investment strategy regarding one or more financial instruments and/or issuers;

12) Dealing on own account means trading against proprietary capital resulting in the conclusion of transactions in one or more financial instruments;

13) Market maker means an investment firm that holds himself out on the financial markets on a continuous basis as being willing to deal on own account by buying and selling financial instruments against his proprietary capital at prices defined by him;

14) Underwriter means investment firm that provides underwriting services regarding placing of financial instruments on a firm commitment basis;

15) Agent means investment firm that provides underwriting services regarding placing of financial instruments without a firm commitment basis;

16) Portfolio management means managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments;

17) Client means any natural or legal person to whom an investment firm provides investment and/or ancillary services;

18) Professional client means a client who possesses sufficient experience, knowledge and expertise to make its own investment decisions and properly assess the risk that it incurs and who meets the criteria laid down in this Law;

19) Market operator means a person or persons who manages and/or operates the business of a regulated market. The market operator may be the regulated market itself;

20) Regulated market means a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which has the license and functions regularly and in accordance with this Law;

21) Multilateral trading facility (MTF) means a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract in accordance with this Law;

22) OTC market means a secondary market for trading in financial instruments that is not required to have a market operator and whose trading system require negotiation between buyers and sellers of financial instruments for the conclusion of a transaction;

23) Execution of orders on behalf of clients means acting to conclude agreements to buy or sell one or more financial instruments on behalf of clients;

24) Clearing means the process of calculating the mutual obligations of a buyer and seller of financial instruments for the exchange of financial instruments and money.

25) Settlement means the completion of a transaction through final transfer of financial instruments and money between the buyer and the seller.

26) Management company means a management company as defined in the law governing investment funds;

27) Rating agency means an authorized legal person that provides assessments about the creditworthiness of an issuer and/or borrowers and their ability to meet their financial liabilities as scheduled, and according to a rating system set and clearly defined in advance;

28) Qualifying holding means any direct or indirect holding in an investment firm which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of the investment firm in which that holding subsists, in accordance with provisions of this Law;

29) Control means circumstances where:

(1) A parent undertaking:

- Has a majority of the shareholders' or members' voting rights in the subsidiary undertaking,

- Has the right to appoint or remove a majority of the board of directors or of the supervisory body of another undertaking (subsidiary undertaking) and is at the same time a shareholder in or a member of that undertaking;

- Has the right to exercise a dominant influence over an undertaking (subsidiary undertaking) pursuant to a contract entered into with that undertaking or to a provision in its memorandum of association or articles of association, where the law governing the subsidiary undertaking permits its being subject to such contracts or provisions;

(2) Parent undertaking is a shareholder in or a member of an undertaking and:

- Directly appoints majority of members in managerial and supervisory bodies of the subsidiary undertaking as a result of the exercise of its voting rights,

- Controls alone, pursuant to an agreement with other shareholders or members of the undertaking, a majority of the voting rights in the undertaking;

(3) The parent undertaking has a holding in a subsidiary undertaking and:

- Actually exercises a dominant influence over it; or,

- It and the subsidiary undertaking are managed on a unified basis;

(4) The parent undertaking may use other means in management and in formulation of the subsidiary company's policies;

30) Close links means a situation in which two or more natural or legal persons are linked by:

(1) Participation which means the ownership, direct or by way of control, of 20% or more of the voting rights or capital of an undertaking;

(2) Control which means the relationship between a parent undertaking and a subsidiary, in all the cases referred to in point 29) of this paragraph, or a similar relationship between any natural or legal person and an undertaking, any subsidiary undertaking of a subsidiary undertaking also being considered a subsidiary of the parent undertaking which is at the head of those undertakings;

(3) A control relationship to one and the same person permanently;

(4) Being family members;

31) Family members means:

(1) Spouses, and/or civil partners;

(2) Direct lineal descendants and ascendants indefinitely,

(3) Collateral kinsmen onto the third degree of kinship, including in-laws;

(4) Adopter and adoptees and descendants of adoptees;

(5) Foster parent and foster children and foster children's descendants;

32) Lawful holder of a financial instrument means the person in whose name the securities account is registered with the Central Depository, and in case of performance of activities referred to in point 9) sub-point (1) of this Article it means the person for whose account the financial instrument is kept on the securities account with the Central Depository;

33) Shareholder means any natural or legal person that directly or beneficially holds:

(1) Shares of the issuer in its own name and on its own account;

(2) Shares of the issuer in its own name, but on behalf of another natural person or legal person;

(3) Depository receipts in which case the persons holding the receipts shall be considered as shareholders of the underlying shares represented by the depository receipts;

34) Beneficial owner means a person who has the benefits of ownership of a financial instrument either entirely or partially, including the power to direct the voting or disposition of the financial instrument or to receive the economic benefits of ownership of that financial instrument, and yet does not nominally own the financial instrument itself;

35) Equity securities means shares and other transferable securities equivalent to shares in companies, as well as any other type of transferable securities giving the right to acquire any of the aforementioned securities as a consequence of their being converted or the rights conferred by them being exercised, provided that securities of the latter type are issued by the issuer of the underlying shares or by an entity belonging to the group of such issuer;

36) Debt securities means bonds or other forms of transferable securitized debts, with the exception of securities which are equivalent to shares in companies or which, if converted or if the rights conferred by them are exercised, give rise to a right to acquire shares or securities equivalent to shares;

37) Public offering of securities means a communication made in any form and by any means, presenting sufficient information on the terms of the offer and the securities to be offered, so as to enable an investor to decide to purchase or subscribe to these securities, this definition shall also be applicable to the placing of securities through financial intermediaries, i.e. underwriters and agents;

38) Issuer means a domestic or foreign legal person which issues or proposes to issue securities or other financial instruments, the issuer being in the case of depository receipts representing securities, the issuer of the securities represented. Issuer shall include:

(1) The Republic, autonomous provinces, local government units, legal persons which are budget beneficiaries and organizations of compulsory social insurance in the Republic;

(2) The National Bank of Serbia;

(3) Foreign governments, government authorities, central banks, international and supranational institutions such as the International Monetary Fund, European Central Bank, European Investment Bank and other similar international organizations;

39) Person making an offer (offeror) means a legal or natural person that offers securities or other financial instruments to the public.

40) Base prospectus means a prospectus containing all relevant information as specified in Articles 15, 16, 17 and 18 of this Law, as well as Article 33 concerning the issuer and the securities to be offered to the public or admitted to trading, and, at the choice of the issuer, the final terms of the offering;

41) Securities issued in a repeated manner means the issuance of securities in tranches or in at least two issuances of securities of a similar type and/or class within a 12 month period;

42) Offering program means a plan which permits the issuance of debt securities, including warrants in any form, of the similar type or class, in a repeated manner, during a specified period of time; 43) Public company means an issuer which meets any of the following requirements:

(1) That has successfully completed a public offering of securities in accordance with the prospectus the publication of which is granted by the Commission;

(2) Whose securities are admitted to trading on a regulated market, and/or MTF in the Republic;

44) Regulated information means all information which a public company, or an issuer who has applied for the admission of the issuer's securities to trading on a regulated market and/or MTF in the Republic, is required to disclose publicly under this Law, regulations under this Law, securities regulations in the Republic, or under the law regulating companies.

In the case of a public company whose securities are admitted to trading on a market outside the Republic, or whose securities are proposed to be offered publicly or admitted to

trading on a regulated market outside the Republic, regulated information shall also include all information that the public company or issuer is required to disclose publicly under the laws or regulations of the foreign country and the market in the country where such securities are admitted to trading or proposed to be offered publicly or admitted to trading;

45) Electronic means are means of electronic equipment for the processing (including digital compression), storage and transmission of data, employing wires, radio, optical technologies, or any other electromagnetic means;

46) Inside information means information of a precise nature which has not been made public, relating, directly or indirectly, to one or more issuers of financial instruments or to one or more financial instruments and which, if made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments;

47) Market manipulation shall mean transactions and trading orders which give, or are likely to give, false or misleading signals as to the supply of, demand for or price of financial instruments, or which secure, by a person, or persons acting in collaboration, the price of one or several financial instruments at an abnormal or artificial level, transactions or orders to trade which employ fictitious devices or any other form of deception or contrivance, as well as dissemination of information through the media, including the Internet, or by any other means, which gives, and/or is likely to give, false or misleading news that may result in misleading information as to financial instruments, including the dissemination of rumors and false or misleading news, where the person who made the dissemination knew, or ought to have known, that the information was false or misleading;

48) Statutory disqualification means any of the events or circumstances pertaining to a natural or legal person in breach of provisions of this or any other law or regulations adopted under these laws, where such event or circumstances pertain to a person that seeks, requires or holds a license or consent of the Commission, pursuant to provisions of this Law, if that person:

(1) Has been convicted by a final and enforceable judgment for criminal acts against labor, economy, property, judiciary, money laundering, terrorism financing, public order, legal transactions, official duty, or for a criminal act specified by this Law;

(2) Within the last ten years, the person has committed a serious or systemic violation of any provision of the law governing securities, takeovers, investment funds, voluntary pension funds, the law governing prevention of money laundering and terrorism financing, the laws regulating operations of banks, insurance companies, of the Commission regulations or regulations of the regulated market, MTF or the Central Depository, relating to or resulting in:

- False and misleading disclosure,
- Violation of the market abuse provisions of Chapter VI of this Law,
- Violation of professional secrecy obligations,
- Jeopardizing the interests of the participants in the financial market;

(3) Within the last ten years, the person has committed a serious or systemic violation of regulations referred to in sub-point (2) of this point, relating to or resulting in:

- Cessation of performance of duties of a director, general manager, employee or a licensed person in the Central Depository, market operator, regulated market or MTF, broker-dealer company, authorized bank, credit institution, insurance company, investment fund management company, voluntary pension fund management company, custody bank,

- Revocation of the consent to acquisition of qualifying holding in the capital of such persons;

(4) Within the last ten years the person has been the subject of any comparable sanction of violation or the person has been subject to a similar currently effective disqualification from service or other restriction under the laws or secondary legislation of any foreign country;

49) Director means a general manager or a member of the board of directors, executive board or a managerial or a supervisory board.

## **Exceptions**

### **Article 3**

The definition of “financial instrument” in Article 2.1) of this Law shall not apply to:

- 1) Insurance and reinsurance policies and other insurance products issued by insurance companies;
- 2) Financial instruments issued in relation to turnover of goods and services, such as a bill of exchange, check, written order (assignment), bill of lading, waybill or warehouse warrant;
- 3) Other documents relating to debt, money deposits or savings that do not have properties of financial instruments subject to this Law;
- 4) Shares in a general partnership, limited partnership or limited liability company organized pursuant to the law governing companies.

### **Article 4**

Chapters IX and X regulating investment firms shall not apply to:

- 1) Collective investment undertakings and their custody banks and management companies, except where otherwise specifically provided in this Law;
- 2) Persons which provide investment services:
  - (1) Exclusively for their parent undertakings, for their subsidiaries or for other subsidiaries of their parent undertakings; or
  - (2) In an incidental manner in the course of a professional activity and that activity is regulated by legal or regulatory provisions or a code of ethics governing the profession which do not exclude the provision of that service;
  - (3) Consisting exclusively in the administration of employee participation schemes;
  - (4) Which only involve both administration of employee participation schemes and the provision of investment services exclusively for their parent undertakings, for their subsidiaries or for other subsidiaries of their parent undertakings;
- 3) Persons who do not provide any investment services or activities other than dealing on own account unless they are market makers or deal on own account outside a regulated market or MTF on an organized, frequent and systematic basis by providing a system accessible to third parties in order to engage in dealings with them;
- 4) Persons providing investment advice in the course of providing another professional activity not covered by this Law provided that the provision of such advice is not specifically remunerated;
- 5) Members of the European System of Central Banks and other national bodies performing similar functions and other public bodies charged with or intervening in the management of the public debt;
- 6) Persons dealing on own account in financial instruments, or providing investment services in commodity derivatives or derivative contracts included in Article 2.1) sub-point (10) of this Law to the clients of their main business, provided this is an ancillary activity to their main business, when considered on a group basis, and that main business is not the provision of investment services within the meaning of this Law;
- 7) Persons whose main business consists of dealing on own account in commodities and/or commodity derivatives, provided that this exception shall not apply where the persons are part of a group the main business of which is the provision of other investment services covered by this Law;
- 8) Firms which provide investment services and/or perform investment activities consisting exclusively in dealing on own account on markets in financial futures or options or other derivatives and on cash markets for the sole purpose of hedging positions on derivatives markets or which deal for the accounts of other members of those markets or make prices for them and which are guaranteed by clearing members of the same markets, where responsibility for ensuring the performance of contracts entered into by such firms is assumed by clearing members of the same markets.



## **Article 5**

Provisions of this Law shall not apply to the Republic or the National Bank of Serbia, to trading in financial instruments whose issuer is the Republic or the National Bank of Serbia or non-standardized derivative financial instruments, unless otherwise specified by this Law.

Provisions of Chapter III of this Law regulating public offerings shall not apply to shares issued, sold or distributed in conformity with the law regulating privatization and the law regulating the right of citizens to free shares and financial compensation from the privatization procedure.

Shares referred to in paragraph 2 of this Article may be admitted to trading on a regulated market without the consent of the Commission provided the securities meet the other requirements of this law and rules for admission to trading on the regulated market or MTF.

The issuers of securities referred to in paragraph 5 of this Article shall be deemed public companies if they meet the public company requirements under Article 2.43) of this Law.

Provisions of this Law shall not apply to investment units of open-end investment funds unless otherwise specified by this Law.

## **II. GENERAL CHARACTERISTICS OF FINANCIAL INSTRUMENTS**

### **Transfer of rights arising from financial instruments**

#### **Article 6**

Financial instruments and the rights arising from financial instruments may be unlimitedly transferred in legal dealings, unless otherwise determined by this or another Law.

Transferable securities of a public company headquartered in the Republic issued or offered in the territory of the Republic, shall be issued and/or offered as dematerialized financial instruments.

### **Dematerialized Financial Instruments**

#### **Article 7**

Dematerialized financial instruments shall be registered as electronic records on securities accounts kept with the Central Depository, imparting to the lawful holder of the financial instrument specific rights in respect of the issuer.

The market operator shall prescribe conditions related to admission of derivative financial instruments to trading, trading rules and conditions and settlement of liabilities arising from transactions concluded in trading in those financial instruments i.e. clearing and settlement, after receiving the consent from the Commission.

### **Fundamental Particulars of Dematerialized Financial Instruments**

#### **Article 8**

A dematerialized financial instrument shall have the following fundamental particulars entered into the records of the Central Depository:

- 1) The indication of the type of the financial instrument;
- 2) Information about the issuer;
- 3) The total number of financial instruments issued;
- 4) The total nominal value of financial instruments issued, if measured in nominal terms;
- 5) The entry date of the financial instrument into the records of the Central Depository.

In addition to the particulars specified in paragraph 1 of this Article, a dematerialized share must also have the following fundamental particulars entered:

- 1) The indication of the class;
- 2) The nominal value or an indication of shares without nominal value;

- 3) Information about voting rights;
- 4) Special rights, if attached to the shares.

In addition to the particulars specified in paragraph 1 of this Article, a dematerialized bond or other debt security, based on which the holder is entitled to claim the payment of the principal and possible interest from the issuer shall have the following particulars entered as well, where applicable:

- 1) Its nominal value, the amount of the principal;
- 2) Interest rate and the schedule of interest payments, if the holder is entitled to interest;
- 3) Information about the maturity of issuer's liabilities arising from the security;
- 4) If the issuer has the right of early redemption:
  - (1) Details about the redemption price at which the right may be exercised or the manner of determining the redemption prices;
  - (2) Any other conditions for the exercise of the right;
- 5) The date of payment of principal or interest.

In addition to the particulars specified in paragraph 1 of this Article, dematerialized financial instruments convertible into or exchangeable for other financial instruments must contain the following particulars:

- 1) The right acquired upon the conversion;
- 2) The relationship enabling the conversion;
- 3) The manner of exercising the conversion rights;
- 4) The time period within which the conversion right is exercisable, if a time period is associated with the right;
- 5) Any other conditions for the exercise of the conversion right.

The Central Depository shall regulate in greater detail the particulars concerning financial instruments, the method used for numbering and recording identification numbers and the rights and obligations attached to the instrument.

Dematerialized financial instruments, other than those referred to in this Article shall have the exact content of the rights they confer entered in the Central Depository.

The Central Depository shall obtain from the issuers of financial instruments its records, a description of rights and obligations arising from the financial instrument, retain such information in its records, and it shall make such information publicly available on the website of the Central Depository.

The Central Depository shall have the authority to issue identification numbers for financial instruments in accordance with the international numbering and communication protocols.

## **Currency**

### **Article 9**

Except as otherwise provided in this Article, financial instruments issued and traded in the Republic, shall be expressed in Serbian dinars.

Depository receipts representing securities of a foreign issuer that are issued or publicly traded in the Republic shall be expressed and payments made in Serbian dinars.

Debt securities and money market instruments issued by domestic and foreign issuers may be expressed in dinars and in a foreign currency, in accordance with provisions of this Article.

Prior to the issuance of financial instruments expressed in a foreign currency, the issuer shall obtain the consent from the National Bank of Serbia.

The National Bank of Serbia shall regulate in greater detail the conditions for granting the consent referred to in paragraph 4 of this Article.

The decision concerning the grant of consent shall be final and binding, but administrative proceedings may be instituted against it.

The provisions of the law regulating public debt shall apply to issuance of financial instruments expressed in a foreign currency when the issuer is the Republic of Serbia,

autonomous province, local government units, legal persons that are budget beneficiaries and mandatory social insurance organizations in the Republic.

The provisions of the law regulating organization and competencies of the National Bank shall apply to issuance of securities expressed in foreign currency by the National Bank.

An issuer shall pay liabilities arising from its securities in the currency in which they are expressed.

### **Ownership Rights**

#### **Article 10**

Financial instruments, including the rights arising from them, may be acquired and disposed of by domestic and foreign natural and legal persons, unless otherwise provided by this Law or a separate law.

### **III PUBLIC OFFERING, ADMISSION TO TRADING, EXEMPTIONS**

#### **Obligation to Publish the Prospectus**

#### **Article 11**

It shall not be allowed to publish the prospectus prior to its approval pursuant to provisions of this Law.

It shall be unlawful for any person to allow any offer of securities to be made to the public within the Republic without prior publication of a prospectus, unless in cases regulated by provisions of this Law.

No admission of securities to a regulated market or to a MTF is allowed in the Republic unless a valid prospectus is published, except in the cases expressly prescribed by this Law

#### **Exceptions from the Obligation to Publish the Prospectus for Certain Public Offers**

#### **Article 12**

A public offering is allowed without prior publication of the prospectus in the following cases:

- 1) an offer of securities addressed solely to qualified investors;
- 2) an offer of securities addressed to fewer than 100 natural persons or legal entities in the Republic other than qualified investors;
- 3) an offer of securities addressed to investors who acquire securities for a total consideration of at least 50,000 euro per investor, for each separate offer;
- 4) an offer of securities whose denomination per unit amounts to at least 50,000 euro in RSD equivalent;
- 5) an offer of securities with a total consideration of less than 100,000 euro in RSD equivalent amount, whereas this amount shall be calculated over a period of 12 months;
- 6) public offer of shares issued in substitution for shares of the same class already issued, if the issuing of such new shares does not involve any increase in the base capital of the company;
- 7) a public offering of securities in connection with a takeover by means of an exchange offer, provided that a document is available containing information which is regarded as being
- 8) Securities offered, allotted or to be allotted in connection with a merger, provided that a document is available containing information which is regarded by the Commission as being equivalent to that of the prospectus, taking into account the requirements of the law governing companies;
- 9) Shares offered, allotted or to be allotted free of charge to existing shareholders, and dividends paid out in the form of shares of the same class as the shares in respect of

which such dividends are paid, provided that a document is made available containing information on the number and nature of the shares and the reasons for and details of the offer;

10) Securities offered, allotted or to be allotted to existing or former directors or employees by their employer which has securities already admitted to trading on a regulated market or by an affiliated undertaking, provided that a document is made available containing information on the number and nature of the securities and the reasons for and details of the offer.

Any subsequent resale of securities previously offered as exempt offerings referred to in paragraph 1 of this Article, shall be regarded as a separate offer and the offeror shall be under obligation to obtain approval for the publication of the prospectus, when according to this Law a prospectus is required.

The placement of securities through financial intermediaries shall be subject to publication of a prospectus if none of the conditions in paragraph 1, points 1) to 5) of this Article are met for the final placement.

### **Prospectus for admission of securities to a regulated market or MTF**

#### **Article 13**

A prospectus for admission of securities to trading on a regulated market or MTF shall include the entire class of such securities, including any securities that have been reserved for future issuance upon exercise or conversion of issued securities, such as options, warrants and convertible securities.

The obligation to publish a prospectus shall not apply to the admission to trading on a regulated market and/or MTF of the following types of securities:

1) Shares representing over a period of 12 months less than 10% of the total number of shares of the same class already admitted to trading on the same regulated market or MTF;

2) Shares issued in substitution for shares of the same class already issued, if the issue of the shares does not involve any increase in the issued capital;

3) Securities offered in connection with a takeover by means of an exchange offer, provided that a document is available containing information which is regarded by the Commission as being equivalent to that of the prospectus, taking into account the requirements of the law governing takeovers of joint stock companies;

4) Securities offered, allotted or to be allotted in connection with a merger, provided that a document is available containing information which is regarded by the Commission as being equivalent to that of the prospectus, taking into account the requirements of the law governing companies;

5) Shares issued to existing shareholders, involving an increase in the issued capital from the company's assets, or in other cases when shares are offered, allotted or to be allotted free of charge to existing shareholders, and dividends paid out in the form of shares of the same class as the shares in respect of which such dividends are paid, provided that a document is made available containing information on the number and nature of the shares and the reasons for and details of the offer;

6) Securities offered, allotted or to be allotted to existing or former directors or employees by their employer which has securities of the same class already admitted to trading on a regulated market or MTF or by an affiliated undertaking, provided that a document is made available containing information on the number and nature of the securities and the reasons for and details of the offer;

7) Shares resulting from the conversion or exchange of other securities, or from the exercise of the rights conferred by other securities, provided that the shares are of the same class as the shares already admitted to trading on the regulated market or MTF.

## **Qualified investors**

### **Article 12**

Qualified investors are:

1) Legal entities which are authorized or regulated to operate in the financial markets, including: Credit institutions, investment firms, other authorized or regulated financial institutions, insurance companies, collective investment schemes and their management companies, pension funds and their management companies, commodity dealers;

2) The Republic, autonomous provinces and local government authorities, national and regional governments, the National Bank of Serbia and central banks of foreign states, international and supranational institutions such as the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organizations;

3) Other legal persons which meet at least two of the three criteria according to the last annual financial statement or consolidated statement:

- (1) an average number of employees during the financial year of more than 250;
- (2) a total balance sheet exceeds EUR 43,000,000 in dinar equivalent;
- (3) an annual net turnover exceeding EUR 50,000,000 in dinar equivalent.

By way of exception to paragraph 1 of this Article, the Commission shall approve the status of a qualified investor to the following persons:

1) Legal persons which do not meet the criteria referred to in paragraph 1, point 3) of this Article, but meet at least two of the three criteria according to the last annual financial statement or consolidated statement:

- (1) an average number of employees during the financial year of more than 250;
- (2) a total balance sheet exceeds EUR 20,000,000 in dinar equivalent;
- (3) an annual net turnover exceeding EUR 25,000,000 in dinar equivalent;

2) Natural persons who meet at least two of the following criteria:

(1) the investor has carried out transactions of a significant size on financial markets at an average frequency of, at least, 10 transactions per quarter over the previous year and totaling EUR 50,000 per quarter;

(2) the size of the investor's securities portfolio exceeds EUR 500,000 in dinar equivalent;

(3) the investor works or has worked for at least one year in the financial sector in a professional position which requires knowledge of securities investment.

The Commission shall maintain the register of authorized qualified investors.

The Commission shall regulate in further detail the procedure for obtaining a status of a qualified investors and the keeping of the register of qualified investors.

## **Prospectus**

### **Article 15**

The prospectus shall contain all information which, according to the particular nature of the issuer and of the securities offered to the public or admitted to trading on a regulated market or MTF, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses, and prospects of the issuer and of any guarantor, and of the rights attaching to such securities.

Information contained in the prospectus shall be authentic, complete and consistently presented.

The information in a prospectus shall be presented in an easily analyzable and comprehensible form.

## **Summary prospectus**

### **Article 16**

The prospectus shall include a summary which shall, in a brief manner and in non-technical language, convey the essential characteristics and risks associated with the issuer, any guarantor and the securities.

The summary shall also contain a warning that:

- 1) It should be read as an introduction to the prospectus;
- 2) Any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor;
- 3) The issuer and those persons who have tabled the summary shall be jointly liable for the damages, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus.

Where the prospectus relates to the admission to trading of debt securities having a denomination of at least EUR 50,000 in dinar equivalent, there shall be no requirement to provide a summary.

## **Prospectus as a single document or separate documents**

### **Article 17**

Offeror or person asking for the admission to trading on a regulated market may draw up the prospectus as a single document or separate documents.

A prospectus composed of separate documents shall divide the required information into:

- 1) The registration document which shall contain the information relating to the issuer;
- 2) The securities note which shall contain the information concerning the securities offered to the public or to be admitted to trading on a regulated market or MTF.
- 3) The summary.

## **The base prospectus**

### **Article 18**

The base prospectus shall apply to the following securities:

- 1) Debt securities, including warrants in any form issued under an offering program;
- 2) Debt securities issued in a continuous or repeated manner by credit institutions, provided that:

(1) the sums deriving from the issue of the said securities are placed in assets which provide sufficient coverage for the liability deriving from the issued securities until their maturity date;

(2) in the event of the insolvency of the credit institution of the issuer, the sums referred to in the sub-point (1) of this point are intended, as a priority, to repay the capital and interest falling due, without prejudice to the provisions of a separate Law which regulates insolvency, receivership and liquidation of a credit institution.

The base prospectus referred to in paragraph 1 of this Article shall contain all the information in accordance with Articles 15, 16, 17 and 18 of this Law, and shall be supplemented, if necessary, pursuant to Article 33 of this Law with updated information on the issuer and on the securities to be offered to the public or to be admitted to trading on a regulated market or MTF.

If the final terms of the offer are not included in either the base prospectus or a supplement, the final terms shall be provided to investors and filed with the Commission when each public offer is made as soon as practicable and if possible in advance of the beginning of the offer, in accordance with provisions of Article 14 of this Law.

The base prospectus shall not be drawn up as a prospectus composed of separate documents.

## **Responsibility attaching to prospectus**

### **Article 19**

The following persons shall be considered legally responsible in the event that a prospectus or any of the information required to accompany the prospectus or the prospectus summary contains materially false, inaccurate or misleading information, or omits material facts that are necessary to make the information included not misleading:

- 1) The issuer, directors and senior management of the issuer, unless a director has specifically voted against authorization of the public offering;
- 2) Any person making an offer (offeror) and who is not an issuer;
- 3) Any guarantor of the securities;
- 4) Any investment firm providing underwriting services or serving as an agent in connection with the public offering;
- 5) The issuer's independent auditors, but only with respect to the audited financial statements included in or accompanying the prospectus that are covered by their audit report;
- 6) Any other persons upon whose authority or expertise a statement is included in the prospectus, but only with respect to the adequacy and accuracy of such statement.

A prospectus must contain all the information about the persons responsible for the authenticity and completeness of information contained in the prospectus. The information for natural persons shall be the name and the function indicated, and the registered office and name for legal persons.

A prospectus must contain statements of persons responsible for the authenticity and completeness of information contained in the prospectus, to the effect that, to the best of their knowledge the information contained in the prospectus have been prepared in accordance with the facts and that material facts have not been omitted that could affect the authenticity and completeness of the prospectus.

No civil liability shall attach to any person solely on the basis of the prospectus summary, if the persons could not have known for the materially misleading or inaccurate information in the prospectus, unless the summary is materially misleading, inaccurate or inconsistent when read together with the other parts of the prospectus.

The Commission shall not be held responsible for the authenticity and completeness of the information stated in the prospectus or any part of the prospectus for public offering or admission to trading on a regulated market or MTF, or the summary prospectus.

## **Minimum information**

### **Article 20**

The Commission shall issue regulations regarding the form and content of a prospectus and the specific information which must be included in a prospectus for different types of issuers, securities and offerings, and regarding publications and advertisements in connection to the prospectus.

In issuing the regulations referred to in paragraph 1 of this Article, the Commission shall take account of the standards in the field of financial and non-financial information set out by the International Organization of Securities Commissions (IOSCO), and relevant regulations of the European Union regulating prospectuses.

## **Omission of information**

### **Article 21**

Where the final offer price and amount of securities that will be offered to the public cannot be included in the prospectus the offeror shall:

- 1) Include the criteria and conditions in accordance with which the final offer price is determined, and/or include the maximum final offer price, and disclose the criteria and conditions under which the final amount of securities offered shall be determined, or;

2) If fails to act in accordance with point 1) of this paragraph, enable the investor to withdraw acceptances of the purchase or subscription of securities within two working days after the final offer price and amount of securities which will be offered to the public, have been published.

The issuer and/or the offeror shall file with the Commission the final offer price and amount of securities and publish them in accordance with the arrangements provided for in paragraph 1 of Article 31 of this Law.

At the request of the issuer or offeror, the Commission may authorize the omission from the prospectus of certain information provided for in this Law or the regulations of the Commissions if it considers that:

- 1) disclosure of such information would be contrary to the public interest;
- 2) disclosure of such information would be seriously detrimental to the issuer, provided that the omission would not be likely to mislead the public with regard to facts and circumstances essential for an informed assessment of the issuer, offeror or guarantor, if any, and of the rights attached to the securities to which the prospectus relates;
- 3) such information is of minor importance only for a specific offer or admission to trading on a regulated market or MTF and is not such as will influence the assessment of the financial position and prospects of the issuer, offeror or guarantor, if any.

Where, exceptionally, certain information required by the provisions of Article 20 of this Law to be included in a prospectus is inappropriate to the issuers' sphere of activity, or to the legal form of the issuer or to the securities to which the prospectus relates, the prospectus shall contain information equivalent to the required information, if there is such information.

The Commission shall issue a decision on the application referred to in paragraph 3 hereof within 7 working days from the day of receiving a submitted application.

The Commission shall issue regulations regarding the criteria, the method of submitting documentation and determining whether the conditions have been met concerning the omission of prospectus information.

### **Validity of a prospectus, base prospectus and registration document**

#### **Article 22**

A prospectus shall be valid for 12 months after its publication for offers to the public or admissions to trading on a regulated market or MTF, provided that the prospectus is completed by any supplements required containing new information about the issuer or securities to be publicly offered or admitted to trading on a regulated market or MTF, pursuant to Article 33 of this Law.

In the case of an offering program referred to in point 1), paragraph 1 of Article 18 of this Law, the base prospectus previously filed shall be valid for a period of up to 12 months.

In the case of debt securities referred to in point 2), paragraph 1 of Article 18 of this Law, the base prospectus shall be valid until no more of the securities concerned are issued in a continuous or repeated manner.

A registration document, as part of the prospectus composed of separate documents approved by the Commission shall be valid for a period of up to 12 months, provided that it has been updated in accordance with paragraph 1, Article 23 of this Law.

The registration document accompanied by the securities note, updated if applicable in accordance with Article 25 of this Law, and the summary note shall be considered to constitute a valid prospectus.

### **Annual registration document about published information**

#### **Article 23**

Issuers whose securities are admitted to trading on a regulated market or MTF shall at least annually provide a registration document that contains or refers to all information that they have published or made available to the public over the preceding 12 months in



compliance with their obligations under this Law and the regulations under this Law and the law governing companies.

The annual registration document about the published information shall be filed with the Commission within 20 working days after the publication of the issuer's annual audited financial statements and made available to the public pursuant to Article 31 of this Law.

Where the document refers to information, it shall be stated where the information can be obtained, and the document shall include a statement indicating that some information may be out-of-date, if such is the case.

The obligation set out in this Article shall not apply to issuers whose only securities admitted to trading on a securities market are debt securities whose denomination per unit is at least EUR 50,000 in dinar equivalent.

The Commission shall regulate the method for publication of the registration document about published information, and the time-limits within which it is published and filed with the Commission.

### **Incorporation by reference**

#### **Article 24**

Information may be incorporated in the prospectus by reference to one or more previously or simultaneously published documents and the information shall be the latest available to the issuer.

When information is incorporated by reference, a cross reference list must be provided in the prospectus in order to enable investors to identify easily specific items of information.

The prospectus shall not incorporate by reference information regarding financial statements.

The summary shall not incorporate information by reference.

### **Prospectuses consisting of separate documents – specific rules**

#### **Article 25**

An issuer that already has a registration document approved by the Commission and that is valid pursuant to paragraph 1, Article 22 of this Law shall be required to draw up only the securities note and the summary note when securities are offered to the public or admitted to trading on a regulated market or MTF.

In this case, the securities note shall provide information that would normally be provided in the registration document if there has been a material change or recent development which could affect investors' assessments since the latest updated registration document or any supplement was approved as provided for in Article 33 of this Law.

The securities and summary notes shall be subject to a separate approval in cases referred to in paragraphs 1 and 2 of this Article as provided for in the provisions of this Law concerning prospectus approvals.

Where an issuer has only filed a registration document without approval, and files the securities note and the summary note, the entire documentation, including updated information referred to in paragraph 2 of this Article, shall be subject to approval.

### **Application and approval of prospectus**

#### **Article 26**

An issuer and/or offeror may submit the application for approval of the publication of the prospectus for a public offering of securities.

The issuer shall file the application for approval of the prospectus for admission of securities to a regulated market or MTF.

The application referred to in paragraphs 1 and 2 of this Article shall contain the following documents:

- 1) Decision of the issuer on issuing securities and/or admission to trading, including any additional information required to be filed with the regulated market or MTF on which the securities are proposed to be admitted to trading;
- 2) Copies of the prospectus which may consist of one or more documents and the summary;
- 3) The Articles of Association and the Memorandum of Association;
- 4) consent of the competent authority, if determined by this or another Law that the issue of securities is allowed only with the prior consent of such authority;
- 5) Document containing evidence that the conditions for admission to trading have been met, following the approval of the prospectus for admission of securities to trading on a regulated market and/or MTF;
- 6) Other documentation required by the Commission;

The prospectus shall include financial statements for the last two years at the minimum, together with the audit report, as well as the management's discussion and analysis of the financial statements.

There shall be included as part of the prospectus financial statements on a consolidated basis of the issuer, when the issuer is required to prepare them in compliance with the law governing accounting and auditing.

In the event that the most recent audited balance sheet is as of a date more than 200 days before the date that the prospectus is filed with the Commission or scheduled to be approved by the Commission, there shall be filed initially or as an amendment before approval of the prospectus more recent unaudited semi-annual financial statements subject to Chapter V of this Law.

In the event that the issuer has operated for a period of time shorter than that indicated in paragraphs 4 and 5 of this Article, there shall be included as part of the prospectus the audited financial statement for that period.

If an issuer is a province, municipality, local government unit or other issuer that is not an obligor pursuant to the law governing accounting and auditing, the Commission shall issue regulations governing the documents required to be filed with the application referred to in paragraphs 1 and 2 of this Article.

If an application for the approval of a prospectus for a public offering of securities also contains an application for admission to trading of such securities on the securities market, for up to twelve months after publication of the prospectus for the public offering of securities, the prospectus must:

- 1) be supplemented with the information following the public offering to include the entire class of securities as required by paragraph 1 of Article 13 of this Law;
- 2) Include the information on compliance with the criteria for admission to trading of a regulated market for which the admission of the securities to trading is sought;
- 3) Be supplemented in accordance with the provision of Article 22, paragraph 4 of this Law.

## **Publication of prospectus – approval**

### **Article 27**

The Commission shall adopt a decision approving the publication of the prospectus, registration document, securities note and the summary concerning securities to be offered to the public or admitted to trading on a regulated market or MTF.

No prospectus shall be published in the Republic until it has been approved by the Commission.

The Commission shall issue a decision on approval of the publication of a prospectus within 10 working days following the satisfactory receipt of the application, and shall submit the decision to the applicant.

The time limit prescribed in paragraph 3 of this Article shall be extended to 20 working days if the public offering involves securities issued by an issuer which does

not have any securities admitted to trading on a securities market and which has not previously offered securities to the public.

If the Commission finds that the prospectus was not drawn up in compliance with this Law and regulations under this Law or that submitted documents are incomplete for any reason, the Commission shall notify the issuer thereof and request that the documents be corrected or supplemented, within ten working days of the submission of the application.

If the Commission fails to give a decision on the prospectus within the time limits laid down in this paragraph, this shall not be deemed to constitute approval of the application.

### **Refusing application for approval of prospectus**

#### **Article 28**

The Commission shall adopt a conclusion refusing publication of a prospectus based upon one or more of the following grounds:

- 1) The application was filed by an unauthorized person;
- 2) The application is incomplete for other reasons and was not supplemented within the required time limits;
- 3) The required consent of a competent authority referred to in Article 26, paragraph 3, point 4) of this Law has not been obtained;
- 4) The confirmation that the securities market is ready to admit the securities to trading on a regulated market or MTF is not obtained, if the application has been submitted for this purpose;
- 5) The fees required by the tariff rulebook of the Commission have not been paid in full;
- 6) Other criteria for the management of the procedure have not been satisfied.

### **Denying application for approval of prospectus**

#### **Article 29**

The Commission shall adopt a decision denying publication of a prospectus based upon one or more of the following grounds:

- 1) The prospectus or any of the information filed with the application does not conform to the requirements of this Law or Commission regulations, and the applicant has failed to supplement it within the required time limits;
- 2) The prospectus contains materially false, inaccurate or misleading information or omits material facts that are necessary to make the information included not misleading and the applicant has failed to supplement it within the required time limits;
- 3) The applicant is an issuer to which the Commission has issued a supervisory measure for a breach of the provisions of Chapter V hereof, and the issuer has not acted in compliance with the measure;
- 4) The information in the prospectus is not in compliance with the issuer's decision regarding the issuance of the securities or their admission to trading, or it does not reconcile with other information required to be submitted as part of the application;
- 5) When the prospectus relates to the public offering of securities, and the decision of the issuer's competent body for the issuance of securities is null and void or repealed;
- 6) The issuer is undergoing bankruptcy proceedings.

### **Obligation to publish a prospectus**

#### **Article 30**

The issuer or an offeror shall publish the prospectus within 15 days following the day of the receipt of the Commission decision on the approval of the prospectus for publication and at the latest at the beginning of the offer to the public or the admission to trading of the securities involved on the regulated market or MTF and submit it to the Commission.

When a prospectus concerns an initial public offer of a class of shares not already admitted to trading on a regulated market or MTF and that is to be admitted to trading for the first time, the prospectus shall be available to the public at least six working days before the end of the offer.

Should the issuer fail to do as stipulated by paragraph 1 of this Article, the decision granting the approval of publication of the prospectus shall be null and void.

## **Publication of a prospectus**

### **Article 31**

The prospectus shall be deemed available to the public when published, either:

- 1) By insertion in one or more general or financial information newspapers having national scope;
- 2) In a printed form to be made available, free of charge, to the public at the offices of the regulated market or MTF on which the securities are being admitted to trading, or at the registered office of the issuer and at the offices of the investment firms placing or selling the securities;
- 3) In an electronic form on the issuer's website and, if applicable, on the website of the financial intermediaries placing or selling the securities;
- 4) In an electronic form on the website of the regulated market or MTF where the admission to trading is sought.

The Commission may require issuers who elect to publish their prospectus in the manner prescribed by paragraph 1, points 1) and 2) of this Article also to publish their prospectus in an electronic form, in the manner prescribed by paragraph 1, point 3) of this Article.

If publication is made in accordance with provisions of paragraph 1, points (3) and (4) of this Article, the prospectus or base prospectus must be easily accessible when entering the website, the file format shall be such that the prospectus cannot be modified, the prospectus shall not contain hyperlinks except to information incorporated by reference, and investors must have the possibility of downloading and printing the prospectus and base prospectus.

Publication of a notice stating how the prospectus has been made available and where it can be obtained by the public shall be published in at least one daily newspaper.

The notice referred to in paragraph 4 of this Article, shall be published on the day following the publication of the prospectus and a copy of the notice shall be submitted to the Commission.

The Commission shall publish on its website over a period of 12 months, at its choice, all the prospectuses approved, or at least the list of prospectuses approved, including, if applicable, a hyperlink to the prospectus published on the website of the issuer, or on the website of the regulated market or MTF, and in the case of prospectuses not made available in this manner, an indication of how the prospectuses have been made available and where they may be obtained.

Additional conditions concerning prospectus publication shall be prescribed by the Commission.

In the case of a prospectus comprising several separate documents and/or incorporating information by reference, the documents and information making up the prospectus may be published and circulated separately provided that the said documents are made available, free of charge, to the public, in accordance with the arrangements established in paragraph 1 of this Article.

Each document referred to in paragraph 8 of this Article shall indicate where the other constituent documents of the full prospectus may be obtained.

The text and the format of the prospectus, and/or the supplements to the prospectus, published or made available to the public, shall at all times be identical to the original version approved by the Commission.

Where the prospectus is made available by publication in electronic form, a paper copy must nevertheless be delivered to the investor by the issuer, offeror or the financial intermediaries placing or selling the securities, at their expense and at the investor's request.

## **Advertisements**

### **Article 32**

Any type of advertisements relating either to an offer to the public of securities or to an admission to trading on a regulated market or MTF shall observe the principles contained in provisions of this Article.

Where publication is required pursuant to provisions of this Law, advertisements shall state that a prospectus has been or will be published and indicate where investors are or will be able to obtain it.

Advertisements shall be clearly recognizable as such and the information contained in an advertisement shall not be inaccurate, or misleading, the information shall also be consistent with the information contained in the prospectus, if already published, or with the information required to be in the prospectus, if the prospectus is published afterwards.

All information concerning the offer to the public or the admission to trading on a regulated market or MTF disclosed in an oral or written form, even if not for advertising purposes, shall be consistent with that contained in the prospectus.

When according to this Law no prospectus is required, an issuer or an offeror shall disclose to all qualified investors or special categories of investors to whom the offer is exclusively addressed all of the information that was disclosed to any one of them.

Where a prospectus is required to be published, the information referred to in paragraph 5 of this Article shall be included in the prospectus or in a supplement to the prospectus in accordance with paragraph 1 of Article 33 of this Law.

The Commission shall have the power to exercise control over the compliance of advertising relating either to an offer to the public of securities or to an admission to trading on a regulated market or MTF and all types of advertisements shall be submitted to the Commission by electronic means.

For purposes of this Article, advertisements mean announcements:

- 1) relating to a specific offer to the public of securities or to an admission to trading on a regulated market or MTF;
- 2) aiming to specifically promote the potential subscription or acquisition of securities.

## **Supplement to the Prospectus**

### **Article 33**

Where within the period between the time of the approval of the prospectus and the final closing of the offer to the public, or the time when trading on a regulated market begins, a new fact arises or the existence of an inaccuracy or incompleteness is established, relating to the information contained in the prospectus which may affect the assessment of securities the issuer or the offerer has the obligation to supplement it promptly and to submit the supplement to the prospectus to the Commission for approval.

The supplement to the prospectus must contain an instruction for the investors regarding the rights set out in this Article.

The Agency shall approve the supplement to the prospectus within seven working days from the receipt of the application for the supplement of the prospectus and shall be published the first next day upon the approval applying adequately the provisions regarding the approval of the prospectus.

The summary of the prospectus must be supplemented if this is necessary in view of the content of the supplement to the prospectus.

The investors which agreed to purchase or to subscribe for the securities in a public offer prior to the publishing of the supplement to the prospectus, shall have the right to withdraw their acceptances to purchase or to subscribe for the securities within the time limit set out in the supplement to the prospectus, which shall not be shorter than two working days after the publication of the supplement to the prospectus.

If the prospectus will be used even upon termination of the public offer or admission to trading on the regulated market or MTF, within the period that shall not exceed the prospectus validity referred to in Article 22 of this Law, such a prospectus shall be supplemented pursuant to provisions of this Article.

### **Subscription and Payment Procedures**

#### **Article 34**

The public offer of securities shall not start prior to issuing of the prospectus.

The public invitation, as an integral part of the prospectus, shall contain:

- 1) the date of commencement of the subscription and payment and the deadline for the subscription and payment for the securities;
- 2) the information on the location where the subscription and payment can be performed, and/or where the prospectus for issuing securities can be inspected or where a copy of such prospectus can be obtained.

The deadline to initiate subscription and payment of securities shall start within 15 days following the day of the receipt of resolution on the approval of prospectus for publication.

The deadline for subscription and payment of securities shall not last more than three months from the day stated in the prospectus.

If so determined by the prospectus, the Commission shall, at request of the issuer or the offeror, grant the extension of the deadline for subscription and payment of securities to additional 45-days.

Provisions of this Article shall not be applied to debt securities offered based on the prospectus.

### **Location of Subscription and Payment**

#### **Article 35**

Subscription of securities shall be performed in investment firms, on the basis of the written contract concluded between such firm and the offeror.

Payment of securities shall be performed in a credit institution – member of the Central Registry, on the basis of the written contract concluded between such credit institution and the offeror.

Subscription and payment shall not be performed by an investment company or a credit institution being the issuer or the offeror of securities subject to the subscription or payment.

Subscription and payment of securities may be performed through a regulated market or MTF in accordance with the regulation of the Commission.

The Commission shall regulate details related to subscription and payment of securities of a public company.

### **Report on the Outcome of the Public Offering**

#### **Article 36**

The issuer or the offeror shall be obliged to publish and file with the Commission, not later than three working days following the completion of a public offering a report on the outcome of the public offering.

The report must include information on the amount of securities issued and offering proceeds received and whether the public offer has been successful or not.

The report shall be published in the same manner that the prospectus was published pursuant to Article 31 of this Law.

The Commission shall prescribe the form and content of information required in the report referred to in Para. 1 of this Article.

## **Entry and Transfer of Securities into the Central Registry**

### **Article 37**

The issuer shall submit to the Central Registry, through a member of the Central Registry and in accordance with the regulations of the Central Registry, a request for opening of an account and for the entry into the Central Registry of information regarding the persons:

- 1) who purchased securities – within five working days from completion of the public offer;
- 2) who purchased or granted securities pursuant to provisions of Article 12 of this Law.

The issuer or the offeror shall submit an application through a member of the Central Registry regarding the transfer of securities on the accounts of legal holders within five working days from the day of completion of the public offer.

The Central Registry shall perform entry and transfer of securities to legal holders within three working days from the day of receiving a proper application.

Upon termination of procedures referred to in Para. 3 of this Article, the Central Registry shall inform the Commission and a member of the Central Registry thereof while the regulated market and the MTF shall be informed provided that such securities are admitted to trading.

## **Admission of Securities to Trading in the Regular Market or the MTF**

### **Article 38**

Within three days following the receipt of the information from the Central Registry regarding the completion of the procedures specified in Article 37, Para. 1 hereof if the securities are required to be admitted to trading on a regulated market i.e. MTF, or the issuer has elected to seek admission to trading of the securities, the issuer shall be obliged to submit to the market operator or MTF the request for admittance to trading.

Immediately following the admission to trading of a class of securities or additional securities in a class of securities, the market operator or MTF shall be obliged to publish a notice to this effect on its website and to send a copy of such notice by electronic means to the Commission and the issuer.

## **Application for Approval for Publication of Foreign Issuers Prospectus**

### **Article 39**

An issuer that is residing outside the Republic shall be entitled to make application to the Commission for public offering or admission to trading of its securities on a regulated market or MTF within the Republic.

The applicant shall submit to the Commission a written confirmation from the competent authority of the third country regarding whether the subject securities are of the same class publicly offered or admitted to trading in the issuer's home country.

Through an authorized investment firm an application for granting the public offer of securities or admission to trading in the regulated market or MTF shall be submitted to the Commission; the application shall be supplemented with the prospectus approved by a competent body of the issuer country along with proper original documentation or certified translation thereof.

The application referred to in Para. 1 of this Article shall be forwarded to the National Bank of Serbia pursuant to provisions of Article 8 hereof.

When the application refers to depository receipts issued or admitted to trading on the regulated market or MTF, the Commission shall receive a copy of the contract between the issuer and the credit institution authorized to operate in the Republic that will issue a depository receipt as well as evidences that the securities represented by the depository receipt fulfill conditions referred to in Para. 2 of this Article.

The Commission approves publication of the prospectus produced in line with provisions in the country of origin of the issuer and this Law when and if obligations

regarding information disclosure correspond to obligations under provisions of this Law and regulations of the Commission.

Foreign countries, government bodies, central banks, international and supra-national institutions such as the International Monetary Fund, European Central Bank, European Investment Bank and other similar international organizations may offer securities in the Republic and admit securities to trading on the regulated market or MTF in the Republic without fulfilling conditions referred to in Para. 1 of this Article and in conformity with regulations of the Commission related to the form and the content of applications and documentation for securities of the issuers above.

Provisions of this Law related to entering of securities in the Central Registry and their admission to the regulated market or MTF shall apply to securities of foreign issuers.

### **Securities of Local Issuers Offered on Foreign Markets**

#### **Article 40**

Equity securities of local issuers may be offered to the public on foreign markets provided that the issuer is allowed to issue the prospectus for the public offer or for admission of securities on the regulated market or MTF in the Republic in which case a timely notice shall be forwarded to the Commission.

The issuer may admit equity securities outside the Republic if they do not fulfill legal requirements for approval of the prospectus publication or for admission of securities on the regulated market or MTF in the Republic with the prior approval of the Commission.

Without the approval of the Commission, the issuer is allowed to perform the following actions outside the territory of the Republic:

- 1) offer or admit to the secondary market its debt securities or depository receipts related to those debt securities;
- 2) offer securities with or without approval for prospectus publication or admit securities on the secondary trading.

### **Procedures regarding Transactions Exempted from Obligation of Prospectus Publication**

#### **Article 41**

When offering securities exempted from obligation of the prospectus publication as referred to in provisions of Article 12, Para. 1, Items 7), 8) and 10) hereof and prior to acting in accordance with provisions of Article 37 of this Law, the issuer of securities shall be required to file with the Commission and seek Commission approval of the documents required for purposes of such exemptions in accordance with Commission regulations.

In the case of all other transactions exempted from prospectus publication requirements under Articles 12 and 13 of this Law, no filing with the Commission shall be required regarding such exemption. The issuer shall proceed to comply with Article 37 of this Law subject to applicable requirements of the Central Registry and any regulated market or MTF on which the securities are to be admitted to trading.

In cases referred to in Para. 2 of this Article, the Commission may during the supervision, require from the issuer, offeror or a person who submitted the application to admit securities on the regulated market or MTF to submit information on the application of exemptions referred to in Article 12 of this Law.

An issuer or other person who issues or sells securities in reliance upon one of the exemptions from publication of a prospectus included in Article 12, Para. 1 of this Law shall be required to make available to investors in advance of the sale of securities information that is substantially equivalent to the information that would be required under this Law and Commission regulations, in a prospectus used for a public offering involving the same type of issuer, securities and transaction, subject to the following:

- 1) such information need not be provided in the format required for a prospectus;
- 2) such information shall not be required to be filed with or approved by the Commission;



3) if the issuer is not a public company, does not have audited financial statements in line with provision of the law regulating accounting and auditing, and the preparation of audited financial statements would involve unreasonable effort or expense in connection with the transaction, unaudited financial statements may be used;

4) any information that is made available to a qualified investor participating in the exempt offering shall be made available to all other investors participating in the offering.

### **Supervisory Powers of the Commission**

#### **Article 42**

The Commission shall perform supervision over fulfillment of obligations prescribed by provisions of this Chapter related to the public offer of securities or admission to the regulated market or MTF in the Republic.

The supervision referred to in Para. 1 of this Article covers as follows:

- 1) monitoring, collecting and checking of data and notifications published by persons obliged to submit them to the Commission;
- 2) insight in business operations of the issuer and its parent and daughter companies;
- 3) pronouncing supervisory measures referred to in Articles 43 and 44 of this Law.

#### **Supervisory Measures during the course of Public Offering of Securities or Procedures for Admission of Securities to Trading**

#### **Article 43**

Should the Commission determine while a public offering of securities or admission to trading in securities is pending completion that information in the prospectus is materially false or misleading or fails to state material information necessary to make the information included not misleading, it shall require from the issuer to perform the following actions within the set deadline:

- 1) publish the corrected information in the same manner as the prospectus was published;
- 2) physically distribute copies of the prospectus or accompanying documents with correct information to all persons who have previously subscribed for the securities;

In the case of the prospectus for the public offer, the Commission shall request from the issuer and the offeror to act within the set deadline as follows:

- 1) suspend any further subscription, issuing subscription receipts and receiving payment on the basis of subscription until the issuer corrects the information by supplementing the prospectus or accompanying documentation;
- 2) inform all persons who subscribed for or purchased securities and enable them, if they want so, to invalidate the subscription within five days from the day of pronouncing the supervisory measure and have they proceeds paid for the subscription back.

The issuer shall be obliged to submit to the Commission the report including evidence on the eliminated irregularities within the specified deadline.

Should the Commission establish that the procedures set forth in Para. 2 of this Article have been implemented within the prescribed deadline, it shall terminate the suspension and inform thereof the public, issuer or persons that have performed the subscription and payment of securities of such issuer.

Should the issuer fail or be unable to implement the corrective procedures within the prescribed deadline, the Commission shall annul the prospectus by a Decision and the public offer and inform thereof the public, issuer and persons that have performed the subscription and payment of securities.

Should the prospectus for public offering be annulled, this issuer or another person being the owner of securities, shall refund the paid amounts with interest to the persons that performed the subscription and payment of securities, within three days following the day of the receipt of the Commission referred to in Para. 5 of this Article.

In the case of reasonable doubt that there has been a violation of provisions of this Chapter, the Commission may temporarily suspend the public offering or admission to trading for a maximum of 10 consecutive working days.

### **Other Supervisory Measures**

#### **Article 44**

When conducting the supervision, the Commission is entitled to:

- 1) require issuers, offerors or persons asking for admission to trading on a regulated market or a MTF, to include in the prospectus supplementary information, if necessary for investor protection;
- 2) require issuers, offerors or persons asking for admission to trading on a regulated market or a MTF and the persons that control them or are controlled by them, to provide information and documents important for implementation of the supervision over enforcement of provisions of this Chapter;
- 3) require auditors and managers of issuers or offerors, persons asking for admission to trading on a regulated market or a MTF, as well as their intermediaries commissioned to carry out the public offering or the admission to trading on the regulated market or a MTF, to provide additional information and documents important to the supervision over enforcement of provisions of this Chapter;
- 4) prohibit or suspend advertisements for a maximum of 10 consecutive working days on any single occasion if it has reasonable grounds to believe that the provisions of this Law or Commission regulations have been infringed;
- 5) suspend trade on a regulated market or MTF or OTC if it finds that the provisions of this Law or Commission regulations have been infringed;
- 6) undertake other measures and sanctions in compliance with provisions of the Chapter XIII of the Law.

When conducting measures referred to in Para. 1 of this Article, the Commission shall take into consideration the gravity of the infringement of provisions of this Chapter and the purpose to be accomplished through the measure implementation.

## **IV SECONDARY TRADING**

### **Intermediation in Secondary Trading**

#### **Article 45**

Only investment firms licensed by the Commission are entitled to trade on a regulated market or MTF while other persons may trade through intermediation of those firms.

Only investment firms licensed by the Commission shall be entitled to intermediate transactions in an OTC market.

The permission of the Commission for the OTC market is not required, and the Commission shall supervise this market through implementation of supervision over investment firms performing transactions in financial instruments on the OTC market.

### **Secondary Trading in Financial Instruments**

#### **Article 46**

The public company shall submit an application for admitting its equity securities in trading on a regulated market in the Republic unless otherwise provided by this Law.

If the equity securities do not meet the listing standards of the securities market, they shall be admitted to trading on a free tier of the securities market.

Should the equity securities fail to meet requirements envisaged for admission on the regulated market which is not listing, the securities shall be admitted to trading on the MTF.

Should the equity securities be excluded from the regulated market or the MTF pursuant to Article 122 of this Law, they will be traded freely.

An issuer of debt securities is not required to apply for admission to trading of securities on a securities market but if debt securities do not meet the listing standards of the regulated market, at the issuer's request, they may be admitted to trading on a free tier of the securities market or MTF.

When debt securities have been admitted to trading on a regulated market i.e. MTF, the debt securities may be traded off the market or MTF in compliance with provisions of the Law.

Transactions in standardized derivative financial instruments shall be traded on a regulated market i.e. MTF.

### **Transaction Registration**

#### **Article 47**

Transactions in securities conducted outside a regulated market and a MTF shall be timely reported to the Central Registry by the intermediary or the seller, and in the case securities are admitted to trading on a regulated market or a MTF, those transactions shall be reported to the regulated market and the MTF, as well.

### **Other Transactions Exceptions**

#### **Article 48**

The following transactions in financial instruments shall be performed outside of a regulated market or MTF:

- 1) with a view to fulfillment of measures and liabilities in the process of status changes and changes of the legal form of a business company, pursuant to provisions of the Law regulating business companies as well as in the process of reorganization of a business company in compliance with the provisions of the Law regulating business companies;
- 2) with a view to realization of specific rights of shareholders and members in disagreement, in compliance with the provisions of the Law regulating business companies;
- 3) with a view to execution of the final court decision which ends inheritance, bankruptcy, or liquidation proceedings, and/or with a view to execution of a final court decision by which another court proceeding is completed;
- 4) regarding an offer for takeover in compliance with the provisions of the Law regulating takeover of joint stock companies.

Unless otherwise provided by the Government enactment, the following transactions may be performed outside of a regulated market or MTF:

- 1) transfer of property without compensation over shares issued by banks, from the State Union Serbia and Montenegro to the Republic, on the basis of the Law on Regulating Relations Between the Federal Republic of Yugoslavia and Legal Entities and Banks From Territory of the Federal Republic of Yugoslavia Being the Original Debtors or Guarantors Towards Paris and London Club of Creditors ("FRY Official Gazette" No. 36/02 and 7/03);
- 2) trade of shares issued by banks where the lawful possessor of such shares is the Republic on the basis of the Law on Regulating Relations Between the Federal Republic of Yugoslavia and Legal Entities and Banks From Territory of the Federal Republic of Yugoslavia Being The Original Debtors or Guarantors Towards Paris and London Club of Creditors and the Law on Settlement of Public Debt of the Federal Republic of Yugoslavia based on Citizens Foreign Currency Savings („FRY Official Gazette ", No. 36/02 and „Official Gazette of RS", No. 80/04 and 101/05);
- 3) trade with shares issued by banks, when the lawful possessor of such shares is the Republic;
- 4) trade with shares issued by banks, when the lawful possessor of such shares is the Deposit Insurance Agency, in compliance with applicable law;
- 5) trade with shares issued by banks, when lawful possessors of such shares have empowered the Deposit Insurance Agency by a special contract which shall be concluded in written form, to perform sale of such shares for account and on behalf of third parties;
- 6) trade with shares issued by insurance companies, when the lawful possessors of such shares empower the Deposit Insurance Agency by a special contract which shall be

concluded in written form, to perform sale of such shares for account and on behalf of third parties, in compliance with the law regulating insurance;

7) trade with shares issued by banks, when such trade is performed in the procedure of cashing of property of banks undergoing bankruptcy and/or liquidation proceedings, where the function of the receiver and/or liquidation administrator is performed by the Deposit Insurance Agency;

8) trade with shares of the Central Registry, securities exchange and other persons in the financial sector, when the Lawful possessor of such shares is the Republic;

9) trade with shares of the Central Registry, securities exchange and other persons in the financial sector, pursuant to the law regulating activities and organization of banks, when lawful possessors of such shares have empowered the Deposit Insurance Agency by a special contract which shall be in written form, to perform sale of such shares for account and on behalf of third parties.

Outside a regulated market or a MTF, shares of public companies may be traded as follows:

1) the equity securities transferred to the Share Fund, i.e. its legal successor in compliance with the Law as well as shares of individual shareholders offered for sale at the same time as the shares of the Share Fund;

2) equity securities whose lawful possessor is the Republic Fund for Pension and Disability Insurance of the Employees;

3) equity securities whose lawful possessor is the Republic Development Fund;

4) equity securities whose lawful possessor is the Republic.

The Government may regulate in detail procedures and methods of trading in securities referred to in Para. 2 and 3 hereof.

Transactions conducted in compliance with provisions of this Law, the salesman shall register at the regulated market or MTF on which the trading is conducted.

### **Supervisory Measures upon Admitting Securities on the Securities Market**

#### **Article 49**

After admitting securities on the regulated market or MTF, the Commission is authorized to:

1) inspect business operations of the issuer, a controlling company and their subsidiary and affiliated companies in the Republic of Serbia, if this is necessary in order to inspect and determine whether the issuer acts in compliance with provisions of this Chapter;

2) in order to protect the investor and the overall market, order the issuer of those financial instruments to disclose all important information that could have impact on the assessment of value of financial instruments;

3) temporarily suspend or request from a regulated market or a MTF to temporarily suspend trading in financial instruments if there is a reasonable doubt that provisions of this Chapter or Commission regulations have been violated or if in opinion of the Commission, the position of the public company is such that the trading would harm the investor's interests;

4) undertake other measures and sanctions in compliance with provisions from Chapter XIII of this Law.

The Commission may consult the market operator when deciding on temporary suspension or prohibition of trading on a regulated market or a MTF.

## V OBLIGATIONS FOR PUBLIC COMPANIES

### Annual Reports

#### Article 50

A public company shall prepare its annual report, disclose it, and lodge it with the Commission, and if the company's securities are traded on the stock market, it shall furnish such Report to the regulated market, i.e. the MTF, within four months after the end of each financial year, as well as ensure that the annual financial report is available to the public for minimum five years after the date of publishing.

An annual report shall include:

- 1) annual financial statements including auditor's report;
- 2) a company's annual operating report;
- 3) a statement by the persons responsible for the preparation of the annual report, indicating their names, posts, and responsibilities in the public company, and stating that, to the best of their knowledge, the annual financial report is prepared in line with the relevant International Financial Reporting Standards, and reflects accurate and objective information about the assets, liabilities, financial position and performance, profit and loss, cash flows, and movements in equity of the public company, including its subsidiaries included in the consolidated reports.

A company's annual operating report shall indicate expressly:

- 1) a truthful presentation of the company's development and performance, and particularly the company's financial position, as well as the relevant information for company assets valuation;
- 2) description of the company's expected future development, policy changes, as well as the major risks and threats faced by the company;
- 3) all significant business events that occurred after the end of the reporting financial year;
- 4) all significant transactions with related parties;
- 5) the company's research and development activities.

Should the company acquire own shares after the date of the previous annual financial report, the annual report shall state the reasons for acquiring such company's own shares, the number and nominal value of such company's own shares, i.e. book value of such company's own shares without nominal value, the names of the persons from whom such company's own shares were acquired, the indicated cost paid by the company for such acquisition, i.e. indication that such own company's shares were acquired free of charge, as well as the total number of the company's own shares held by the company.

A public company's financial report shall be prepared in compliance with the accounting and audit legislation.

Audit of financial reports shall be carried out in compliance with the accounting and audit legislation, and auditor's reports signed off by the person responsible for audit of financial statements shall be fully disclosed to the public, supporting the annual financial report.

All public companies preparing consolidated financial reports shall be governed by the provisions herein accordingly.

The Commission shall specify closer the contents and terms for disclosure of annual financial reports.

## **Adopting Annual Report**

### **Article 51**

Should the relevant body in a public company fail to adopt the annual report within the timeline specified in Article 50, Para. 1, herein, the public company shall disclose it to the public within the timeline specified in the same Para., with a statutory remark that the annual report has not been adopted by the relevant body in the company.

In the event described in Para. 1 above, the public company shall disclose to the public that the annual report was adopted by the relevant body in the company within seven days after the date of its adoption, and shall disclose any differences in relation to the previously disclosed report.

The public company shall also disclose fully the decision by the relevant body on the adoption of the annual report, the profit sharing decision and the loss financing decision, unless such decisions comprise an integral part of the annual report.

## **Semi-annual Reports**

### **Article 52**

A public company whose securities are traded on the regulated market shall prepare a semi-annual report for the first six month of the financial year, promptly and no later than within two months after the end of the reporting semi-annual period, in compliance with the rules that apply for annual report, and shall disclose it, lodge it with the Commission and the regulated market on which the company's securities are traded.

The public company shall make the report specified in Para. 1 above available to the public for a period of minimum five years from the day of its publication.

Semi-annual reports to be disclosed and lodged with the Commission shall include:

- 1) an abridged balance sheet, including a comparative overview of the information from the previous year's balance sheet;
- 2) an abridged income statement, including a comparative overview of the information for the same period of the previous year;
- 3) an abridged statement of movements in equity, including the comparative information for the previous year;
- 4) an abridged cash flow statement, including the comparative information for the same period of the previous year;
- 5) accompanying notes to semi-annual reports that must include adequate information to allow the comparison of semi-annual reports with annual reports, as well as adequate information and clarifications necessary for the investors' proper understanding of all significant changes in the relations and events that have influenced the balance sheet and the income statement;
- 6) the company's semi-annual operating report that must include the description of all significant events that occurred in the first six months of the financial year, the impacts of such events on the semi-annual reports, including the description of risks and uncertainties in the remaining six months of the financial year, the information on all significant transactions with related parties effected in the first six months on the current financial year that have had a significant impact on the company's financial position and performance during that period, as well as any change in the transactions with related parties specified in the previous annual report that could significantly influence the company's financial position or performance in the first six months of the current financial year;
- 7) a statement by the persons responsible for the preparation of the semi-annual report, stating their posts and responsibilities in the public company, and that, to the best of

their knowledge, the semi-annual financial report is prepared in line with the relevant International Financial Reporting Standards, and reflects accurate and objective information about the assets, liabilities, profit and loss, financial position and performance of the public company, including its subsidiaries included in the consolidated reports.

The abridged statements specified in Para. 3, Items 1) – 4) above shall include no more than all headings and subtotals that were included in the previous annual financial report, and the additional items may be added only if their omission in the semi-annual financial statements would result in the misrepresentation of the issuer's assets, liabilities, financial position, profit or losses, or performance of the issuer.

In the event that the public company is under obligation to prepare its financial statements in the annual report on a consolidated basis, the financial statements prepared for the semi-annual report shall also be prepared on a consolidated basis, and disclosed as such.

In the event that the semi-annual financial reports have been audited, the public company shall also disclose to the public the auditor's report in compliance with the terms and within the timeline specified in Para. 1 and 2 above.

In the event that the semi-annual financial reports specified in Para. 1 above have not been audited, the public company shall disclose it in a statement in their semi-annual report.

The Commission shall specify closer the contents and terms for disclosure of semi-annual financial reports.

### **Quarterly Reports**

#### **Article 53**

A public company whose securities are traded and quoted on the regulated market shall disclose a quarterly report and lodge it with the Commission and the market operator no later than within 45 days after the end of each of the first three quarters of the current financial year, as well as ensure that such report is made available to public for a period of minimum five years from the date of its publishing.

Quarterly reports shall be governed accordingly by the provisions of Article 52, Para. 3, herein.

The Commission shall specify closer the contents and terms for disclosure of quarterly financial reports.

### **Audit of Public Companies' Financial Statements**

#### **Article 54**

A legal entity performing audit may audit maximum five consecutive annual financial reports in one public company.

The auditor specified in Para. 1 above cannot both audit the company's annual financial reports and provide consulting services to the company, and cannot audit the reports for the financial year in which they provided such services.

A person who performs audit shall have the highest professional rank in the field of audit, in compliance with the audit legislation, as well as minimum three years of professional experience on audit activities, and shall be independent from the public company in which he/she performs the audit.

The persons specified in Para. 3 above cannot be considered independent from the public company in the event that he/she, the audit company in which he/she is employed or the manager of such audit company has been in the current year or was in the two previous financial years, as well as during the audit:

- 1) closely connected with the company;

- 2) a business partner of the public company;
- 3) a direct or indirect holder of a stake in the company;
- 4) a liquidation or bankruptcy trustee for the company;
- 5) a contractual party in a contractual relation with a party that could negatively influence his/her unbiasedness and independence.

The auditor specified in Para. 1 above shall compile a report and give his/her opinion on whether the public company's annual financial statement are prepared in accordance with the International Financial Reporting Standards, i.e. International Accounting Standards, and the accounting and audit legislation, as well as whether they reflect accurately and objectively the financial position, operating performance, and cash flows over the reporting year in terms of all materially significant issues.

The auditor specified in Para. 1 above shall lodge with the Commission, the Management Board, and the Executive Board his/her opinion about the efficiency of the internal audit, risk management system and the internal controls system, and shall enclose his/her conclusions and findings as the statutory part of the management letter.

The Commission may request from the auditor to provide additional information relating to the performed audit.

The auditor specified in Para. 1 above shall notify the Commission, the Management Board, and the Executive Board, promptly after he/she becomes aware of it, of any fact that constitutes:

- 1) a breach of the law or acts specified in Para. 5 above;
- 2) a materially significant discrepancy from any financial result presented in the unaudited annual financial statements;
- 3) an event that could result in a material loss or that could undermine the public company's going concern.

The Commission may specify closer the terms and conditions for the notification from Para. 8 above.

In the event of any irregularity in the public company's performance identified in the auditor's report, the company shall correct such irregularity and notify the Commission thereof.

In the event of the public company's failure to correct the irregularity specified in Para. 10 above, the Commission may undertake the measures prescribed herein against such company.

Should the Commission determine that the audit has not been performed in line with the provisions herein, it shall not adopt the audit report and shall request that another auditor performs a repeat audit at the burden of the public company.

The Commission shall specify and publish a list of legal entities eligible to perform the audit specified in Para. 1 above, the eligibility criteria for auditors to be included or taken off the above list, as well as the consulting services that such persons are not allowed to provide in the same year for which they perform audit.

### **Additional Information**

#### **Article 55**

A public company shall disclose promptly to the Commission and the regulated market, i.e. the MTF on which their securities are traded, any change that occurred in the rights in respect of equity securities, for each class of equity securities separately, including



also any changes in the rights ensuing from derivative financial instruments issued by such public company, bearing a right to acquire company equity securities.

A public company that is the issuer of securities other than equity securities, which are traded on the regulated market, i.e. the MTF, shall disclose promptly to the Commission and the regulated market, i.e. the MTF, any change in the rights in respect of such securities, including any changing conditions that could influence indirectly the change in the rights in respect of such securities, and particularly any change pertaining to the terms of borrowing and the interest rate.

Para. 2 above shall not refer to changing conditions that are caused by factors outside the will of the issuer and that are quantifiable, such as the LIBOR or EURIBOR spread movements, etc.

The Commission may stipulate the obligation to provide additional reports and the timelines for their submission.

### **Exemptions**

#### **Article 56**

The provisions of Articles 50 to 53 herein shall not apply to public companies that issue exclusively debt securities that are traded on the regulated market, i.e. MTF, whose value per unit is minimum EUR 50,000 in Serbian Dinar equivalent.

### **Notification of Significant Proportions of Voting Rights**

#### **Article 57**

In the event that an individual or a legal entity directly or indirectly reaches, exceeds or falls under 5%, 10%, 15%, 20%, 25%, 30%, 50%, or 75% of the voting rights in a public limited company whose shares are traded on the regulated market, i.e. the MTF, it shall notify thereof the Commission, such company and the regulated market, i.e. the MTF on which the shares of such company are traded.

The obligation specified in Para. 1 above shall apply also to reaching, exceeding or falling under the prescribed thresholds in a public limited company as a result of a change in the number of voting shares on which the issuer's equity is allocated or a change in the number of votes from such shares.

The proportion of voting rights that belongs to an individual or a legal entity is calculated based on the total number of issued voting shares, including the issuer's own shares, as well as the shares with no voting rights, i.e. limited voting right in accordance with law or a legal transaction, if such transaction is in accordance with law.

A public company whose shares are traded on the regulated market, i.e. the MTF, and in which there has been a change in the number of voting shares shall disclose publicly, at the end of each calendar month, the changes that occurred in and the revised total number of voting shares, as well as the value of equity, for the purposes of the calculation of the above threshold.

The public company that is the issuer of voting shares, upon the receipt of the notification specified in Para. 1 above shall disclose the information contained in the notification to the public promptly and no later than within three working days from the date of receipt.

The obligation specified in Para. 1 above shall apply to a person who directly or indirectly holds voting shares of a public company or certificates of deposit in his own name and on his own behalf or in his own name and on the behalf of another individual, i.e. legal entity.

The obligation to notify specified above applies to an individual or a legal entity holding directly or indirectly financial instruments that, by a unilateral statement of intent or

based on a binding legal transaction, give him the right to acquire previously issued voting shares of a public company that are traded on the regulated market, i.e. the MTF.

### **Acquisition or Holding Significant Proportions of Voting Rights**

#### **Article 58**

The obligations specified in Article 57 herein shall apply also to an individual or a legal entity acquiring, selling, holding or exercising a voting right in one of the following events or in combination of the following events:

- 1) the voting right belongs to a third party with whom the individual or the legal entity has closed an agreement binding them to adopt a common long-term policy for management of that public company through joint exercising of the voting right that they hold;
- 2) the voting right transferred temporarily by the individual or the legal entity to a third party in order to exercise such rights, if such transaction is in accordance with the law;
- 3) the voting right is transferred to the individual or the legal entity as collateral, when that person controls that voting right and expresses his/her will in exercising such rights and if such transaction is in accordance with the law;
- 4) the voting right from shares for which a usufruct has been established on behalf of the individual or the legal entity;
- 5) the voting right that is held by or that can be exercised by, in compliance with the provision of Items 1) to 4) above, a company that is under the control of the individual or the legal entity;
- 6) the voting right from shares deposited with the individual or the legal entity, which that person may exercise independently, in a way that that person decides, unless there are specific instructions by the shareholder;
- 7) the voting right from shares held by a third party in his/its name, and for the behalf of the individual or the legal entity;
- 8) the voting right that that person may exercise as a proxy independently, in a way that that person decides, unless there are specific instructions by the shareholder.

### **Procedures for Notification and Disclosure of Significant Proportions of Voting Rights**

#### **Article 59**

The notification specified in Article 57 herein shall indicate the following information:

- 1) official name, seat and address of the public company that is the issuer of shares;
- 2) information about the individual or the legal entity that reached, exceeded or fell under the threshold specified in Article 57 herein;
- 3) information about the controlled companies through which the person specified in Item 2) above exercises indirectly the voting right, if applicable;
- 4) information about the shareholder, if the shareholder is not the person specified in Items 2) and 3) above, as well as the information about the person who is exercising the voting right on behalf of that shareholder in compliance with Article 57 herein;
- 5) information about the document based on which and the way in which it is determined that one has reached, exceeded or fallen under the specified threshold;

6) information about the number of votes in the absolute or relative amount which reaches, exceeds, or falls under the specified threshold, based on the information provided by the issuer on the total number of issued voting shares;

7) information about the total number of votes in the absolute or relative amount that has been reached, exceeded or fallen under;

8) that date of reaching, exceeding or falling under the threshold.

The notification specified in Para. 1 above shall indicate the name, surname, personal identification number, and place of residence for individuals, i.e. official company name, legal form, seat, address, identification number and details about the responsible persons in the legal entity for legal entities.

The Commission shall specify closer the contents and the form of the notification specified in Para. 1 above, as well as the way and the terms of delivery of the notification.

The notification shall be submitted promptly and no later than within four days after the trading took place, with the first day of trading being the following day after the person specified in Articles 57 and 58 herein:

1) becomes aware of the acquisition or the sale, i.e. the possibility to exercise the voting right or could have become aware of it, considering the circumstances, irrespective of the date of acquisition, sale or commencement of the possibility to exercise the voting right;

2) is notified about the latest movements in equity in compliance with the provisions of Article 57, Para. 4 herein.

It shall be considered that the individual or the legal entity became aware or could have become aware of the acquisition or loss of the voting right or the possibility to exercise the voting right no later than within two trading days from the date of transaction.

Without prejudices to provision from Para. 4 above, and in the event from Article 58, Para. 1, Item 8) herein, a shareholder, i.e. shareholder proxy, shall furnish the notification specified in Article 57, Para. 1 herein to the public limited company and the Commission at the day of issuing, i.e. receiving proxy authorization.

The trading days for the purposes of this Article shall be the days of trading on the regulated market, i.e. the MTF on which the shares are traded.

In the event of the obligation to issue notification as specified above, as well as in Articles 57 and 58 herein, which pertains to other parties closely connected to the person acquiring voting shares, i.e. if there is more than one individual or legal entities responsible to give notification, one joint notification can be furnished, and it shall be considered that the obligation is fulfilled as soon as any of the above persons fulfils the obligation.

### **Exemptions from Statutory Notification of Significant Proportions of Voting Rights**

#### **Article 60**

The provisions of Articles 57 and 58 herein shall not apply to:

1) the voting shares acquired with the sole purpose of clearing and balancing in the regular balancing cycle;

2) the voting right that custody banks may exercise only in accordance with the instructions given by the clients in writing or in electronic format.

3) the acquisition or sale of a significant portion of voting rights reaching or exceeding 5%, when such portion is acquired or sold by a market maker and if such activity does not influence the management of the issuer, i.e. does not influence the issuer to purchase such shares or to support the price of shares.

A legal entity shall not be under obligation to issue the notification of significant proportions of voting rights if such notification is provided by the parent company, i.e. the parent company of that company.

### **Exemptions in Calculation of Voting Rights Proportions**

#### **Article 61**

In the event that a management company is exercising its voting rights independently of its parent company, the parent company of the management company shall not be obligated to issue the notification as specified in the provisions of Articles 57 and 58 herein relating to the proportions controlled by the managing company in compliance with the provision of the legislation governing investment funds.

The parent company of an investment company shall not be under obligation to issue notification in compliance with the provisions of Articles 57 and 58 herein relating to the proportions controlled by the insurance company and used to manage the provision of portfolio management services, provided that:

- 1) the investment company is authorized by the supervisory body to manage the portfolio in compliance with the provision of Article 2, Item 8), sub-item (4) herein;
- 2) it can exercise the voting right from such shares solely in accordance with the instructions given by the clients in writing or electronically, i.e. that it ensures that the client portfolio management services are provided independently from other services, and in accordance with the prescribed procedures;
- 3) the investment company exercises the voting right independently from its parent company.

The provisions of Articles 57 and 58 herein shall apply in the event that the management company, i.e. the investment company, exercises the voting right from shares and financial instruments that belong to its parent company, i.e. another subsidiary company of that parent company, and such voting right cannot be exercised by the management company, i.e. investment company, independently, but only in accordance with direct or indirect instructions given by the parent company or other subsidiary company that is controlled by that parent company.

The commission shall specify closer the terms for notification and the documentation necessary to apply the exemptions specified above.

### **Power of Commissions to Suspend Voting Rights**

#### **Article 62**

Should a person who is under obligation to submit the notification act in violation of the provisions of Articles 57 to 59 herein, the Commission shall adopt a decision on temporary suspension of the voting right for shares held by such person, until such time the obligations specified in the above provisions are not fully met.

Upon the adoption of the decision from Para. 1 above, the Commission shall notify thereof the person to whom the decision pertains, the public company, the Central Registry and the regulated market, i.e. the MTF on which the voting shares are traded.

The adoption of the decision from Para. 1 above shall not prevent the Commission from undertaking any additional measures under its competence as specified by this Law.

### **Notification of Acquisition of Company's Own Shares**

#### **Article 63**

In the event that a public company acquires or sells own voting shares, independently or through a person acting in his/her name, and for the behalf of such public company, it shall disclose to the public the number of won shares in the absolute and relative amount promptly

and not later than within four trading days from the date of acquisition or sale of the voting shares.

### **Treatment of Shareholders**

#### **Article 64**

A public company that is the issuer of equity securities traded on the regulated market, i.e. the MTF, shall ensure equal treatment for all the shareholders holding the same class of equity securities.

The shareholders must be allowed to exercise their rights to engage a proxy.

#### **Other Information Requirements for Public Companies Issuing Equity Securities**

#### **Article 65**

A public company that is the issuer of equity securities traded on the regulated market, i.e. the MTF, shall ensure the availability of all the terms and information necessary for the shareholders to exercise their rights, with the adequate protection of the integrity of such information.

The public company from Para. 1 above is under obligation, particularly, to:

1) provide information about the place, time, and the agenda of the General Meeting, the total number of shares and the voting shares, as well as the shareholders' rights to participate in the General Meeting in compliance with the company legislation;

2) furnish the proxy statement in writing or electronically, enclosed with the announcement of the General Meeting, to any party with the right to vote in the General Meeting or, at the request by the party, also after the announcement of the General Meeting is issued;

3) appoint a credit institution through which it will fulfill its financial obligations towards the shareholders;

4) announce or issue a notification of the allocation and disbursement of dividends, as well as of the issuance of new shares, including the information about any prospective new allocation, subscription, cancellation or substitution.

The public company from in Para. 1 above may also submit information to the shareholders electronically, if it is approved at the General Meeting and if the following conditions are fulfilled:

1) the electronic provision of information should not in any way be conditioned by the shareholders' place of permanent or temporary residence, i.e. the seat of the legal entity from the provision of Article 58 herein;

2) the identification procedure is in place and ensures that the shareholders, i.e. individuals or legal entities from the provision of Article 57 herein are timely notified;

3) the shareholders or individuals and legal entities specified in Article 58, Items 1) to 5) herein are required to furnish an approval in writing to receive information electronically, and it is considered that such persons have given their approval unless they lodge a complaint within a reasonable period, with a possibility that such persons can request subsequently, at any time, that the information should be submitted in writing;

4) the public company estimates the costs of electronic information delivery in accordance with the equal treatment principal from Para. 1 above.

The public company from Para. 1 above is under obligation to furnish a proposal for the amendments to the statute or the founders act to the Commission and the regulated

market, i.e. the MTF on which its shares are traded promptly and no later than on the date of publishing of the announcement of the General Meeting to discuss those issues.

### **Other Information Requirements for Public Companies Issuing Debt Securities**

#### **Article 66**

A public company that is the issuer of debt securities shall ensure equal treatment of all its holders of the same rank securities, in terms of the rights from such debt securities.

A public company that is the issuer of equity securities shall notify promptly the public of any new issue of debt securities, and particularly of any insurance or guarantee extended for such issue.

### **Access to Statutory Information**

#### **Article 67**

A public company and an issuer that have submitted a request for putting its securities for trading on the regulated market, i.e. the MTF, shall present the statutory information specified in this Chapter in a way that ensures that they are easily and readily accessible to all, on equal basis.

The public company and the issuer shall use the services of the media that could ensure efficient delivery of the statutory information to the public across the Republic, in a way that minimizes unauthorized access to such information.

The public company and the issuer cannot take remuneration from the investors for the provision of the statutory information.

The public company and the issuer shall publish the statutory information on their web sites.

The public company and the issuer shall furnish the statutory information, at the same time they are published, to the Commission to be published in the official information registry.

The public company and the issuer whose securities are traded on the regulated market, i.e. the MTF, shall furnish the statutory information also to that market, i.e. MTF.

The Commission shall maintain the official information registry in line with the basic standards in terms of quality, security, reliability of information sources, time recording, and easy access for final beneficiaries.

The Commission shall specify closer the contents, method of delivery and terms for disclosure of the information specified in Para. 1 above, as well as the terms and conditions for maintaining and the types of information maintained in the registry specified in Para. 7 above.

### **Public Companies Acting As Foreign Issuers**

#### **Article 68**

A public company that is a foreign issuer whose securities are traded on the regulated market, i.e. the MTF in the Republic, shall comply with the provisions of this Chapter, with the exception of the provisions of Articles 56, 62, and 64 herein.

The public company that is a foreign issuer shall furnish to the Commission and disclose to the public in the Republic all additional information that it is obligated to disclose to the holders of securities in compliance with the legislation in its country of origin or the legislation governing the financial market in its country of origin on which its securities are traded.

The information to be furnished to the Commission or to be disclosed to the public in the Republic in compliance with the provisions above shall be furnished or disclosed in the Serbian language, and may also be disclosed in another language.

### **Responsibility for Accuracy and Completeness of Information**

#### **Article 69**

The responsibility for the accuracy and completeness of the information presented by the public company to the Commission and the market operator, i.e. the regulated market, and disclosed in accordance with the provisions of this Chapter shall be governed accordingly by the provisions of Article 19 herein, stipulating the responsibility for the information contained in the prospectus for public offering or for putting securities on the market to be traded, provided that in such events the company may be considered the issuer from the provision of that same Article, while the underwriter and the agent from Article 19, Para. 1, Item 4) herein shall not be considered responsible.

### **Termination of Public Company Status**

#### **Article 70**

The status of public company may be terminated after the relevant evidence has been furnished to the Commission verifying that:

- 1) at the end of any subsequent calendar year that succeeded after the year of the successful public offering of the company's securities, the public company has less than 100 owners holding debt securities class that was offered in the public offering;
- 2) the company has complied with the provisions of Article 123 herein, as well as that it has redeemed the shares from the dissenting shareholders.

Without prejudice to provision from Para. 1 above, the issuer's status of public company may be terminated provided that in the course of any calendar year all securities issued through public offering are:

- 1) taken over under a takeover bid;
- 2) redeemed in the procedure of forced sale or exercising the right to sell company's shares in accordance with the company legislation;
- 3) cancelled after a merger or another form of a status change.

At the request of the issuer, and with the relevant evidence submitted, the Commission shall delete the public company from the Registry in accordance with the procedure specified by the provision above and the Commission regulation.

### **Supervision of Public Companies by the Commission**

#### **Article 71**

The Commission supervises the implementation and fulfillment of all the obligations specified by the provisions of this Chapter.

In performing the supervision from Para. 1 above, the Commission is authorized to:

- 1) request any information, documents, evidence, and statement from the auditors, issuers, individuals and the legal entities specified in Articles 56 and 57 herein;
- 2) request any information, documents, evidence, and statement from the companies controlling or under the control of the individuals or legal entities specified in Item 1) above, as well as from other individuals and legal entities for whom the Commission deems that they could have any information that is relevant for supervision;

3) request from the issuers to disclose publicly the information, evidence, and statement specified in Items 1) and 2) above, under the terms and within the timeline that the Commission may specify;

4) disclose publicly the information, evidence, and statement specified in Items 1) and 2) above, in the event of failure to disclose by the issuer, the person controlling the issuer or the person controlled by the issuer, and after the Commission has received relevant evidence from the issuer;

5) request from the issuer's management, as well as from the individuals and legal entities specified in Articles 56 and 57 herein, public disclosure of the statutory information, in the event that they have not been disclosed to the public;

6) suspend trading or request from the regulated market, i.e. the MTF on which the issuer's securities are traded to suspend trading in securities for a maximum period of ten days, in the event of substantiated doubt that the issuer is acting in violation to the provisions of this Chapter;

7) take the issuer's securities off the regulated market, and order the MTF operator to put them on the MTF in the event that it is determined that the issuer is violating the provisions or that there is substantiated doubt that the issuer is violating the provisions governing the obligation to disclose information to the public;

8) monitor the issuer's performance in terms of the obligation to disclose the statutory information to the public within the specified timelines, ensuring equal access to such information in the overall territory of the Republic;

9) implement the necessary measures against the issuer, in the event of the issuer failing to comply, in disclosing information to the public, with the principle of equal access to disclosed information in the overall territory of the Republic;

10) disclose publicly that the issuer, as well as the individual and legal entity specified in Articles 56 and 57 herein failed to comply with their obligations as specified in this Chapter;

11) control whether statutory information is disclosed publicly with the prescribed content and in the prescribed form specified herein and in the acts of the Commission;

12) implement the necessary measures in the event that the statutory information is not disclosed publicly including the prescribed content and in the prescribed form as specified herein;

13) perform indirect supervision in the territory of the Republic over the implementation of the provisions of this Chapter.

The provision of information, documents, evidence and statements to the Commission by the auditor in compliance with Para. 2, Item 1) above shall not be considered a breach of the confidentiality of information that is imposed on the auditor by an agreement, law or a bylaw, and in that event, the auditor shall not be accountable.

In the event that the issuer's securities are traded on the regulated market, i.e. the MTF, and the Commission has identified irregularities, i.e. non-compliance with the provisions of this Chapter, the Commission shall adopt a Decision ordering the necessary measure to be implemented to ensure compliance, i.e. order the measures under their competencies as specified in Para. 2 above, and specify the timeline for implementation and submission of evidence of compliance with the Commission's orders.

The Commission shall furnish the Decision on the implemented measures from Para. 2 above to the issuer, to the shareholders, i.e. holders of securities through the issuer, to the regulated market, i.e. the MTF on which the issuer's securities are traded, and to the relevant body on the regulated market, i.e. the MTF on which the securities are traded.



Should the person fail to comply with the Decision of the Commission specified in Para. 4 above, the Commission may adopt a new Decision imposing a new measure or a number of measures.

The Commission may implement additional measures and sanctions in compliance with the provisions of Chapter XIII herein.

#### **Article 72**

The Commission shall disclose publicly all the implemented measures and the sanctions imposed in order to eliminate the identified irregularities, i.e. non-compliance relating to the obligation to disclose publicly the statutory information that applies to individual issuers, unless in the event that the disclosure could significantly influence the financial market or cause a disproportionate damage to the persons affected by the implemented measures and the imposed sanctions.

### **VI MARKET ABUSE**

#### **Application**

##### **Article 73**

Provisions of this Chapter (Article 73 – 94.) shall apply to any financial instrument admitted to trading on a regulated market i.e. MTF in the Republic, on a regulated foreign market or for which a request for admission to trading on such a market has been made, irrespective of whether or not the transaction itself actually takes place on or outside that market.

Provisions of Para. 1 of this Article shall apply to any transaction on the OTC market.

Articles 76 – 78 of this Law shall apply to any financial instrument not admitted to trading on a regulated market, but whose value depends on a financial instrument as referred to in paragraph 1 of this Article.

Articles 79 – 82 of this Article shall not apply to the issuer who has not requested or approved admission of his financial instruments to trading on a regulated market or a MTF in the Republic.

Provisions of this Chapter shall not be applied to trading in own shares in 'buy-back' programs or stabilization of financial instruments, if trading is performed in compliance with regulations of the Commission governing buy-back arrangements or trading aimed at stabilization of financial instruments.

#### **Subject to Prohibition**

##### **Article 74**

The Commission shall apply the prohibitions and requirements provided for in this Chapter to:

- 1) actions carried out in the Republic, concerning financial instruments that are admitted to trading on a regulated market or a MTF, related to a financial instrument for which a request for admission to trading on such market has been made;
- 2) actions carried out in the Republic concerning financial instruments that are admitted to trading on a regulated market in a foreign country that is a member of the International Organization of Securities Commission or concerning financial instruments for which a request for admission to trading on such market has been made.

#### **Inside Information**

##### **Article 75**

Inside information is the information of a precise nature which has not been made public, relating, directly or indirectly, to one or more issuers of financial instruments or to one or more financial instruments and which, if it were made public, would be likely to have a

significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.

Such likelihood of a significant effect shall be deemed existing if a reasonable investor would be likely to use such information as part of the basis of his investment decisions.

In relation to derivatives on commodities, inside information shall mean information of a precise nature which has not been made public, relating, directly or indirectly, to one or more such derivatives, and which users of markets on which such derivatives are traded would expect to receive in accordance with accepted market practices on these markets.

Users of markets on which derivatives on commodities are traded are deemed to receive information if:

- 1) routinely made available to the users of those markets;
- 2) required to be disclosed in accordance with legal or regulatory provisions, market rules, contracts or customs on the relevant underlying commodity market or commodity derivatives market.

Information referred to in Para. 1 of this Article shall be deemed to be information of a precise nature if it indicates a set of circumstances which exists or may reasonably be expected to come into existence or an event which has occurred or may reasonably be expected to do so and if it is specific enough to enable a conclusion to be drawn as to the possible effect of that set of circumstances or event on the prices of financial instruments or related derivative financial instruments.

Accepted market practices are practices that are reasonably expected in one or several financial markets in compliance with prescribed procedure which is to be regulated in detail by the Commission.

For persons responsible for the execution of orders concerning financial instruments, inside information shall also mean information conveyed by a client and related to the client's pending orders, which is of a precise nature, which relates directly or indirectly to one or more issuers of financial instruments or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price or related derivative financial instruments.

### **Prohibition to Misuse of Inside Information**

#### **Article 76**

Any person who possesses inside information is prohibited from using that information by acquiring or disposing of, or by trying to acquire or dispose of, for his own account or for the account of the third party, either directly or indirectly, financial instruments to which that information relates.

Para. 1 of this Article shall apply to any person who possesses that information:

- 1) by virtue of his membership of the management or supervisory bodies of the issuer or the public company;
- 2) by virtue of his holding in the capital of the issuer or of the public company;
- 3) by virtue of his having access to the information through the exercise of his employment, profession or duties;
- 4) by virtue of committed a criminal offence.

Where the person referred to in Para. 2 of this Article is a legal person, the prohibition laid down in that paragraph shall also apply to the natural persons who take part in the decision to carry out the transaction for the account of the legal person concerned.

Provisions of this Article shall not apply to transactions conducted in the discharge of an obligation that has become due to acquire or dispose of financial instruments where that obligation results from an agreement concluded before the person concerned possessed inside information.

## **Inside Information Exchange**

### **Article 77**

Any person subject to the prohibition laid down in Article 76 of this Act shall be prohibited from:

- 1) disclosing or making accessible inside information to any other person unless such disclosure or accessibility is made in the normal course of the exercise of his employment, profession or duties;
- 2) recommending or inducing another person, on the basis of inside information, to acquire or dispose of financial instruments to which that information relates.

### **Other Persons Subject to Provisions of Prohibition to Misuse Inside Information**

### **Article 78**

Provisions of Articles 76 and 77 of this Law shall also apply to any person who possesses inside information while that person knows, or ought to have known, that it is inside information.

### **Disclosure of Inside Information Directly Concerning the Issuer**

### **Article 79**

The issuer of financial instrument shall ensure that the inside information which directly concerns the said issuer is made public as soon as possible.

The issuer shall not be allowed to make the information referred to in this Article public in a manner likely to be misleading.

The issuer shall make the information public in a manner which enables fast access and complete, correct and timely assessment of the information.

The issuer shall, for an appropriate period, post on his website all inside information that they are required to disclose publicly.

The Commission shall prescribe more closely which information is likely to be taken into consideration when making decision on disclosure of inside information.

### **Article 80**

Any significant changes concerning already publicly disclosed information referred to in Article 79 of this shall be publicly disclosed promptly after these changes occur, in the same manner as the one used for public disclosure of the original information.

### **Article 81**

An issuer may under his own responsibility delay the public disclosure of inside information, as referred to in Article 79 of this Law such as not to prejudice his legitimate interests provided that such delay would not be likely to mislead the public and provided that an issuer is able to ensure the confidentiality of that information.

The issuer referred to in Para. 1 of this Article shall inform the Commission on its decision to delay public disclosure of inside information promptly.

The Commission shall prescribe more closely the circumstances likely to indicate the existence of legitimate interests referred to in Para. 1 of this Article as well as measures and solutions to be implemented by the issuer in order to ensure confidentiality of inside information.

### **Article 82**

Whenever an issuer, or a person acting on his behalf or for his account, discloses any inside information to any third party in the regular exercise of his employment, profession or duties, he must make complete and effective public disclosure of that information, simultaneously in the case of an intentional disclosure of that information and promptly in the case of a non-intentional disclosure, except if the person receiving the information owes a duty of confidentiality.

## **List of Insiders**

### **Article 83**

Issuers or persons acting on their behalf or for their account shall draw up list of persons working for them under a contract of employment or otherwise and having access to inside information relating, directly or indirectly, to the issuer, on a regular basis or occasionally.

Issuers or persons acting on their behalf or for their account shall update the list regularly and submit it to the Commission upon its request and keep them for at least five years after being drawn up or updated.

Lists of insiders shall state at least: first and last name, date of birth, address of permanent residence or temporary residence, the reason why a person has been included in the list, and the date on which the list of insiders was drawn up or updated.

Lists of insiders shall be promptly updated whenever there is a change in the reason why any person is already on the list, whenever any new person has to be added to the list whether and when any person already on the list has no longer access to inside information.

Persons required to draw up lists of insiders shall take the necessary measures to ensure that any person on such a list that has access to inside information acknowledges the regulations regarding its duties and is aware of the sanctions attaching to the misuse or improper circulation of such information.

### **Article 84**

Person discharging managerial responsibilities within an issuer shall mean a person who is:

- 1) member of the management or supervisory board of the issuer;
- 2) senior executive as well as a person who is not a member of the bodies as referred to in Item 1 of this Para., having regular access to inside information relating, directly or indirectly, to the issuer, and the power to make managerial decisions affecting the future developments and business prospects of this issuer.

Person closely associated with a person discharging managerial responsibilities within an issuer shall mean:

- 1) the spouse or any person which is considered by national law as equivalent to the spouse;
- 2) dependent of the person discharging managerial responsibilities;
- 3) other persons, who have shared the same household as the person discharging managerial responsibilities for at least one year before the date of the transaction concerned;
- 4) any legal person whose managerial responsibilities are discharged by a person above, or which is directly or indirectly controlled by such a person, or that is set up for the benefit of such a person, or whose economic interests are substantially equivalent to those of such person.

Persons referred to in Para. 1 and 2 of this Article shall notify the Commission of all acquisitions or disposals conducted of shares of the issuer admitted to trading on a regulated market i.e. MTF in the Republic on own account, as well as acquisitions or disposals of derivatives or other financial instruments linked to those shares, in which the person referred to in Para. 1 discharges managerial responsibilities, within 5 working days from the day of the acquisition or disposal concerned.

The Commission shall deliver without delay the information from the notification, as referred to in the Para. 3 of this Article to the Official Register of Regulated Information.

The notification shall contain the following information:

- 1) name of the person discharging managerial responsibilities within the issuer or, where applicable, name of the person closely associated with such a person;
- 2) reasons for notification;
- 3) name of the issuer;
- 4) description of the financial instrument;
- 5) nature of the transaction (for example, acquisition or disposal);
- 6) date and place of the transaction;

- 7) price and volume of the transaction;
- 8) other information related to the aforesaid acquisition or disposal.

The Commission shall regulate in detail the content and method of the notification of information referred to in Para. 3 of this Article as well as the value of performed acquisition or disposal during a year for that information for which no notification is required.

## **Market Manipulation**

### **Article 85**

Market manipulation shall mean:

- 1) transactions or orders to trade:
  - (1) which give, or are likely to give, false or misleading signals or information as to the supply of, demand for, or price of financial instruments;
  - (2) which secure, by a person, or persons acting in collaboration, the price of one or several financial instruments at an artificial level, unless the person who entered into the transactions or issued the orders to trade establishes that his reasons for so doing are legitimate and that these transactions or orders to trade conform to accepted market practices on the regulated market concerned;
- 2) transactions or orders to trade which employ fictitious devices or any other form of deception or contrivance;
- 3) dissemination of information through the media, including the Internet, or by any other means, which gives, or is likely to give, false or misleading signals as to financial instruments, including the dissemination of rumors and false or misleading news, where the person who made the dissemination knew, or ought to have known, that the information was false or misleading.

In respect of journalists when they act in their professional capacity such dissemination of information is to be assessed taking into account the rules governing their profession, unless those persons derive, directly or indirectly, an advantage or profits from the dissemination of the information in question.

In particular the following activities and conduct derived from the definition of market manipulation from Para. 1 of this Article shall be deemed market manipulation:

- 1) activities by a person, or persons acting in collaboration, to secure a dominant position over the supply of or demand for a financial instrument which has the effect of fixing, directly or indirectly, purchase or sale prices or creating other unfair trading conditions;
- 2) the buying or selling of financial instruments at the close of the market with the effect of misleading investors;
- 3) taking advantage of occasional or regular access to the traditional or electronic media by voicing an opinion about a financial instrument or indirectly about its issuer while having previously taken position on that financial instrument and profiting subsequently from the impact of the opinion voiced on the price of that instrument, without having simultaneously disclosed that conflict of interest to the public in a proper and effective way.

The Commission shall prescribe details concerning procedures to be considered market manipulation practice and obligation of the Commission and market participants aimed at detecting and preventing market manipulations.

## **Prohibition on Market Manipulation**

### **Article 86**

Any form of market manipulation shall be forbidden.

Persons who engage in market manipulation shall be jointly liable for the damage caused as a consequence of the market manipulation.

The market operator, regulated market and MTF shall prescribe and implement procedures and measures aimed at detecting and preventing market manipulation on that market or MTF and provide full support to the Commission to implement supervisory measures.

The market operator, regulated market and investment firms shall inform the Commission base on information available to them on cases for which they reasonably suspect to constitute market misuse.

## **Recommendation**

### **Article 87**

Recommendation means research, or other information recommending or suggesting, explicitly or implicitly, an investment strategy, concerning one or several financial instruments or the issuers of financial instruments, including any opinion as to the present or future value or price of such instruments, intended for distribution channels or for the public.

Provider of recommendations means a natural or legal person producing or disseminating recommendations in the exercise of his profession or the conduct of his business.

Distribution channels shall mean a channel through which information become publicly available or information to which a large number of persons have access.

The Commission shall prescribe what is considered to be an explicit or an implicit recommendation.

Research or other information recommending or suggesting investment strategy means:

1) information produced by an independent analyst, an investment firm, a credit institution, any other person whose main business is to produce recommendations or a natural person working for them under a contract of employment or otherwise, that, directly or indirectly, expresses a particular investment recommendation in respect to a financial instrument or an issuer of financial instruments;

2) information produced by persons other than the persons referred to in item a) of this Para. which directly recommends a particular investment decision in respect of a financial instrument.

Appropriate regulation shall mean regulation, including self-regulation, by which it is ensured that the Provider of recommendations which produces or disseminates recommendations take reasonable care to ensure that these recommendations are fairly presented and disclose his interests or indicate conflict of interest concerning the financial instruments to which recommendations relate.

## **Identity of Producers of Recommendations**

### **Article 88**

Any recommendation shall disclose clearly and prominently the identity of the person responsible for its production, in particular, the name and job title of the individual who prepared the recommendation and the name of the legal person responsible for its production.

Where the Provider of recommendation is an investment firm or a credit institution, the recommendation shall disclose the identity of the relevant competent authority.

Where the relevant person is neither an investment firm nor a credit institution, but is subject to self-regulatory standards or codes of conduct, the recommendation shall disclose a reference to those standards or codes.

## **General Standards for Fair Presentation of Recommendations**

### **Article 89**

Provider of recommendations shall ensure that:

- 1) facts are clearly distinguished from interpretations, estimates, opinions and other types of nonfactual information;
- 2) all sources are reliable or, where there is any doubt as to whether a source is reliable, this is clearly indicated;
- 3) all projections, forecasts and price targets are clearly labeled as such and the material assumptions are indicated.

Upon request by the Commission, a relevant person shall explain the grounds for the recommendation.

The Commission shall regulate additional requirements related to the contents of recommendations.

### **General Standards for Disclosure of Interests and Conflict of Interest**

#### **Article 90**

Provider of recommendations shall disclose all relationships and circumstances that may reasonably be expected to impair the objectivity of the recommendation, in particular where relevant persons have a significant financial interest in one or more of the financial instruments which are the subject of the recommendation, or a significant conflict of interest with respect to an issuer to which the recommendation relates.

Where the Provider of recommendation is a legal person, requirement from Para. 1 of this Article shall apply also to any legal or natural person working for it, under a contract of employment or otherwise, who was involved in preparing the recommendation.

Where the Provider of recommendation is a legal person, the information to be disclosed in accordance with Para. 1 and 2 of this Article shall at least include the following information on its interests and conflicts of interest:

1) of the Provider of recommendations or of related legal persons that are accessible or reasonably expected to be accessible to the persons involved in the preparation of the recommendation;

2) provider of recommendations or of related legal persons known to persons who, although not involved in the preparation of the recommendation, had or could reasonably be expected to have access to the recommendation prior to its dissemination to customers or the public.

Recommendation itself shall include disclosures referred to in Para. 1 - 3 of this Article. Where such disclosures would be disproportionate in relation to the length of the recommendation distributed, it shall suffice to make clear and prominent reference in the recommendation itself to the place where such disclosures can be directly and easily accessed by the public.

The Commission shall prescribe additional obligations related to disclosure of interest and conflict of interest.

### **Exceptions**

#### **Article 91**

Provisions of Article 88, Para. 1, Article 89, Para. 1 and 3 and Article 90, Para. 1 – 4 of this Law shall not apply to journalists subject to appropriate regulation, provided that such regulation achieves the same effects.

### **Dissemination of Recommendations Produced by Third Parties**

#### **Article 92**

Whenever a provider of recommendations under his own responsibility disseminates a recommendation produced by a third party, the recommendation shall indicate clearly and prominently the identity of that provider of recommendations.

When the person disseminating recommendations produced by the third party substantially alters the recommendation, that person shall clearly and in detail indicate that alteration.

The Commission shall regulate a way to indicate alterations.

Para. 2-3 of this Article do not apply to news reporting on recommendations produced by a third party where the substance of the recommendation is not altered.

In case of dissemination of a summary of a recommendation produced by a third party, the provider of recommendations disseminating such summary shall ensure that the summary is clear and not misleading, mentioning the source document and where the disclosures related to the source document can be directly and easily accessed by the public, provided that they are publicly available.

The Commission shall regulate additional obligations whenever the provider of recommendations is an investment firm or a natural person working for such persons under a contract of employment or otherwise that disseminates recommendations produced by a third party.

Public institutions disseminating statistics in the Republic liable to have a significant effect on financial markets shall disseminate them in a fair and transparent way.

### **Supervisory Measures**

#### **Article 93**

The Commission shall supervise the compliance with provisions of this Chapter aimed at preventing and disclosing actions representing market abuses and compliance with obligations prescribed in provisions of this Chapter.

The Commission shall perform the supervision referred to in Para. 1 of this Article:

1) by monitoring, collecting and checking the disclosed data and information, and reports which the market participants are obliged to deliver to the Commission on the basis of this Law or other Law;

2) by on-site inspections;

3) passing the supervisory measures.

The Commission can request from any physical or natural person:

1) access to any document in any form whatsoever, and receiving a copy of it;

2) require data exchange records, including telephone records.

The Commission may from any physical or natural person demand all information which are necessary to the Commission for the supervision in relation to compliance with provisions of this Chapter and if necessary for the purpose of the supervision, the Commission is authorized to summon such persons to hearing.

If the Commission, through supervision of the compliance with the provisions of this Law determines the breach of the provisions of the Chapter, it is authorized to pass the following supervisory measures:

1) order to the legal or natural person the cessation of any activity that is contrary to the provisions of this Chapter;

2) pass the admonition to the legal or natural person who acts contrary to the provisions of the Chapter;

3) order to the market operator or the investment firm the suspending of trading with the financial instrument concerned, to cancel the suspension already ordered, at the extent to which this is necessary for the elimination or prevention of harmful consequences on the regulated market or the MTF;

4) order to the Central Registry the temporary suspension of clearing and settlement;

5) propose to the authorized body the passing of the order for freezing or sequestration of assets and other measures, when applicable;

6) temporarily ban the conduct of professional activity to the subjects of supervision;

7) implement other measures and sanctions referred to in Chapter XIII of this Law.

If the person who is obliged to disclose the inside information fail to make public the inside information, or should he/she make it public incorrectly or not in the manner stipulated in provisions of this Chapter, the Commission may make public such information at the expense of that person.

The Commission may take all necessary measures to ensure that the public is correctly and exactly informed in accordance with Articles 77 – 82 and Articles 87 – 92 of this Law.

In relation to Articles from 87 to 92 of this Law the measures relating particularly to ordering the provider of the recommendation to disclose the revised recommendation which is in accordance with the provisions of these Articles, in the same way in which the previous recommendations was disclosed.

Any activity of journalists which is contrary to the provisions of this Chapter, the Commission shall, without delay, report to the appropriate professional journalist organization.



#### **Article 94**

The Commission may impose a measure lasting up to 60 days as referred to in Article 93, Para. 5, Item 4 of this Law where there is a reasonable doubt that a person has committed a criminal offense of using, disclosing and recommending the inside information or market manipulation.

The Commission cooperates with authorized bodies in detecting criminal acts referred to in Para. 1 of this Article.

Measures referred to in Article 93, Para. 5, Item 6) of this Law, the Commission may pass when there are reasonable grounds that person has committed a criminal act of using, disclosing and recommending the inside information, or the criminal act of market manipulation, whereas the measure may last up to 60 days after completion of the supervisory procedure before the Commission.

The Commission may disclose to the public every measure or sanction that will be imposed for infringement of the provisions of this Law, unless such disclosure would seriously jeopardize the financial market or cause disproportionate damage to the parties involved.

### **VII REGULATED MARKET AND MTF**

#### **Market Operator**

##### **Article 95**

Only a market operator with its seat in the Republic (hereinafter: stock exchange) shall conduct activities of operating the regulated market in the Republic, provided that it is provided with a license issued by the Commission, in compliance with this Law and regulations of the Commission.

A market operator or a regulated market is a legal entity incorporated as a joint stock company in compliance with the law governing business companies, unless otherwise provided by this Law.

A MTF operator may be a broker-dealer company or a stock exchange provided with the license issued by the Commission.

#### **Listing**

##### **Article 96**

The stock exchange shall organize a listing of securities as well as at least one additional segment of the regulated market for trading in securities.

#### **Activities on a Regulated Market or a MTF**

##### **Article 97**

Activities on a regulated market are as follows:

1) bringing together or facilitating the bringing together of multiple third party buying and selling interests in financial instruments on the market in accordance with its nondiscretionary rules and in a way that results in a contract, in respect of the financial instruments admitted to trading;

2) maintaining and making public information on the demand, supply, quotations and market prices of financial instruments, and other information significant for trade in financial instruments, both on a pre-trade and post-trade basis in compliance with provisions of this Law and regulations of the Commission;

3) subject to Commission approval and regulations, establishing and implementing of:

(1) conditions for investment companies membership in the regulated market;

(2) conditions for admitting financial instruments to trading on the regulated market, removal from trading or suspending trading in such financial instruments;

(3) conditions of trading financial instruments admitted to trading on the regulated market;

(4) market surveillance of trading in financial instruments admitted to trading on the regulated market with a view to preventing and detecting violations of securities market rules, this Law and Commission regulations, in particular, the market abuse provisions of Chapter VI of this Law governing the market abuses;

(5) procedure for initiating disciplinary procedure against joint stock companies and authorized natural persons in the investment companies acting contrary to provisions of general acts of the regulated market or market operator provisions of this Law and Commission regulation;

(6) procedure for resolution of disputed between investment companies being members on the regulated market in relation to transactions in financial instruments admitted to trading on the regulated market;

4) performing other activities in relation to the regulated market and in compliance with this Law and Commission regulations.

Provisions of Para. 1, Items 1.), 2.) and 3.), sub-items (1) – (4) of this Article shall apply to the MTF.

Activities of the regulated market or of the market operator may cover the following:

1) improvement of promotion and development of the capital market in the Republic;

2) the sale and licensing of market data, including the creation, sale, licensing and trading in financial instruments based upon market data or other financial measures;

3) investor education;

4) performing other necessary activities in relation to activities referred to in Para. 1 and 2 of this Article.

### **Prohibited Activities**

#### **Article 98**

A regulated market or market operator shall not trade in financial instruments.

Notwithstanding Para. 1 of this Article, it is allowed to invest in financial instrument issued by the Republic, National Bank of Serbia, local self-government units or comparable foreign institutions.

Neither a regulated market or market operator or any of their directors, managers or employees shall give advice regarding the purchase and sale of financial instruments or the selection of a broker-dealer company.

### **Minimum Capital Requirement**

#### **Article 99**

Minimum capital requirement for a market operator shall not be less than 1,000,000 euro in RSD equivalent.

Minimum capital requirement for a MTF operator shall not be less than 730,000 euro in RSD equivalent.

When a market operator is at the same time a MTF operator, the minimum capital requirement shall not be less than 1,000,000 euro in RSD equivalent.

The capital referred to in Para. 1 and 2 of this Article shall be fully paid in cash while shares shall not be issued prior to payment of the full amount.

### **Qualified Holdings and Control**

#### **Article 100**

Shareholders of a market operator may be local and foreign persons.

Any natural or legal person or such persons acting in concert, excluding the Republic (hereinafter: proposed acquirer) who intend either to acquire, directly or indirectly, a qualifying holding in an investment firm or to further increase, directly or indirectly, such a qualifying holding in an investment firm as a result of which the proportion of the voting rights or of the capital held would reach or exceed 10%, 20%, 33% or 50% in the capital of

that market operator (hereinafter: proposed acquisition), shall first submit an application in writing to the Commission in order to obtain prior approval for the acquisition of the qualified holding, stating the size of the intended holding as well as other required data.

Any natural or legal person who intends to dispose, directly or indirectly, of a qualifying holding in a market operator below 10%, 20%, 33% or 50% in the total capital of the said market operator, shall inform the Commission thereof stating the size of the intended holdings to be disposed of.

The Commission shall not set amounts and percentages of shares to be acquired nor can it supervise a proposed acquisition in relation to economic market needs.

#### **Article 101**

The Agency shall promptly and in any event within two working days following receipt of the application referred to in Article 100, Para. 2 of this Law as well as following possible subsequent receipt of any additional information referred to in Para. 3-5 of this Article acknowledge receipt thereof in writing to the proposed acquirer.

The Commission shall carry out the assessment within sixty working days of the date of receiving the written acknowledgement of receipt of required documentation necessary to submit along with the application (hereinafter: assessment period), while it shall notify a proposed acquirer about the date of expiry of the said deadline together with the acknowledge receipt thereof.

The Commission may no later than on the 50th working day of the assessment period, request in writing any further information that is necessary to complete the Decision on submitted application for acquiring of the qualified holding.

The assessment period shall be interrupted for the period between the date of request by the Commission for the information and the receipt of a response thereto from the proposed acquirer, whereby the interruption shall not exceed 20 working days.

Any further request for completion or clarification of the information by the Commission may not result in an interruption of the assessment period.

Where two or more proposals to acquire or increase qualifying holdings in the same market operator have been notified to the Commission, the Commission shall treat proposed acquirers in a nondiscriminatory manner.

#### **Article 102**

In assessing the application referred to in Article 100, Para. 2 of this Law in order to ensure the sound and prudent management of the market operator in which an acquisition is proposed, and having regard to the likely influence of the proposed acquirer on the market operator, the Commission shall appraise the suitability of the proposed acquirer and the financial soundness of the proposed acquisition against all of the following criteria:

- 1) the reputation of the proposed acquirer;
- 2) the financial soundness of the proposed acquirer;
- 3) whether the market operator will be able to comply with the requirements regarding the capital and other terms and conditions envisaged by provisions of this Law and, in particular, whether the group of which the investment firm will become a part has a structure that makes it possible to exercise effective supervision;
- 4) whether there are reasonable grounds to suspect that, in connection with the proposed acquisition, money laundering or terrorist financing, within the meaning of the regulations governing money laundering and terrorist financing, has been committed or attempted, or could be committed;
- 5) whether a person possessing or proposing to acquire a qualifying holding is subject to a statutory disqualification.

The Commission shall regulate in detail criteria of eligibility and reliability of a person acquiring qualified holdings.

#### **Article 103**

The Commission shall pass a Decision on granting the approval for acquisition of the qualified holding within 60 working days from the day when the proposed acquirer receives

the written acknowledgement of receipt or within additional deadline as referred to in Article 101 of this Law if based on submitted documentation can be determined that persons intended to acquire qualified holding are entitled and reliable and that their financial situation is such to assume that there will be no negative impact on business operations of the market operator.

The Decision referred to in Para. 1 of this Article shall regulate the maximum deadline for termination of the proposed acquisition and may be extended if needed.

If the Commission does not oppose the proposed acquisition within the assessment period in writing, it shall be deemed to be approved.

The Commission shall pass a Decision to oppose the proposed acquisition of qualified holding, should it determine based on submitted documentation:

- 1) that the information provided by the proposed acquirer is incomplete;
- 2) that the proposed acquirer failed to meet criteria set in provisions of Article 102 of this Law;
- 3) close relation between the market operator and other natural and legal entities being in position to control or exercise significant effect on the market operator preventing efficient conduct of supervisor function of the Commission;
- 4) law or regulation of other country in relation to a natural or legal entity to whom the market operator is closely related preventing therefore efficient conduct of supervisory function of the Commission or complicating implementation of its supervisory function.

Provisions of this Article shall apply also in cases when the application for approval of acquisition of qualified holding is submitted to the market operator as well as in cases of subsequent acquisition of shares of the market operator in percentage exceeding regulated thresholds of total of issued shares of the market operator.

#### **Article 104**

Should a market operator become aware of an acquisition or disposal of a qualifying holding in the market operator which would exceed or fall below thresholds defined in provisions of Article 100, Para. 2 and 3 of this Law, it shall notify the Commission thereof without any delay.

At least once a year, the market operator shall inform the Commission on shareholders possessing qualifying holdings and the sizes of such holdings in a manner envisaged by the Commission regulation.

The Central Registry shall promptly inform the Commission on exceeding or falling below 10%, 20%, 33% or 50% of shares of shareholders in the total capital in the market operator in a manner envisaged by the Commission regulation.

#### **Article 105**

To a person who acquires a qualifying holding in a market operator contrary to the provisions of Article 100, Para. 2 of this Law, the Commission shall:

- 1) remove its voting rights stemming from holdings acquired that way;
- 2) order that holdings acquired that way be sold.

The Commission shall withdraw its approval for the acquisition of a qualified holding if a person possessing a qualifying holding has obtained the approval by giving false and incomplete statements or in some other non permitted way.

The Commission shall withdraw its Decision on granting approval for the acquisition of a qualified holding if a person possessing a qualifying holding is no longer meeting conditions set in provisions of Article 102 of this Law and in that circumstances limitations and measures referred to in Para. 1 of this Article shall be applied.

The Commission shall regulate conditions and procedure to apply for approval of acquisitions of qualified holdings and notifications to be submitted to the Commission on qualified holdings.

### **Staff, Organizational Capacity and Technical Equipment**

#### **Article 106**

A regulated market shall have at least three natural persons employed each of whom holds a license to provide investment services as referred to in Article 95, Para. 1 of this Law.

A regulated market shall be required at the time of licensing and during business operations:

1) to have in place systems for clear identification and removal of potential adverse effects to operations of the regulated market or its members or participants caused by conflict of interest between the interest of the regulated market, its owners or its market operator on the one hand and the sound functioning of the regulated market, on the other hand in particular where such conflicts of interest might prove prejudicial to the accomplishment of functions conducted by the regulated market under this Law or Commission regulation;

2) to be adequately equipped to manage the risks to which it is exposed, to implement appropriate arrangements and systems to identify all significant risks to its operation, and to put in place effective measures to mitigate those risks;

3) to have arrangements for the sound management of the technical operations of the systems, including the establishment of effective contingency arrangements to cope with risks of systems disruptions;

4) to have transparent and non-discretionary rules and procedures that provide for fair and orderly trading and establish objective criteria for the efficient execution of orders;

5) to have effective arrangements to facilitate the efficient and timely finalization of the transactions executed under its systems;

6) to have sufficient financial resources available to facilitate its orderly functioning, having regard to the nature and extent of the transactions concluded on the market and the range and degree of the risks to which it is exposed.

The Commission shall pass regulations governing requirements in relation to staff, organizational capacity and technical equipment particularly taking into account specific market circumstances, important risks, potential conflicts of interest, financial resources and staff and technical capacities required to ensure fair, regular and efficient market operations.

#### **Requirements for Selection or Appointment of the Director and Member of the Management Board**

##### **Article 107**

A market operator shall have a General Meeting, the Management Board and the Director.

The terms of office of the Director and the members of the Management Board shall last four years with a possibility of re-election.

The Management Board shall have the Chairperson and at least four members.

The Director shall not be the Chairperson of the Management Board.

The Commission shall regulate the content of approval for prior consent for the selection or appointment of directors and members of the Management Board of the market operator.

The Director and a member of the Management Board shall not be:

1) a person subject to legal consequences of conviction;

2) a person being in a managerial position or employed in the public administration, unless the Republic has the ownership in the market operator;

3) a person being a director, member of the management board, employed or a person with the qualified holding in another market operator provided with the working license in compliance with this Law;

4) a person being a director, member of the management board or employed in the Central Registry;

5) a person being a director, member of the management board or employed in a broker-dealer company, credit institutions with an authorized bank, public company or investment fund whose securities are admitted to trading on the securities market, unless he has the ownership in the market operator;

6) a person with close ties to any of the persons referred to in Items (1) - (6) of this Para.

If the person is to serve as a director or a member of the Management Board of the market operator, the person must have business reputation and at least three years of business

experience at the management level relevant to securities market operations that is sufficient to ensure sound and prudent management of the market operator and/or a regulated market and a MTF.

The market operator shall have at least two people representing the operator in compliance with general regulations of the market operator.

The Director of the market operator shall be a full-time employed in the market operator, and that person and at least one member of the management board shall have knowledge of the Serbian language.

### **Granting, Denying and Revoking Consent**

#### **Article 108**

When determining that all requirements referred to in Article 107 of this Law are met, the Commission shall grant the consent within 30 days from the day of receiving a regular application referred to in the same Article.

The Commission shall reject the request for the granting of consent specified in Article 107 of this Law when it determines that the requirements specified in the aforesaid Article have not been satisfied.

The Commission shall revoke the prior consent to the election, and/or appointment of a director or a member of the Management Board of the market operator when it determines the following:

- 1) that the decision on the granting of consent was made on the basis of false or incomplete information;
- 2) that the person for whom the consent was granted no longer meets the requirements for granting of consent set forth in Article 107 of this Law.

### **Application for Market Operator License**

#### **Article 109**

The Commission shall prescribe the contents of an application and accompanying documents required for granting a market operator license.

Together with the application referred to in Para. 1 of this Article, the following shall accompany the application:

- 1) founding act, statute, tariff rulebook as well as other relevant regulations of the market operator or the regulated market;
- 2) information on each person with a qualifying holding in the ownership of the market operator and/or regulated market, the information regarding any person with whom a person with a qualifying holding is affiliated or has close ties as well as any other person who in some other way may exercise, directly or indirectly, control or important impact to administration of the market operator and/or regulated market.
- 3) names and information regarding the qualifications, experience and business reputation of proposed members of the management and directors of the market operator or the regulated market fulfilling requirements regulated by provisions of Article 107 of this Law;
- 4) information on staff and organizational capacity and technical equipment of the market operator in compliance with provisions of Article 106 of this Law;
- 5) information on a program of operations of the regulated market proposed by the applicant, including types of operations and organizational structure with sufficient detailed information in order to enable the Commission to determine whether the applicant meets all requirements set forth in this Chapter;
- 6) evidences on payment of the minimum capital requirements referred to in Article 99 of this Law;
- 7) application fees in conformity with the Commission tariffs booklet.

### **Decision on Application for Market Operator License**

#### **Article 110**

The Commission shall render a resolution on granting a market operator license within three months from the day of the receipt of an application.

The Commission shall render a resolution granting of the license when determines that:

- 1) the application and required accompanying documents specified in Article 107 of this Law are complete and in proper form;
- 2) all applicable requirements of Chapter VII of this Law and Commission regulations are met;
- 3) the persons with qualifying holding in the ownership of the market operator and/or regulated market, including their affiliates and persons with close ties to such persons as well as any person that may exercise control or significant impact on management of the market operator fulfill requirements referred to in Article 102 of this Law;
- 4) the management and directors are deemed to be fit and proper.

The Commission shall render a resolution rejecting the application for a license if it determines that:

- 1) one or more of the conditions for granting the license referred to in Para. 2 of this Article has not been met;
- 2) required data are incorrect, and to a great extent mislead or important data are omitted in order for the application to be interpreted correctly;
- 3) persons supposed to manage business operations fail to have sufficient reputation and experience required to perform those duties;
- 4) the ownership structure of the applicant, including persons with close ties with persons having the qualified holding, is such to disable an efficient supervision over the applicant.

### **License in case of Status Changes**

#### **Article 111**

A market operator or a regulated market shall be obliged to obtain a license from the Commission in relation to merger by acquisition, merger by formation of a new company and division prior to entering the status change in the Register of Business Entities.

#### **Application for Obtaining the Consent for Amendments of Terms stated in the Working License**

#### **Article 112**

The market operator or a regulated market shall submit to the Commission an application for obtaining consent to amendments of general acts and to change of a management member.

Proposed amendments and changes referred to in Para. 1 of this Article shall come into force upon receiving the consent by the Commission.

The Commission shall issue a Decision to grant the consent referred to in Para. 1 of this Article within 30 days from the day of receipt of the application.

### **Public Availability of Licenses**

#### **Article 113**

The Commission shall publish decisions on granted licenses for work as well as approvals referred to in Article 112 of this Law on its web page.

### **Registration of Business Companies into the Register of Business Entities**

#### **Article 114**

The market operator shall acquire the status of a legal entity by being filed in the Register of Business Entities.

The market operator shall be obliged to apply for filing in the Register of Business Entities within 30 days from the day of receipt of the Decision issued by the Commission on granting the work license and the Decision on the granting of prior consent to the election or appointment of directors and members of the management board in compliance with the law regulating business companies registration.

The market operator shall submit to the Commission the extract from the Register of Business Entities within seven days from the day of receiving the decision on registration.

The market operator shall not initiate the activities for which it has obtained the working license prior to the entry of this business activity into the Register of Business Entities.

### **Market Operator Employees**

#### **Article 115**

Employees of a market operator shall not be directors, members of management bodies or employees of the Central Registry, investment firms or public companies whose financial instruments are admitted to trading on such regulated market or MTF managed by that market operator.

### **General Acts of the Market Operator or Regulated Market**

#### **Article 116**

The general acts of the market operator shall be the Founding Act, statute, operating rules and procedures as well as the tariff booklet.

Operating rules and procedures of the market operator shall cover the matters referred to in Article 97, Para. 1 of this Law.

The market operator shall charge fees for services and operations performed up to the maximum amount set forth in the tariff booklet of the market operator submitted to the Commission.

The general acts of the market operator shall include a code of conduct for its management and employees which includes provisions regarding professional secrecy and procedures designed to prevent the misuse of confidential or inside information being substantially the same as the procedures applicable to the Commission and its employees under Articles 254 – 256 of this Law.

The Commission shall issue prior consent to acts referred to in Para. 1 of this Article as well as to their amendments and regulate also their content.

### **Regulated Market Members**

#### **Article 117**

Activities involving trade in financial instruments admitted to trading on the regulated market shall be conducted by investment firm's members of that market as well as the Republic and the National Bank of Serbia.

General acts of the market operator shall contain transparent and non-discriminatory rules, based upon objective criteria for investment firms becoming a member of the regulated market as well as conditions for expulsion from the membership.

The general acts shall regulate:

- 1) obligations for the members arising from other general acts of the market operator;
- 2) professional standards imposed on the staff of the members operating on the market;
- 3) the rules and procedures for transactions concluded on the regulated market;
- 4) the rules enabling members to participate in market transactions.

An investment firm shall become a member of the regulated market based on a submitted application, documentation and general acts of the market operator within set deadlines.

The market operator or the regulated market shall accept as a member an investment firm licensed by the Commission provided that the investment company fulfills the requirements for becoming a member as set forth in the general acts of the market operator or a regulated market.

The market operator or the regulated market shall be obliged to render a ruling on the application referred to in Para. 4 of this Article within 30 days from the day of application receipt, and it shall send a copy of the ruling to the investment firm and the Commission.

The process of ruling on the application referred to in Para. 6 of this Article shall be subject to the provisions of the Law governing General Administrative Procedure.

The ruling referred to in Para. 6 of this Article is final and an administrative lawsuit against it may be instituted.



## **Arbitration**

### **Article 118**

The acts of the market operator may regulate arbitration rules.

## **Supervision Conducted by Market Operator**

### **Article 119**

The market operator shall supervise its members in connection with transactions in financial instruments admitted to trading on the regulated market.

In effecting supervision referred to in Para. 1 of this Article, the market operator is entitled to perform on-site examination of any member, and the right to make copies and direct access to all books and records of a member.

When performing the supervision referred to in Para. 1 of this Article, the market operator shall implement procedures and measures in compliance with its regulations.

When performing the supervision, the market operator shall implement fair procedures and same measures against all members on the regulated market that are in the same circumstances.

## **Rules regarding Admission to Trading**

### **Article 120**

A regulated market or a MTF shall have clear and transparent rules in relation to admission to trading in financial instruments.

A regulated market shall:

1) ensure that any financial instruments admitted to trading are capable of being traded in a fair, orderly and efficient manner and may be freely transferred between parties involved in trading;

2) in the case of derivative financial instruments have rules that will particularly ensure that the design of the contract on derivative financial instruments allows for its orderly pricing as well as for the existence of effective settlement conditions when concluding the contract;

3) adopt and maintain efficient procedures aimed at checking whether the issuer of the financial instruments admitted to trading adhere to its obligations stipulated by provisions of this Law and Commission regulations in relation to initial, current and ad-hoc disclosing obligation;

4) establish arrangements which facilitate its members access to information which has been made public under this Law or Commission regulations;

5) establish necessary arrangements to review regularly the compliance with the admission requirements of the financial instruments which they admit to trading.

The MTF shall apply procedures referred to in Para. 2, Items 1 and 2 of this Article.

## **Admission to the Regulated Market or the MTF**

### **Article 121**

The market operator shall admit financial instruments on the regulated market if those instruments meet conditions envisaged by regulations of the market operator on the basis of the approved prospectus for admission to the regulated market.

When assessing whether shares of a issuer meet conditions to be admitted to the regulated market, the market operator shall take into account public distribution of shares, financial data related to the previous period, data on the issuer as well as data providing the insight in business operations of the issuer in compliance with its regulations.

The market operator shall admit shares of the issuer that submitted an application to have its shares admitted to the listing of the regulated market should those securities meet conditions for admission on the regulated market as well as additional conditions:

1) expected market capitalization of shares the trading of which is requested in the application shall amount to at least 1,000,000 euro while if the expected market capitalization

cannot be assessed the company capital and reserves, including previous year profit and loss shall amount to at least 1,000,000 euro;

2) the issuer shall have its annual financial statements published or adopted for three financial years prior to submission of the application for admission to the listing on the regulated market;

3) at least 25% of shares is distributed to the public.

Notwithstanding Para. 3 of this Article, the market operator may approve admission of shares to the listing of the issuer failing to meet the above requirements, should the market operator assess that investors are provided with data necessary for assessment of the issuer and shares for which the admission to the listing is sought and that it is in the interest of the issuer and the investor.

The market operator that is at the same time the MTF operator shall admit financial instruments to the MTF if those instruments fail to meet conditions envisaged by regulations of the market operator and this Law for admission to the regulated market and based on the approved prospectus for admission to the MTF.

### **Exclusion from the Regulated Market or from the MTF**

#### **Article 122**

The regulated market shall exclude a financial instrument from trading and admit it to the MTF if:

1) trading in that financial instrument is not conducted for a period exceeding 180 days;

2) the public company no longer meets the conditions for admission to trading on a regulated market;

3) due to failure to respect obligations regulated by provisions of Chapters III and V of this Law.

The regulated market or the MTF shall exclude a financial instrument from trading if:

1) bankruptcy or liquidation procedure is initiated against the public company;

2) at request of the public company whose status of a public company has been terminated in compliance with provisions of Article 70 of this Law and if shareholders who disagree have been paid in compliance with the law governing business companies.

### **Decision on Withdrawal of Shares from the Regulated Market or from the MTF**

#### **Article 123**

The General Meeting of the public company may pass a Decision on withdrawal of those shares from the regulated market or from a MTF by votes representing three quarters of the total number of shares with voting rights, whereas the company statute may set forth a higher majority for passing this Decision.

The public company may pass the decision referred to in Para. 1 of this Article if the following conditions are met cumulatively:

1) the public company has less than 10,000 shareholders;

2) the public company has realized the turnover stemming from trading in shares subject to withdrawal from the regulated market or from the MTF amounting to less than 0.5% of their total issued number within the period of six months prior to passing of the decision;

3) the public company achieved monthly turnover of shares on the regulated market or on the MTF amounting to at least 0.05% of their total issued number at least for three months during the period referred to in Item 2 of this Para.

The Decision referred to in Para. 1 of this Article is valid only when it includes an irrevocable statement of the company by which the company commits to buy out the shares from all the shareholders who vote against such a decision at a fair price, whereas this right is granted also to shareholders who failed to participate at the General Meeting.

Upon registration of the Decision referred to in Para. 1 of this Article in the Register of Business Entities, the company shall inform the regulated market or the MTF to which shares are admitted to trading.

A fair price referred to in Para. 3 of this Article represents the highest value of a share calculated in compliance with the law regulating business companies.

The Commission shall regulate the payment procedure.

### **Pre-trade Transparency**

#### **Article 124**

The market operator shall be required to make public current bid and offer prices and the depth of trading interests at those prices which are advertised through its trading systems for shares admitted to trading. Such information shall be made available to the public on reasonable commercial terms and on a continuous basis during normal trading hours.

The obligation referred to in Para. 1 of this Article may be waived by rules of the regulated market based on the trading market model or the type and size of orders. In particular, waiver may be applied in respect of transactions that are large in scale compared with normal market size for the share or type of share in question.

### **Post-trade Transparency**

#### **Article 125**

The market operator shall be required to make public the price, volume and time of the transactions executed in respect of shares admitted to trading. The details of all such transactions shall be made public on a reasonable commercial basis and as close to real-time as possible.

The market operator may give access to programs used to disclose data referred to in Para. 1 of this Article, on reasonable commercial terms and on a non-discriminatory basis, to investment firms that have the obligation to make public the information regarding transactions in shares in compliance with provisions in Article 185 of this Law.

The rules of the market operator may allow for deferred publication of the details of transactions based on their type or size. In particular, the rules may authorize the deferred publication in respect of transactions that are large in scale compared with the normal market size for that share or that class of shares.

Deferred publication of data on transactions shall receive a prior approval of the Commission and shall be clearly disclosed to market participants and investors.

#### **Article 126**

Provisions referred to in Articles 124 and 125 of this Law shall apply also to other financial instruments being traded on the regulated market.

### **Suspension or Removal of Instrument from Trading**

#### **Article 127**

At the request of the Commission or on its own initiative, the market operator or the MTF may temporarily halt or suspend the trading of a financial instrument admitted to trading if it appears to the market operator that such action is necessary for the protection of investors or in order to ensure fair and orderly trading in the financial instrument.

The Commission may temporarily suspend the trading of any financial instrument.

The market operator or the MTF may suspend or remove from trading a financial instrument which no longer complies with the rules of the regulated market or of the MTF.

The Decision on temporary suspension of trading shall be published on the website of the regulated market or the MTF on which the financial instrument is admitted to trading.

## **Market Operator Decisions**

### **Article 128**

The market operator or the MTF passes decisions on admission or refusal to admit i.e. withdrawal of financial instruments to trading on the regulated market or on the MTF in compliance with this Law, Commission regulations and its regulations.

The Decision referred to in Para. 1 of this Article is final and an administrative procedure may be instituted against it.

## **MTF Operator**

### **Article 129**

The MTF operator shall pass regulations regulating as follows:

1) MTF operator shall provide to investors sufficient publicly available information regarding the financial instruments traded under its system to enable its users to form investment judgments;

2) MTF operator shall provide the information on financial instruments when the financial instruments are admitted to trading and during trading;

3) MTF operator shall be required to comply immediately with any decision of the Commission to suspend or remove a financial instrument from trading.

Where financial instruments admitted to trading on a regulated market are traded also on the MTF without the consent of the issuer, the issuer shall not be subject to any obligation relating to submission of information to the MTF operator.

The MTF operator shall ensure fair and orderly trading and setting of prices, including reference prices, as well as efficient execution of orders, whereby the rules of trading and price setting must not allow MTF operator to make discretionary estimates.

The MTF operator shall provide full assistance to the Commission in the supervision of the market abuse cases occurring within its system.

The MTF operator shall make public current bid and offer prices and the depth of trading interests in respect of shares admitted to trading on a MTF and at the same time admitted to the regulated market and the information shall be available to the public on reasonable commercial terms and on a continuous basis during normal trading hours.

As for shares admitted to trading on the regulated market, the MTF operator shall make public the price, scope and time of the transaction conducted within the MTF system while the aforementioned data shall be published on reasonable commercial terms and as close to real-time as possible.

The Commission shall regulate:

1) the range of bid for purchase and sale as well as the depth of trading interest at those prices, to be made public;

2) the size and type of orders for which pre-trade disclosure referred to in Para. 5 of this Article may be waived;

3) the market model for which pre-trade disclosure referred to in referred to in Para. 5 of this Article may be waived, and in particular the applicability of the obligation to the trading methods;

4) trading data which MTF operators are required to make public as well as the data contents;

5) the conditions under which MTF operators may provide for deferred publication of data and the criteria which MTF operators must observe in deciding which transactions are eligible for deferred publication given the size of transactions or the types of shares traded.

Provisions of Article 117 of this Law shall apply to the MTF users regulating members of the regulated market as well as provisions of Article 119 of this Law regulating the supervision by the market operator.

Provisions of Articles 131 – 133 of this Law regarding the supervision over business operations of the market operator and supervisory measures over business operations of the MTF operator shall be applied to business operations of the MTF operator.

## **Record Keeping and Reporting Obligations of the Regulated Market and MTF**

### **Article 130**

The market operator shall be required to maintain records concerning transactions in financial instruments admitted to trading as well as other transactions on the regulated market or on the MTF, in compliance with the Commission regulation.

The market operator shall publish on its website data on financial instruments being traded on that day, quantities, prices and prices modification.

The market operator shall submit to the Commission the following reports:

1) information on the admission to the regulated market, termination of the membership, acquisition or termination of the status of the MTF user within three working days from the date of passing of a relevant decision;

2) information on the admission to trading, rejection of admission to trading and exclusion from prior admission to trading of financial instruments within three working days from the date of passing of a relevant decision;

3) annual financial report with the auditor's report and report on business operations of the company;

4) other reports requested by the Commission.

The report referred to in Para. 3, Item 3 of this Article shall be compiled and rendered public on the website of the regulated market or the MTF.

The Commission shall prescribe the form and the contents of the reports referred to in Para. 3 of this Article.

## **Commission Supervision over Operations of the Market Operators**

### **Article 131**

The competencies, authority and powers of the Commission regarding supervision set forth in Chapter XIII of this Law shall apply to the Commission's supervision of a market operator aimed at monitoring whether the market operators conduct their operations and activities in an honest, fair and professional manner that promotes the integrity of the market, including fair, orderly and efficient trading consistent with provisions of this Law, Commission regulation and its regulations.

The Commission's supervision of market operators shall be based upon a risk-based supervisory plan that includes on-site examinations with emphasis placed on those areas of operations and activities that pose the greatest systemic risk in terms of the volume and type of transactions and activities performed.

The Commission shall be obliged to conduct at least one, annual on-site examination referred to in Para. 2 of this Article.

## **Supervisory Measures**

### **Article 132**

Should the Commission in conducting supervision of a market operator find the existence of violations of the general acts of the market operator, this Law or Commission regulations that do not imply undertaking of measures referred to in Article 133 of this Law, the Commission shall issue a Decision instructing the market operator to eliminate the violations or the irregularities within certain deadline and may undertake one or several following measures:

1) issue a public reprimand;

2) issue an order for temporary prohibition on performing all or particular activities, services or transactions for the period of maximum of ten days;

3) issue an order suspending from trading or removing from trading from the regulated market a financial instrument and order the MTF operator to include it to the MTF, if information about the public company or other issuer of the financial instrument is not publicly available;

4) issue an order for temporary prohibition on disposal of funds in the accounts of the market operator and on disposal of other assets of the market operator for a period of ten working days;

- 5) issue an order temporarily suspending voting rights from qualified holdings for a period of up to three consecutive sessions of the General Meeting of the market operator;
- 6) issue an order for amending or adopting the general acts;
- 7) undertake other measures other than suspension or revocation of a working license, in compliance with provision of Chapter XIII of this Law.

The decision on the measures undertaken pursuant to Para. 1 of this Article and Article 133 of this Law, the Commission shall publish on its web site.

Temporary suspension from trading of a financial instrument referred to in Para. 1, Item 3) of this Article shall cease when evidences on which basis the Commission can determine termination of circumstances causing ordinance of the measures are submitted.

The Commission shall disclose with no delay its Decision on temporary or permanent exclusion of a financial instrument from trading.

The Commission shall prescribe the conditions and manner of effecting supervision, the procedure for issuing orders and undertaking measures, as well as the time limits for execution of orders and the duration of measures.

### **Suspension or Revocation of Market Operator's License and Actions Taken Against Certain persons**

#### **Article 133**

The Commission shall be authorized to suspend for a period of not more than two years or revoke the license of a market operator and to withdraw approval previously granted to any person with a qualifying holding in a market operator or regulated market, excluding the Republic or any person being a director or a member of the management board should it determine that:

- 1) the market operator does not make use of its license within 12 months, expressly renounces the license, or has conducted no secondary trading activities within the preceding six months;
- 2) the market operator or a director of the market operator obtained the license based on significantly false or misleading information or omitted facts thanks to which disclosed information would not be misleading or in other irregular means;
- 3) the market operator or a director of the market operator fails to continue to satisfy the conditions prescribed for obtaining the license;
- 4) the market operator or any person referred to in this Para. has committed a material violation of any provision of the general acts of the market operator or of the regulated market, provisions of this Law and Commission regulations;
- 5) the market operator or any person referred to in this Para. fails to comply within deadlines and with ways prescribed by the Commission decision issued in compliance with provisions of Article 132 of this Law;
- 6) a director and members of the Management Board of the market operator fail to exercise proper supervision over employees of the market operator whose irresponsible behaviors is the cause of a material violation of the general acts of the market operator, this Law or Commission regulations by the market operator or an employee and such violations could have been prevented if adequate supervision had been exercised.

The market operator or any other person to whom measures proposed in Para. 1 of this article refer to is entitled to a hearing before such suspension or revocation may be ordered by the Commission, in accordance with regulations that the Commission shall adopt for such purposes.

The Commission's authority to suspend or revoke a working license or to withdraw the prior approval in compliance with provisions of this Article shall not exclude a possibility of implementation of measures that the Commission is entitled to undertake:

- 1) against licensed persons pursuant to Chapter XIII of this Law;
- 2) against directors, members of the Management Board and persons with qualified holdings in the market operator or in the regulated market, in compliance with provisions of this Law.

## **VIII INVESTOR PROTECTION FUND**

### **Objective, Organization, Management, Membership, Financing of Supervision**

#### **Article 134**

The Investor Protection Fund (hereinafter: Fund) shall conduct activities aimed at protection of investors whose assets or financial instruments are exposed to risks in case of bankruptcy of an investment firm, credit institution or management company providing services and activities referred to in Para. 2, Items 8) and 9) sub-item (1) of this Law.

The Fund is not a legal entity and it shall be organized and managed by a legal entity licensed by the Commission (hereinafter: Fund operator).

#### **Fund Membership**

#### **Article 135**

The membership of the Fund shall be obligatory for the following companies having their seat in the Republic when providing investment services and activities referred to in Article 134, Para. 1 of this Law in the Republic or in their branch offices outside the Republic (hereinafter: Fund member):

- 1) an investment firm authorized to hold a client's funds or when performs services referred to in provisions of Article 2, Item 8), sub-item (4) and Item 9), sub-item (1) of this Law;
- 2) a credit institution providing additional investment services referred to in Article 2, Item 9), sub-item (1) of this Law;
- 3) a management company when performing activities set forth in Article 210, Para. 1 of this Law or providing portfolio management services for clients not being investment funds and authorized to hold client's funds or financial instruments.

#### **Contribution to the Fund**

#### **Article 136**

Fund members shall regularly calculate and pay in contributions to the Fund set forth based on the percentage of revenues stemming from activities and services referred to in Article 135 of this Law, fixed contributions or a mix of these two bases, in compliance with the Commission regulations and regulations of the Fund Operator approved by the Commission.

When the Fund member fails to pay in the contribution provided for in Para. 1 of this Article, the Fund Operator is authorized to calculate penalty interest on the amount of contribution and shall inform the Commission without any delay thereof, while the Commission shall take the measures against the Fund member referred to in Articles 145 and 146 and Chapter XIII hereof.

In the case of necessity to undertake measures against the Fund member - a credit institution referred to in provisions of Article 135, Item 2) hereof, the Commission shall forward to the National Bank of Serbia a copy of report on conducted supervision with proposed measures.

The initial contribution of the Fund member shall amount to EUR 5,000 in RSD equivalent.

The contribution paid to the Fund as well as proceeds and other revenues referred to in Article 137 of this Law shall be kept on the special account opened with the National Bank of Serbia.

#### **Funds Proceeds**

#### **Article 137**

Funds proceeds shall consist of:

- 1) contributions paid in by the Fund members;
- 2) funds collected in bankruptcy proceedings against a Fund Member;
- 3) income from investment in Funds assets.

Fund assets may be invested in:

- 1) financial instruments issued by the Republic or by the National Bank of Serbia;
- 2) debt securities guaranteed by the Republic;
- 3) other financial instruments generating revenues with approval of the Commission.

Fund assets shall be used by the Fund Operator to pay off the clients' secured claims for the purpose set forth in provisions of this Chapter and shall not be used for other purposes nor can they be subject of enforcement towards a Fund member or the Fund Operator.

The Commission shall regulate a method of managing, recording and reporting to the Commission in relation to the Fund assets.

### **Management Fee**

#### **Article 138**

The Fund Operator shall charge a fee for the fund management and the amount of the management fee and payment terms shall be regulated by Fund regulations to be approved by the Commission.

The fee referred to in Para. 1 of this Article shall be used by the Fund Operator in a way prescribed by the Commission regulation.

### **Secured Claims, Claims and Claims Management**

#### **Article 139**

The Commission regulations and rules of the Fund Operator to be approved by the Commission shall regulate the framework and procedures for assertion and payments of claims of clients toward members of the Fund when:

- 1) bankruptcy proceedings have been initiated over a Fund member;
- 2) the Commission determinates that a Fund member is unable to meet its obligations towards its clients in the sense that it is unable to repay money owed and/or return financial instruments held on behalf of the client, administered or managed by it, and there are no prospects that it will be able to do so in the near future.

Claims of clients referred to in provisions of Para. 1 hereof shall be the following:

- 1) monetary claims in dinars owed by a Fund Member to a client or belonging to a client, and which are held on behalf of the client in connection with investment services referred to in Article 134, Para. 1 hereof;
- 2) claims for restitution of financial instruments belonging to a client of a Fund Member and held by him, administered or managed on behalf of the client in connection with investment services and activities referred to in Article 134, Para. 1 hereof;

The amount of the secured claim shall be calculated on the day of initiating the court procedure referred to in Para. 1, Item 1 of this Law or on the day when the Commission determines circumstances referred to in Para. 1, Item 2) of this Article while the claims shall be determined in line with the Commission regulation, whereas all legal and contractual provisions, especially counterclaims shall be taken into consideration.

The value of the financial instruments or cash amount paid to replace the financial instrument yield that a member of the Fund is not capable of paying or settling shall be determined, wherever possible, by referring to a market value of the financial instrument.

Provisions of this Chapter shall not apply to resources of clients credit institutions – claims insured by the law regulating deposit protection in credit institutions in order to protect those persons in case of deposit inaccessibility.

Provisions of this Chapter shall not apply to claims of clients-Fund members stemming from transactions related to which clients have been sentenced for a criminal offence, commercial violation or infraction in relation to money-laundering and financing of terrorism by a final court ruling.

In case there is a doubt that the claim of a client relates to transactions connected to money laundering and financing of terrorism, the Fund may suspend all payments until the final court ruling is made.



#### **Article 140**

Clients claims are secured up to the amount of 20,000 euro in dinars equivalent per each client of the Fund member.

The client of the Fund member is a natural or legal entity whose claims meet criteria set forth in Article 139, Para. 2 of this Law while the following entities shall not be considered as clients regardless of their place of seat:

- 1) an investment firm;
- 2) a credit institution;
- 3) a financial institution and other persons referred to in provisions of Article 172, Para. 1, Items 1) and 3) hereof;
- 4) insurance company;
- 5) collective investment undertaking;
- 6) a management company, investment fund, a company managing the pension fund and the pension fund;
- 7) supranational institutions, the government and autonomous province, regional and local bodies;
- 8) natural or legal entities owing over 5 % of shares with voting right or of capital of a Fund member not being able to fulfill its obligations i.e. 5% or more shares with voting right or capital of the company closely related to that Fund member;
- 9) a member of the Management or Supervisory Board of the Fund member not being able to fulfill its obligations, if that person was occupying the aforesaid position or employed in the Fund member on the day of initiation of the bankruptcy proceedings of the Fund member or on the day of the issuing of the decision of the Commission on determining the claims or a person employed on that positions during the current or previous financial year;
- 10) family members and third parties acting on behalf of the person referred to in Items 8) and 9) hereof;
- 11) clients, auditors and employees of the Fund member responsible for generation of the claim or who used certain facts related to the Fund member causing financial difficulties to the Fund member or worsening its financial situation.

#### **Article 141**

Secured claim referred to in Article 140, Para. 1 hereof shall apply to total claims of a client toward a Fund member, regardless number and location of the account, provided that such reimbursement relates to proceeds in dinars and to financial instruments.

The Fund operator shall undertake appropriate measures to inform clients of a Fund member on court ruling or on circumstances referred to in Para. 1 of this Article by and should the client be entitled to remuneration, that remuneration shall be paid as soon as possible.

The Fund operator shall set a deadline within which clients shall submit a claim application that shall be within five months from the day of the court ruling or day when circumstances referred to Article 139, Para. 1 hereof have been determined, or from the day when that decision or determining circumstances have been published.

Exceptionally, from the provision of Para. 3 of this Article, when the client has been prevented from filing a claim for reasons beyond his influence within the deadline set, the deadline shall be extended to a year.

The Fund shall pay the amount of the claim as soon as possible, and not later than three months from the day of determining the right to payment or a day of determining the claim amount.

Notwithstanding Para. 5 of this Article, the Fund may submit an application to the Commission to extend the deadline, whereas the Commission shall extend it for the maximum of additional three months.

#### **Article 142**

Should the Fund compensate clients of a Fund member, the Fund has the priority right to collect in the bankruptcy or liquidation proceedings of a Fund member for the amount paid - i.e. the amount compensated.

#### **Reporting**

#### **Article 143**

The Fund Operator shall submit an annual report to the Commission within four months from the day of termination of the financial year.

The annual report shall be published on the website of the Commission and contain audited financial statement for the previous year along with reports of an independent auditor prepared in compliance with the Fund operator during that year.

Supervision over fulfillment of obligations of the Fund member shall be performed by the Fund operator.

The Fund Operator shall promptly inform the Commission on all noticed irregularities and illegalities.

#### **Fund Data**

#### **Article 144**

Each member of the Fund shall take care of Fund data and render them easily accessible and comprehensible to current and potential clients during the signing of the contract with clients and the Fund data shall be published on the Commission website.

The Commission shall pass regulations limiting use of data referred to in Para. 1 of this Article when advertising in order to prevent that such use have an adverse effect to the stability of the financial system and investors confidence and in particular such advertising aimed at the Fund promotion may be limited.

#### **Supervision over Performance of the Fund Member's Obligation**

#### **Article 145**

The performance of the Fund Manager's obligations referred to in this Chapter is supervised by the Fund Operator.

The Fund Operator shall inform the Commission without delay about any identified irregularities and violations detected by it.

#### **Supervision over Fund Management**

#### **Article 146**

The Commission shall perform the Fund management supervision.

The Commission holds all the powers over the Fund operator and undertakes measures and sanctions in compliance with provisions of Chapters XIII of this Law.

### **IX INVESTMENT FIRM**

#### **Licensing Conditions, Formation**

#### **Article 147**

Investment services and activities referred to in provisions of Article, Item 8) hereof, related to financial instruments referred to in provisions of Article 2, Item 1) hereof shall not be disclosed without an approval for conducting activities of the investment firm.

A broker-dealer company performing activities referred to in Para. 1 of this Article shall be organized as a joint stock company and provisions of the law regulating business companies shall apply to it, unless otherwise regulated by this Law.

A credit institution providing one or several investment services or activities referred to in Para. 1 of this Article shall fulfill relevant provisions of this Chapter as well as provisions of the Chapter X of this Law related to authorized banks.

## **Services and Activities of Investment Firms**

### **Article 148**

An investment firm may provide services and activities referred to in provisions of Article 147, Para. 1 of this Law provided that it has the license issued by the Commission to perform specifically listed activities of the investment firm.

The license to perform investment firm activities shall contain investment services and activities referred to in Article 2, Item of this Law that the investment firm is authorized to perform while the license may cover one or several ancillary services referred to in Article 2, Item 9 of this Law, but the ancillary services shall not be performed unless the investment firm is provided with the license to perform at least one investment service and activity referred to in Article 2, Item 8) hereof.

As for provision of ancillary foreign exchange services referred to in provisions of Article 2, Item 9, sub-item (4) hereof, the investment firm shall obtain a proper license in compliance with the law regulating exchange transactions.

## **Minimum Capital Requirements**

### **Article 149**

The minimum capital requirements for an investment firm shall be set forth and calculated pursuant to the Commission regulation and shall not be below:

- 1) 125,000 euro in dinars equivalent for provisions of services referred to in Article 2, Item 8) sub-items (1), (2), (4), (5) and (7) hereof;
- 2) 200,000 euro in dinars equivalent for provisions of services and activities referred to in Article 2, Item 8), sub-item (3) hereof;
- 3) 730,000 euro in dinars equivalent for provisions of services and activities referred to in Article 2, Item 8) sub-item (6) hereof;
- 4) 730,000 euro in dinars equivalent for provisions of services and activities referred to in Article 2, Item 8), sub-item (8) hereof.

By exception to Para. 1 of this Article, the Commission may pass regulation to reduce the amount referred to in Para. 1, Item 1 of this Article to 50,000 euro in dinars equivalent in cases when broker-dealer companies are not authorized to manage money or financial instruments of clients or when they perform only activities and provide services referred to in Article 2, Item 8) sub-items (1) and (2) hereof.

It is considered that a broker-dealer company with the largest capital referred to in Para. 1 of this Article fulfills requirements in relation to the capital for performance of activities and provision of services for which a lower amount is regulated.

The capital referred to in Para. 1 and 3 of this Article shall be paid in full in cash.

## **Qualified Holdings and Control**

### **Article 150**

Provisions on qualified holdings referred to in Chapter VII of this Law shall apply to broker-dealer companies.

When determining the qualified holding level, the Commission shall not take into account percentage of voting shares that another investment firm holds based on underwriting of financial instruments, or placement of financial instruments based on underwriting with obligation to purchase issue of the investment firm issuer, provided that those rights are not used to participate in management of the issuer and if the aforesaid voting shares are alienated within a year from the day of its acquisition.

## **Staff and Organizational Capacity and Technical Equipment**

### **Article 151**

An investment firm may perform investment services and activities referred to in Article 2, Item 8) sub-items (1) - (7) of this Law if it fulfills conditions related to staff and organizational capacities and technical equipment regulated by the Commission regulation,

including data processing system and if it ensures continuity and regularity in the performance of such services and activities.

An investment firm shall have at least two full-time employees licensed by the Commission to perform services and activities referred to in Article 153, Para. 1 hereof.

An investment firm shall set forth proper rules and procedures ensuring that the business operations of the firm, its management and employees are in line with provisions of this Law, the Commission regulations as well as with proper rules related to personal transactions of these people.

If an investment firm performs services and activities referred to in Article 2, Item 8) sub-items (4) and (5) hereof, at least one of the natural persons referred to in Para. 2 of this Article, shall be provided with a license issued by the Commission to perform activities as an investment advisor and portfolio manager.

If an investment firm engage another entity to perform activities related to promotion of their services, accepting and dispatching of orders to clients or providing recommendations on investment, it shall undertake all reasonable measures in order to avoid unnecessary additional business risks.

Entrusting duties to other entities shall not be performed in a way to endanger significantly the internal control quality and conducting supervision over business operations of the company pursuant to this Law.

An investment firm shall establish reliable administrative and accounting procedures, internal control mechanisms, efficient risk assessment procedures as well as efficient control and protection of the information systems.

Investment services and activities referred to in Article 2, Item 8) sub-items (1), (2), (3), (6) and (7) hereof shall be performed only by natural persons that are employed with that investment firm provided with a valid license to perform the aforesaid activities.

Investment services and activities referred to in Article 2, Item 8) sub-items (4) and (5) hereof shall be performed only by natural persons that are employed with that investment firm provided with a valid license to perform portfolio manager and investment advisor activities.

### **Provision of Services through the Medium of Another Investment Firm**

#### **Article 152**

An investment firm may conclude a contract on performance of investment services or provision of ancillary services with another investment firm on behalf of the client in which case it may use information on the client provided by the first investment firm.

The investment firm which mediates the instructions will remain responsible for the completeness and accuracy of the information transmitted.

The investment firm which receives instructions to provide services on behalf of a client shall be able to rely on any recommendations in respect of the service or transaction that have been provided to the client by another investment firm.

The investment firm which forwards the instructions will remain responsible for the appropriateness of the recommendations or advice provided to the client.

The investment firm which receives client instructions or orders through the medium of another investment firm shall be responsible for concluding the service or transaction, based on the information or recommendations in accordance with the provisions of this Law.

Conclusion of a contract referred to in Para. 1 of this Article is allowed provided that the engagement of another investment firm:

- 1) does not result in fees or other charges to the client of the first investment firm which exceed the charges that would be applicable if the first investment firm provided the services directly;

- 2) does not result in undue operational risk to the investment firm or harm the internal control quality of the investment firm or the ability of the Commission to monitor the fulfillment of obligations of the investment firm.

The Commission shall regulate conditions under which an investment firm may use services of another investment firm.

## **License for Natural Persons to Perform Investment Services and Activities**

### **Article 153**

The Commission shall organize the training and taking the test for obtaining the licenses for brokers, investment advisors and portfolio managers.

The Commission shall grant a license for performing the services and activities referred to in Para. 1 of this Article if the applicant for the license meets the following requirements:

- 1) if the applicant has successfully passed test for obtaining the license;
- 2) is not subject to legal consequences of conviction.

The applicant applying to acquire the title of an investment advisor or of a portfolio manager shall have at least three years of experience with securities transactions and university degree.

The Commission shall prescribe a method of convalidation of the license or authorization to perform these activities acquired abroad.

### **Conditions for Directors and Boards Members**

#### **Article 154**

A broker-dealer company shall have bodies in compliance with the Law regulating business companies.

The director and a member of the board of directors, supervisory board and management board of a broker-dealer company may be a person:

- 1) who is not subject to legal consequences of conviction;
- 2) who is not in the management or employed in the public administration bodies or agencies and organizations founded by the Republic;
- 3) who is not director, a member of the management or supervisory board or an employee with qualified holding in other broker-dealer company, credit institution with authorized bank, company managing investment and voluntary pension funds;
- 4) who is not director, a member of the management board or employed with the market operator or the Central Registry.
- 5) who is not closely affiliated to persons referred to in Items 1) - 4) of this Para.

Business reputation and experience of a director and a member of the board of directors, supervisory board and management board of the broker-dealer company shall ensure sound and prudent management of the broker-dealer company and these persons shall have proper business reputation and at least three years of experience working with securities transactions.

The director of the broker-dealer company shall be employed full-time in that company and the director and at least one member of the supervisory board shall have the knowledge of the Serbian language.

An investment firm shall have at least two members representing that firm.

### **Granting, Denying and Revoking Consents**

#### **Article 155**

The Commission shall prescribe the contents of a request for granting prior consent to election and appointment of directors and members of the board of directors, supervisory board or management board of an investment firm being a broker-dealer company and managers of the investment firm being an authorized bank.

When determined that all requirements referred to in provisions of Article 154 hereof have been met, the Commission shall provide consent not later than seven working days after the receipt of a request referred to in Para. 1 of this Article.

When the request for the granting of consent specified in Para. 1 of this Article is submitted with an application for a broker-dealer company license, the Commission shall initiate and conduct a unified procedure.

The Commission shall reject the request for the granting of consent specified in Para. 1 of this Article when it determines that the requirements specified in Article 154 hereof have not been satisfied.

The Commission shall revoke the prior consent to the election, and/or appointment of persons referred to in Para. 1 of this Article when it determines the following:

- 1) that the decision on the granting of consent was made on the basis of false or incomplete information;
- 2) that the person for whom the consent was granted no longer meets the requirements for granting of consent;
- 3) that the person for whom the consent was granted has subsequently engaged in a material violation of this Law, the law on prevention of money laundering and financing of terrorism or general act of the market operator or the Commission regulations, and the Commission considers it sufficiently serious and systemic to cause the person no longer to be deemed fit and proper to serve as a director or manger.

### **Application for Grant of License for Performing of Activities of Investment Firms**

#### **Article 156**

The Commission shall prescribe in detail the contents of application and additional documentations for granting a license to an investment firm to perform investment services and activities referred to in Article 147, hereof.

The application referred to in Para. 1 of this Article shall contain investment services and activities for which the investment firm is submitting the application to obtain the license.

Together with the application referred to in Para. 1 of this Article, the following shall be enclosed:

- 1) general acts of the broker-dealer company;
- 2) data on all persons with qualified holding in the applicant, including type, amount and percentage of the holding as well as data on persons affiliated to persons with qualified holding and data concerning the affiliation, other persons that may exercise, directly or indirectly, control or important impact to the broker-dealer company of the applicant;
- 3) names and information regarding the qualifications, experience and business reputation of current and proposed directors and members of the board of directors, supervisory board and management board of the applicant being a broker-dealer company or an authorized bank in compliance with provisions of Article 154 of this Law;
- 4) information on staff and organizational capacity and technical equipment of the applicant in compliance with provisions of Article 151 hereof;
- 5) tariff rulebook containing fees and costs of the applicant applying to obtain the license to perform investment services and activities;
- 6) a proof of membership in the Investor Protection Fund;
- 7) information on a program of operations of the applicant, including types of operations and organizational structure with sufficiently detailed information in order to enable the Commission to determine whether the applicant has established all required systems in order to meet its obligations stemming from this Chapter;
- 8) evidence of satisfying the requirements concerning the shared capital;
- 9) a proof on payment of the application fee in compliance with the Commission tariff booklet.

Should the application referred to in Para. 1 of this Article be submitted in order to obtain the license to perform activities of an investment firm, that already has the license or authorization of a competent foreign body, along with documentation referred to in Para. 3 of this article the following shall be enclosed:

- 1) the original and certified translation of transcript from the Registry i.e. license issued by a competent body of a foreign country, the founding act, the statute or some other proofs in relation to establishment of the investment firm or persons closely related to it in conformity with the legislation of that country;

2) transcript from the Registry of Business Entities for legal entities – shareholders of the investment firm being a legal entity i.e. persons closely related to it as well as the original and certified translation of transcript from the Registry of Business Entities for foreign legal entities;

3) evidence that the competent governmental body of the home country of the investment firm or a person related to it has granted the approval to the investment firm or the person related to it to obtain the license in the Republic or evidence that such approval is not required by legislation and regulation of that country.

### **Decision on Granting the License for Performing Activities of Investment Firms**

#### **Article 157**

The Commission shall decide on application for license to perform activities of the investment firm within 60 working days from the day of receiving the application.

The Commission shall decide on granting the license to perform activities of the investment firm when determines that all requirements determined in this Chapter and in the Commission regulation have been met.

The decision to grant the license shall state whether the investment firm being a broker-dealer company is authorized to hold cash assets i.e. financial instruments of a client.

The Commission shall reject the application to obtain the license after finding that:

1) one or several requirements to obtain the license set in this Chapter or in the case the applicant is an authorized bank set in Chapter X hereof have not been met;

2) persons that should manage business operations of the investment firm are not provided with sufficiently good reputation and experience to perform that task;

3) the ownership structure of the applicant, including related parties with qualified holding, is such that it prevents efficient supervision over the applicant;

4) data contained in the application are false, misleading or necessary data are omitted in order for application to be correctly interpreted.

### **Establishment of an Investment Firm's Branch**

#### **Article 158**

The investment firm shall submit to the Commission an application to obtain a prior consent to establish a branch office in other state.

The Commission shall regulate the content of the application referred to in Para. 1 of this Article together with proof that the relevant bodies of other state allow the investment firm to provide investment services and activities in that state.

The investment firm may conduct its business activities within units of that firm not being legal entities, but provided with certain authorizations in legal transactions, a separate calculation of business performances and a special sub-account – provided that those units fulfill requirements to perform investment firm activities.

Provisions of this Law on granting license to perform investment firm activities shall apply to granting of the license to perform those activities to units of the investment firm.

### **Authorization in case of Status Changes**

#### **Article 159**

An investment firm being a broker-dealer company shall obtain authorization from the Commission for merger or division, prior to submission of application for registration of status changes in the Business Register.

### **Amendments to Conditions Stated in the License for Performing Activities of Investment Firms**

#### **Article 160**

The investment firm shall submit an application to obtain the approval to changes of conditions referred to in its license to perform investment firm activities within 5 working days from the day the competent body of the firm passed the changes above.

The Commission approval is required if changes refer to ancillary investment services and activities referred to in Article 2, Items 8) and 9) hereof not being included in the application to obtain the license to perform activities.

### **Public Accessibility to Licenses**

#### **Article 161**

Licenses to perform investment firm activities as well as subsequent changes of licenses, shall be published by the Commission on its web site.

### **Entry into the Register of Business Entities**

#### **Article 162**

An investment firm shall be obliged to submit an application for registration into the Register of Business Entities within 30 days from the day of receipt of the license for performing the activities of the investment firms and the decision on granting prior consent for the election and/or appointment of a director and a member of the board of directors and the management board of the firm.

If the application for registration of the investment firm into the Register of Business Entities fails to be submitted within the deadline referred to in Para. 1 of this Article, the Commission shall issue a decision to annul the license for performing activities and remove the firm from the Register.

The investment firm shall forward to the Commission a transcript from the Register within seven days from the day of receipt of the decision on registration in the Registry of Business Entities.

The investment firm shall not start with the performance of the activities for which it has obtained the working license prior to registration of that activity in the Register of Business Entities.

### **General Acts of the Investment Firm**

#### **Article 163**

The general acts of the investment firm shall be the Founding Act, statute, operating rules and procedures as well as the tariff booklet.

The investment firm shall charge fees for services and operations performed up to the maximum amount set forth in the tariff booklet submitted to the Commission.

Except for the tariff booklet, the Commission shall issue prior consent to acts referred to in Para. 1 of this Article, as well as to their amendments and regulate also their content.

### **Principles of Safe and Fair Business Operations of the Investment Firm**

#### **Article 164**

When providing investment services to clients, the investment firm shall place the interests of its clients before its interests and shall act honestly, fairly and professionally in accordance with the best interests of its clients and comply, in particular, with the principles set out in this Law.

All information, including marketing communications, addressed by the investment firm to clients or potential clients shall be fair, clear and not misleading. Marketing communications shall be clearly identifiable as such.

In order for the clients to be able to understand the nature and risks of the investment service and of the specific type of financial instrument that is being offered and, consequently, to take investment decisions on an informed basis, the investment firm shall provide to the clients and potential clients appropriate information in a comprehensible form regarding:

- 1) the investment firm and its services;
- 2) financial instruments and proposed investment strategies, including appropriate guidance on and warnings of the risks associated with investments in those instruments or in respect of particular investment strategies;
- 3) transaction execution venues;
- 4) costs and associated charges.



Information referred to in Para. 3 of this Article may be provided in a standardized format.

#### **Article 165**

When providing investment advice or portfolio management services, the investment firm shall obtain the necessary information regarding the client's or potential client's knowledge and experience in the investment field, client's financial situation and his/her investment objectives relevant to a certain type of financial instrument or service so as to enable the firm to recommend to the client or potential client the investment services and financial instruments that are suitable for him.

When providing investment services other than those referred to in Para. 1 of this Article, the investment firm shall ask the client or potential client to provide information regarding his knowledge and experience in the investment field relevant to the specific type of financial instrument or service offered or demanded, so as to enable the investment firm to assess whether the investment service or product envisaged is appropriate for the client.

In case the investment firm considers on the basis of the information received under Para. 2 of this Article, that the financial instrument or service is not appropriate to the client or potential client, the investment firm shall warn the client or potential client. This warning may be provided in a standardized format.

In cases where the client or potential client decides not to provide the information referred to under Para. 2 of this Article, or where he provides insufficient information regarding his knowledge and experience, the investment firm shall warn the client or potential client that such a decision will not allow the firm to determine whether the financial instrument or service envisaged is appropriate for him. This warning may be provided in a standardized format.

Notwithstanding Para. 1 – 3 of this Article, the investment firm when providing investment services that only consist of execution and/or the reception and transmission of client orders without ancillary services, shall be permitted to provide such investment services to its clients without the need to obtain the information from those Para., provided that all of the following conditions are met:

- 1) the above services relate to shares admitted to trading on a regulated market or on a MTF in an equivalent third country market meeting requirements set in Chapter VII hereof, money market instruments, bonds or other forms of securitized debt, UCITS and other financial instruments, excluding securities and forms of securitized debt containing a derivative financial instrument;
- 2) the service is provided at the initiative of the client or potential client;
- 3) the client or the potential client has been clearly informed that in the provision of this service the broker-dealer company is not required to assess the suitability of the instrument or service provided or offered and that therefore the client does not benefit from the corresponding protection of the relevant conduct of business rules; this warning may be provided in a standardized format;
- 4) the investment firm complies with its obligations under Article 170 hereof regulating prevention of the conflict of interest between the investment firm and its clients.

#### **Article 166**

The investment firm shall be obliged to allow the access to its business rules and the tariff booklet on the premises where it deals with clients and by electronic means on its website.

Directors, management and employees in the investment firm being a broker-dealer company, management and employees of the investment firm being an authorized bank shall be obliged to keep as business secret information about client accounts and transactions and amounts in such accounts, and they shall not disclose the information to third parties, use the information other than to further the interests of the respective client.

By exception to Para. 2 of this Article, client information referred to in that Para. may be disclosed and made available:

- 1) with the written approval of the client;
- 2) in effecting supervision by the Commission, Central Registry or any regulated market;

- 3) on the grounds of a court order;
- 4) on the grounds of another competent government authority in charge of preventing money laundry or financing of terrorism i.e. other competent government authority.

#### **Article 167**

When holding clients financial instruments, the investment firm shall determine a proper system of protection of clients property rights in order to prevent utilization of clients financial instruments for account of the investment firm or for account of other clients, unless provided with explicit consent of the client.

The investment firm shall not:

- 1) pledge or dispose of financial instruments owned by a client without the client's prior written authorization;
- 2) execute a client's orders in the manner contrary to this Law, Commission regulations, or regulations of the regulated market or MTF, whose member or user is the investment firm;
- 3) purchase, sell or borrow for its own account financial instruments that are the subject of client's order, prior to acting according to the client's order;
- 4) purchase, sell, or borrow financial instruments on the grounds of a contract for managing financial instruments for the sole purpose of collecting a commission or other compensation;
- 5) encourage clients to make frequent transactions for the sole purpose of collecting commissions.

#### **Article 168**

The investment firm licensed by the Commission to hold clients cash assets i.e. financial instruments shall fulfill the following requirements in order to protect clients rights:

- 1) to keep records and accounts in a manner to allow it in any moment and without delay to separate assets of one client from assets of other client as well as from its own assets;
- 2) to keep records, accounts and correspondence in relation to clients financial instruments and cash assets on accounts kept by it precisely and accurately;
- 3) to reconcile its internal accounts with records and third parties accounts holding those assets on a regular basis;
- 4) to undertake necessary measures to ensure that all clients financial instruments registered with the Central Registry may be separated from financial instruments of the investment firm;
- 5) to undertake necessary steps to ensure that all clients cash assets deposited in a credit institution being a member of the Central Registry are kept on the account(s) that are separated from accounts used for cash assets of the investment firm;
- 6) to set proper measures to reduce risk of loss or reduction of the clients assets i.e. rights in relation to the assets that may be caused by assets misuse , fraud, poor management, inadequate keeping of records or negligence.

The Commission shall regulate in detail the content and form of records to be kept by the investment firm provided with the license by the Commission to hold cash assets i.e. financial instruments of clients.

#### **Obligation to Execute Orders on Most Favorable Terms**

#### **Article 169**

An investment firm shall be required to take all reasonable steps to obtain, when executing orders, the best possible result for its clients taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. Nevertheless, whenever there is a specific instruction from a client the investment firm shall execute the order following the specific instruction.

An investment firm shall establish and implement effective arrangements for complying with Para. 1 of this Article and in particular, procedures for execution of the clients order.

The order execution procedures referred to in Para. 2 of this Article shall include, in respect of each class of instruments, information on the different venues where the investment firm is permitted to execute its client orders and the factors affecting the choice of execution venue.

An investment firm shall provide appropriate information to its clients on its order execution and shall obtain the prior consent of its clients to the execution procedure regarding the order execution, while the stated information and consents may be an integral part of the contract with the client.

Where the investment firm's order execution procedure provides for the possibility that client orders may be executed outside a regulated market or outside the MTF, in accordance with the provisions of this Law or Commission regulations, the investment firm shall, in particular, inform its clients about this possibility and shall obtain the prior express consent of its clients before proceeding to execute their orders. The consent may be either in the form of a general agreement or in respect of individual transactions.

An investment firm shall:

- 1) monitor the effectiveness of its order execution policy in order to identify and, where appropriate, correct any deficiencies;
- 2) assess, on a regular basis, whether the execution venues included in the order execution procedure provide for the best possible result for the client or whether it needs to make changes to its execution arrangements;
- 3) notify its clients of any material changes to its order execution arrangements or execution procedures;
- 4) be required to demonstrate to its clients, at their request, that they have executed their orders in accordance with the firm's execution procedures.

### **Conflict of Interest**

#### **Article 170**

An investment company shall be obliged to organize its business operation in such a way to reduce to the greatest possible extent conflicts between its clients' interests and the interests of the investment firm, including its shareholders, directors, members of the board of directors, supervisory board or management board and employees of the firm.

An investment firm shall undertake proper measures to reveal conflicts of interest including the conflict of interest of persons referred to in Para. 1 of this Article and all with them affiliated persons on the one hand and interest of its clients on the other hand as well as mutual conflict of interest of individual clients generated during provision of investment services.

Before undertaking business on behalf of a client, an investment firm shall be obliged to inform a client about a possible conflict of the client's interests with the interests of that investment firm, and/or interests of other clients of the investment firm, including the general nature of and/or sources of such conflicts.

### **Clients Contracts and Reporting to Clients**

#### **Article 171**

An investment firm shall be obliged to conclude with a client a written contract that includes documents agreed between the firm and the client that set out the rights and obligations of the parties, and the other terms on which basis the investment firm will provide services to the client. The rights and obligations of the parties may be incorporated by reference to other legal documents and texts that are available to the client.

The contract referred to in Para. 1 of this Article must include a statement from the client that the business rules and tariff booklet of the investment firm have been made available to the client prior to conclusion of the contract.

An investment firm shall be obliged to make available to its clients any amendments of its business rules and tariff booklet not later than seven working days after such amendments become effective.

## **Professional Clients**

### **Article 172**

The following entities shall be regarded as professional clients in providing investment services and performing investment activities:

1) entities which are required to be authorized and/or regulated by the competent regulatory authority to operate in the financial market such as: credit institutions, investment firms, other financial institutions whose operations are authorized or supervised by the competent supervisory authority, insurance companies, collective investment companies and their management companies, pension funds and management companies of such funds, commodity derivatives dealers as well as other entities supervised by the competent authority;

2) legal persons meeting at least two of the following requirements:

- (1) total assets amounting to minimum 20,000,000 euro;
- (2) annual net income amounting to at least 40,000,000 euro;
- (3) own funds amounting to minimum 2,000,000 euro;

3) Republic, autonomous provinces and local self-government units as well as other states or national and regional bodies, the National Bank of Serbia and central banks of other states, international and supranational institutions such as the International Monetary Fund, the European Central Bank, the European Investment Bank as well as other similar international organizations.

An investment firm may provide to professional clients referred to in Para. 1 of this Article on their request a treatment involving a higher level of protection or a treatment provided to other clients that are not professional clients.

Where the client of an investment firm is an undertaking which is regarded as a professional client as referred to in Para. 1 of this Article prior to provision of services, the investment firm must inform it that, on the basis of the information available to the firm, such legal person is deemed to be a professional client and will be treated as such.

The investment firm must inform the professional client that it can request a variation of the terms of the agreement in order to secure, on its request, a higher level of protection of its interests whereas it is the responsibility of the client, considered to be a professional client, to ask for a higher level of protection when it deems it is unable to properly assess or manage the risks involved.

When a professional client enters into a written agreement with the investment firm to the effect that it shall not be treated as a professional, whereas such agreement shall specify whether this applies to one or more particular services or transactions, or to one or more types of instrument or transaction the investment firm shall provide a higher level of protection to it.

### **Article 173**

An investment firm may treat also other clients as professional clients at their own request and when assesses that such a client only on their own request and provided that an adequate assessment of the knowledge, experience and expertise of the client, undertaken by the investment firm, gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making its own investment decisions and understanding the risks involved.

The assessment should evaluate whether the professional client meets at least two of the following criteria prescribed for the qualified investors referred to in Article 14, Para. 2, Item 2 hereof.

Clients treated as professional clients may at their own request waive the benefits of a higher level of protection provided by their status in compliance with the following procedure:

- 1) they must state in writing that they wish to be treated as a professional client, either generally or in respect of a particular investment service or transaction, or type of transaction or financial instrument;
- 2) the investment firm must give professional clients a written warning of the protection of interests and rights to be compensated from the Investor Protection Fund they may lose;

3) they must state in writing, in a separate document from the contract, that they are aware of the consequences of losing such level of protection.

Before deciding to accept any request for waiver of the protection, an investment firm must take all reasonable steps to ensure that the client requesting to be treated as a professional client meets the relevant requirements.

#### **Article 174**

An investment firm shall adopt and implement its internal rules and procedures related to the clients categorization.

Professional clients are responsible for keeping the investment firm informed about any fact, which could affect their current categorization.

Should the investment firm become aware that the client no longer fulfils the initial conditions, which made the client eligible for a professional treatment, it must take appropriate actions.

The Commission shall regulate in detail a way the investment firm provide services to its professional and other clients.

### **Transactions with Certain Professional Clients**

#### **Article 175**

The investment firm provided with the license to execute orders on behalf of clients, to trade for its own account or to accept and forward orders may initiate transactions or enter into transactions with certain professional clients whereas it is not obliged to meet requirements referred to in Articles 164, 165 and 169, Article 171, Para. 1 and Article 176 herein in relation to these transactions and ancillary services related to them.

In the sense of this Article, certain professional clients are persons referred to in Article 172, Para. 1, Items 1) and 3) hereof.

The status referred to in Para. 2 hereof shall not preclude the right of those persons to request either generally or in respect of a particular transaction, to have the same treatment as investors whose business operations with the investment firm is not regulated in compliance with Para. 1 hereof.

The Commission shall regulate in detail obligations of the investment firm in relation to provision of services to clients.

### **Execution of Clients Orders**

#### **Article 176**

The investment firm shall be obliged to implement procedures and arrangements which provide for the prompt, fair and expeditious execution of client orders, relative to other client orders or that investment firm.

Such procedures or measures shall allow for the execution of otherwise comparable client orders in accordance with the time of their reception by the investment firm.

In the case of a client limit order in respect of shares admitted to trading on a regulated market or on a MTF that is not immediately executed or executable under prevailing market conditions, and unless the client expressly instructs otherwise, a investment firm shall be required to take measures to facilitate the earliest possible execution of that order by making public immediately that client limit order in a manner which is easily accessible to other market participants.

The investment firm shall be deemed to comply with this obligation by transmitting the client limit order to a regulated market or a MTF or when the obligation to make public a limit shall not apply to an order that is large in scale compared with normal market size as determined under the rules of the regulated market or the MTF where the financial instruments covered by the order are admitted to trading.

For the purpose of Para. 4 of this Article, it shall be considered to disclose client limit orders that are not immediately executable if it transmits the order to a regulated market or a MTF that operates an order book trading system, or ensures that the order is made public and can be easily executed as soon as market conditions allows it.

The investment firm shall furnish to the client report on executed services containing costs related to those transactions and services performed on behalf of the client and the Commission shall regulate the format and contents of the reports.

### **Venue and Method of Receiving Clients Orders**

#### **Article 177**

An investment firm shall:

- 1) keep a book of orders electronically, which shall record clients' orders for purchase or sale of securities and cancellations of such orders in the manner whereby such orders are time stamped immediately upon receipt and which prevents any subsequent alteration of the order that has not been authorized by the client;
- 2) accept clients' orders in its business premises.

An investment firm may contractually authorize another investment firm to receive the investment firm clients' orders at the other investment firm's business premises on behalf and for the account of the first investment firm, provided that the conditions of Article 152 or this Law are fulfilled regulating provision of services through other investment firm.

The legal entity with the seat in the Republic whose sole activity is acceptance and transfer of orders referred to in Article 2, Item 8) sub-item (1) hereof may conduct acceptance and transfer of orders for securities and investment units whereas when providing those services, it shall transfer orders only to:

- 1) investment firms;
- 2) collective investment undertakings and management companies subject to provisions of the law regulating investment funds.

An investment firm may decide to receive client orders by any means of telecommunication or by other electronic means, provided that such means are authorized in its client contract with the client and in which case the investment firm shall employ appropriate safeguards, such recording devices, to ensure the accuracy and integrity of such orders in the investment firm records

### **Refusal to Execute Order for Purchase and Sale**

#### **Article 178**

An investment firm shall be obliged to refuse execution of:

- 1) a purchase order when it concludes that the funds in a client's money account are not sufficient to settle the liabilities that would arise upon the execution of the purchase order;
- 2) a sale order when it concludes that there are not enough securities required to fulfill order contained in the client's securities account.

Notwithstanding Para. 1 of this Article, the investment firm shall not refuse to execute orders if the order of a client can be executed entirely or partially from:

- 1) realized, but open items;
- 2) loans with the clients approval and in compliance with the current regulations;
- 3) borrowing securities in compliance with regulations governing borrowing of securities.

The investment firm shall refuse to execute a purchase or sale order when it reasonably believes that the execution of such an order would:

- 1) violate provisions of this Law or laws regulating preventing of money-laundering and financing of terrorism;
- 2) result in committing an act prohibited by the law as a criminal offence, commercial violation or infraction.

In cases referred to in Para. 3 of this Article, the investment firm shall promptly inform the Commission.

When establishing circumstances referred to in Para. 3 of this Article, the investment firm is entitled to relay on its own information as well as information received from its clients or potential clients, unless it is or should be aware that such information are obviously outdated, false or incomplete.

## **Confirmation on Execution of Clients Orders**

### **Article 179**

An investment firm shall issue confirmation on execution of transaction between participants on the market no later than on the first working day following the execution of order and in a way agreed with the client.

A client shall not waive the right to obtain such conformation; however, it may direct that such conformation be sent to an authorized person.

## **Money Accounts**

### **Article 180**

A broker-dealer company licensed by the Commission to manage clients money on its money account with the credit institution, shall be obliged to open a money account for its clients, separated from the broker-dealer company's money account, with a credit institution member of the Central Registry while a separate client consent or authorization shall not be required.

An investment firm may use one or more accounts for client monies and shall continuously keep records on resources of each client held on the summary account.

The client is entitled to use services of opening and managing the money account directly from the credit institution – member of the Central Registry or from the broker-dealer company licensed by the Commission to hold clients money accounts.

An investment firm may use funds from its clients' money accounts only to pay for client obligations in connection with the investment services and activities as well as ancillary services performed for the client and shall not be used for payment of obligations of other clients.

Funds in clients' money accounts, including funds in the transfer process, shall not be the assets of the broker-dealer company, or used for payment of liabilities of the broker-dealer company or subject to debt enforcement.

In the case of an authorized bank, funds in clients money account shall not be included into the liquidation or bankruptcy assets of the investment firm or the credit institution being a unit of that institution or be used for payment of liabilities of the investment firm or the credit institution.

The investment firm shall be obliged to provide that there are sufficient funds on the clients money account on the day of settlement.

## **Financial Instruments Accounts**

### **Article 181**

The contract referred to in Article 171 of this Law shall oblige the investment firm to open financial instruments account with the Central Registry on behalf of the client or directly or through a credit institution – a member of the Central Registry; for persons referred to in Article 175 of this Law for which the contract with a client is not obligatory, the account shall be opened based on the order of that person in compliance with regulations of the Central Registry.

An investment firm may use financial instruments from the client account only based on orders by the client.

An investment firm shall keep its own financial instruments account with the Central Registry, separated from clients' financial instruments accounts.

Financial instruments of the investment firm clients shall not be assets or property of the investment firm and shall not be used –for settlement of liabilities of that investment firm.

In the case of an authorized bank, clients financial instruments shall not be included into the liquidation or bankruptcy assets of the investment firm or the credit institution being a unit of that institution or be used for payment of liabilities of the investment firm or the credit institution.

The investment firm shall be obliged to provide that there are sufficient financial instruments on the clients account on the day of settlement.

## **Portfolio Management Services**

### **Article 182**

A contract on financial instruments portfolio management may be concluded between an investment firm meeting requirements referred to in this Law and the Commission regulations on provision of portfolio management services and a client not being an investment fund as regulated by the law governing investment funds.

The contract referred to in Para. 1 of this Article shall authorize an investment firm to manage or invest cash funds in financial instruments and to sell financial instruments without the client's further consent.

The contract referred to in Para. 1 of this Article regulates that the investment firm may charge fees and charges for portfolio management services rendered and the contract shall at least contain:

- 1) a description of the investment policy to be followed by the investment firm;
- 2) any other limitations on the discretion provided to the investment firm;
- 3) the amount of fees and commissions;
- 4) the client's right to be able to revoke at any time the contract provided that other obligations of the client and the investment firm are met.

An investment firm may invest a portfolio management client's funds only in accordance with the contract.

## **Landing and Borrowing Financial Instruments**

### **Article 183**

Landing of financial instruments, conclusion of repurchase agreements and other similar transactions shall be performed through a member of the Central Registry.

The investment firm shall keep records related to transactions in its monthly reports to be submitted to the Commission.

The profit generated from landing of financial instruments of a client shall be attributed to the client, whereas the investment firm may charge fee for landing contracting services in compliance with the tariff rulebook.

The investment firm lands financial instruments of one client to another client, other investment firm or a credit institution being a member of the Central Registry if the contract referred to in Article 171 of this Law or a written authorization authorizes the investment firm to do so.

The investment firm may land financial instruments from its own account to persons referred to in Para. 4 of this Article while the generated profit stemming from landing of financial instruments shall be attributed to the investment firm.

## **Records Keeping and Reporting to the Commission on Transactions Performed**

### **Article 184**

An investment firm conducting transactions with financial instruments shall submit to the Commission a report containing data on transactions as soon as possible but no later than on the first working day following the execution of the transaction in a way prescribed by the Commission regulation.

An investment firm shall keep at the disposal of the Commission in electronic form, for at least five years, relevant data relating to all transactions in financial instruments which the investment firm has carried out, whether on own account or on behalf of a client. In the case of transactions carried out on behalf of clients, the records shall contain all the information and details of the identity of the client, and the information prescribed by applicable law on prevention of money-laundering and financing of terrorism.

The report referred to in Para. 1 of this Article shall in particular include details of the names and numbers of the instruments bought or sold, the quantity, the dates and times of execution and the transaction prices and means of identifying the investment firms concerned.



The report referred to in Para. 1 of this Article may be filed by an investment firm or the market operator where the transaction occurred to the Commission in a way envisaged by the Commission regulation.

### **Disclosing Trading Data**

#### **Article 185**

An investment firm which, either on own account or on behalf of clients, conclude transactions in shares admitted to trading on a regulated market or a MTF, shall be required to make public the volume and price of those transactions and the time at which they were concluded at acceptable commercial basis and in a manner which is easily accessible to other market participants.

Information referred to in Para. 1 of this Article shall be published in real-time to the greatest possible extent and regardless of whether the transaction is concluded within or outside the regulated market or the MTF.

The information which is made public in accordance with Para. 1 of this Article and the time-limits within which it is published shall comply with the requirements adopted pursuant to Article 125 hereof, also taking into consideration deferred reporting of transactions of certain categories of equity securities taking place on a regulated market or a MTF, which shall be apply mutatis mutandis to those transactions undertaken outside a regulated markets or a MTF.

Information shall be considered to be made public or available to the public if it is made available through the website of the market operator or investment firm.

### **Capital Adequacy**

#### **Article 186**

The own funds of any broker-dealer company shall not at any time fall below the minimum capital requirements referred to in Articles 149 hereof.

In the event that the own funds of the broker-dealer company referred to in Para. 1 of this Article fall below the minimum capital requirements referred to in Articles 149 hereof, the Commission shall allow such broker-dealer company a limited period of time in which to rectify their situations, or it shall impose supervisory measures provided for under this Law.

The own funds of the broker-dealer company shall consist of the sum of original own funds, additional own funds I and additional own funds II as well as other forms of capital reduced by deductible items in compliance with the Commission regulations.

The Commission shall lay down a method for calculation of the capital and the capital adequacy of a broker-dealer company, as well as which part will be used to cover certain risk types.

### **Risk Management**

#### **Article 187**

Assets of the broker-dealer company shall always correspond to assets required to cover its liabilities and potential losses due to risks to which the broker-dealer company is exposed to in its business operations and aimed at preventing from damaging clients or participants in transactions with this company.

The broker-dealer company shall calculate the assets amount, risks and exposure as prescribed by the Commission regulation.

Risk management is a set of measures and methods designed to identify, measure, and monitor risks, including also reporting on risks that the broker-dealer company is or could be exposed to in its business operations.

The broker-dealer company shall identify measures and assess risks exposed to in its business operations and manage those risks.

The broker-dealer company shall prescribe procedures concerning identification, risk measurement and assessment as well as risk management in compliance with regulations, standards and rules.

Regulations referred to in Para. 5 of this Article shall contain:

- 1) provisions ensuring functional and organizational separation of activities related to risk management and regular business activities of the broker-dealer company;
- 2) identification procedures, risk measurement and assessment;
- 3) risk management procedures;
- 4) procedures ensuring control and consistent implementation of all internal procedures of the broker-dealer company related to the risk management;
- 5) procedures for regular reporting of the management of the broker-dealer company and the Commission on risk management.

The broker-dealer company shall be required to have robust governance arrangements, which include a clear organizational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks and large exposures it is or might be exposed to, and adequate internal control mechanisms, including sound administrative and accounting procedures.

The Commission may prescribe a method for risk identification, measurement and assessment referred to in this Article as well as risk management.

### **Risk Types**

#### **Article 188**

Regulations of the broker-dealer company referred to in Article 187 of this Law shall cover all types of risks to which an investment firm is exposed to in its business operations and in particular as follows:

- 1) market risks;
- 2) credit risks;
- 3) liquidity risks;
- 4) operational risks;
- 5) risks of exposure to one person or a group of affiliated persons.

### **Market Risks**

#### **Article 189**

Market risks consist of the following: risk of a price change, settlement and counterparty credit risk, large exposures risk, foreign-exchange risk and commodities risk.

Risk of a price change is one due to losses from price changes in the financial instrument or in case of derivative financial instruments it is the price change of bases from which those instruments stem from.

Risk of a price change shall be divided into:

- 1) general position risk – risk of a price change in the financial instrument concerned due to a change in the level of interest rates or to a broad equity-market movement unrelated to any specific attributes of that financial instrument;
- 2) specific position risk – risk of a price change in the instrument concerned due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying instrument.

Settlement risk and credit counterparty risk are the risks of loss due to the counterparty's default to meet the obligations on the basis of trading-book positions.

Foreign-exchange risk is a risk of exchange rate fluctuations.

Commodities risk is a risk of changes to prices of commodities.

The broker-dealer company shall develop and apply proper policy and procedures relevant to measurement and management of all important elements and effects of market risks.

### **Credit Risks**

#### **Article 190**

Credit risk is a risk of loss due to incapacity of a client to settle its financial liabilities to a broker-dealer company.

The broker-dealer company shall identify credit risks, measure and assess against clients solvency and its timely fulfillment of obligations toward the broker-dealer company as well as against quality of the instrument of security for a claim of that company.

The broker-dealer company shall develop and apply proper policy and procedures for credit risk management.

The broker-dealer company shall establish and implement an adequate system of management and monitoring of portfolios and individual exposure associated to credit risks as well as appropriate reconciliation of values.

### **Liquidity Risks**

#### **Article 191**

Liquidity risk is a risk of appearance of adverse effects to financial results and the capital of a broker-dealer company due to incapacity of the company to settle its financial liabilities.

The broker-dealer company shall develop and implement proper policies and procedures in relation to continuous liquidity risk measurement and management, regular inspection of adequacy of facts on which the risk liquidity management system is based, current and future cash inflow and outflow management and adoption of a liquidity crisis action plan.

### **Operational Risk**

#### **Article 192**

Operational risk is a risk of loss resulting from errors, disruptions or impairments caused by inadequate internal processes, people and systems or from external events, and includes legal risk.

The broker-dealer company shall develop and implement proper policies and procedures in relation to operational risk measurement and management, including some infrequent events that have significant effects and determining what are operational risks in terms of those policies and procedures.

The broker-dealer company shall adopt a contingency plan as well as operation continuity and loss limitation plan in cases of significant disruption or interruption of business operations.

### **Broker-Dealer Company Risk Exposure**

#### **Article 193**

The exposure of a broker-dealer company to a person shall consist of the total amount of receivables related to that person or a group of persons (credits, investment securities, equity investment and shares, guarantees and aval, etc.).

A group of connected persons referred to in Para. 1 of this Article shall consist of two or more legal or natural persons who, unless it is shown otherwise, constitute a single risk for the broker-dealer company and:

- 1) one of them, directly or indirectly, has control over the other or others;
- 2) they are interconnected in a way which makes it highly probable that, if one of them were to experience improvement or deterioration of economic and financial situation, the other or all of the others would be likely to encounter improvement or deterioration of economic and financial situation, and between them there is a possibility for the transfer of loss, gain or creditworthiness;
- 3) they are related as family members.

Risk related to exceeding the allowed exposure limits is risk of loss due to exceeding the maximum allowed exposure to one person or a group of affiliated persons on the bases of positions from the trading book.

A broker-dealer company's exposure to a person or a group of connected persons shall be considered a large exposure where its value is equal to or exceeds 10% of the broker-dealer company's own funds.

A broker-dealer company may not incur an exposure to a person or a group of connected persons the value of which exceeds 25% of its own funds.

#### **Article 194**

Should the risk exposure of a broker-dealer company exceed the limit referred to in Article 193 of this Law, the broker-dealer company shall promptly inform the Commission on the exposure amount in compliance with provisions of Article 199 of this Law.

Upon completed assessment, the Commission may set a deadline for the broker-dealer company to comply with the prescribed limit.

The total risk exposure of a broker-dealer company to persons referred to in Para. 170 of this Law shall not exceed 50% of the broker-dealer company's own funds.

The sum of total risk exposure of a broker-dealer company shall not exceed 800% of the broker-dealer company's own funds.

### **Trading Book and Non-Trading Book**

#### **Article 195**

The trading book shall consist of all positions in financial instruments held by a broker-dealer company with trading intent or in order to hedge other elements in other financial instruments kept in that book and which are either free of any restrictive covenants on their tradability or able to be hedged.

The non trading book shall consist of all positions of financial instruments and commodities not included among the positions of the trading book.

The Commission shall regulate the content of the trading book and of the non-trading book.

### **Risk Management Strategies and Policies**

#### **Article 196**

A broker-dealer company shall, apart from meeting organizational requirements in terms of consistent implementation of the risk management strategies and policies, establish and consistently apply appropriate administrative and accounting procedures to ensure an efficient system of internal control, in:

- 1) in the calculation and control of capital requirements for those risks;
- 2) in identifying and monitoring large exposures, changes in large exposures and in controlling the compliance of large exposures with the broker-dealer company's policies on the kinds of exposures concerned.

### **The Liquidity and Solvency Principles**

#### **Article 197**

A broker-dealer company shall conduct its business in the manner which ensures its permanent ability to service its financial liabilities (the solvency principle) and its ability to settle, at any time, its financial liabilities when due (the liquidity principle).

### **Minimum Level of Own Funds in Relation to Capital Requirements**

#### **Article 198**

A broker-dealer company shall have own funds which are always more than or equal to the sum of capital requirements for market risks, credit risks and operational risks.

A broker-dealer company shall hold own funds which must at all times be equivalent to not less than one quarter of their preceding year's fixed overheads.

The Commission shall regulate a method for calculation of capital requirements required in order to manage certain types of risks, taking into consideration types of investment services and activities conducted by the broker-dealer company.

## **Measures to Ensure the Capital Adequacy**

### **Article 199**

A broker-dealer company shall, in compliance with the Commission regulation, submit to the Commission a report each and every fall in the capital of the company below the level referred to in Articles 149 and 186 hereof and to state in the report facts and circumstances causing the capital fall below that level.

Capital levels referred to in Para. 1 hereof shall not exceed 120% of the capital requirements for broker-dealer company in compliance with Articles 149 and 186 of this Law and the Commission regulations.

The Commission may require a broker-dealer company that fails to satisfy the capital requirements referred to in Para. 1 hereof or whose capital falls below such requirements, to discontinue immediately all investment services and activities of the broker-dealer company with respect to which the broker-dealer company fails to satisfy such capital requirements and may order the broker-dealer company to:

- 1) immediately undertake measures to raise its capital above the thresholds required in Para. 1 and 2 hereof;
- 2) limit its investment services and activities in areas specified by the Commission until such thresholds are reached or exceeded;
- 3) file timely reports with the Commission regarding the broker-dealer company's capital until prescribed thresholds are reached or exceeded.

## **Keeping of Business Records of an Investment Firm**

### **Article 200**

An investment firm shall keep and preserve records of all services and transactions undertaken in order to enable the Commission to supervise compliance of the investment firm's operations with provisions of this Law and the Commission regulation.

An investment firm shall, in relation to every order received from a client, and in relation to every decision to deal taken in providing the service of portfolio management, immediately make a record of the following details:

- 1) the name of the client;
- 2) the name or other designation of any relevant person acting on behalf of the client;
- 3) the buy/sell indicator, financial instrument identification code, unit price and quantity;
- 4) the nature of the order if other than buy or sell;
- 5) the type of the order;
- 6) any other details, conditions and particular instructions from the client that specify how the order must be carried out;
- 7) the date and exact time of the receipt of the order, or of the decision to deal, by the investment firm.

Immediately after executing a client order, or, in the case of an investment firm that transmits orders to another investment firm for execution, immediately after receiving confirmation that an order has been executed, the investment firm shall record the following details:

- 1) the name of the client;
- 2) the trading day, trading time, buy/sell indicator, financial instrument identification code, unit price, price notation, quantity, quantity notation and venue identification;
- 3) the total price, being the product of the unit price and the quantity;
- 4) the nature of the transaction if other than buy or sell;
- 5) the authorized person who executed the transaction or who is responsible for the execution.

If an investment firm transmits an order to another investment firm for execution, it shall immediately record the following details after making the transmission:

- 1) the name of the client whose order has been transmitted;
- 2) the name or other designation of the person to whom the order was transmitted;
- 3) the terms of the order transmitted;
- 4) the date and exact time of transmission.

### **Broker-Dealer Company Reporting Requirements**

#### **Article 201**

The Commission shall prescribe the form and content of monthly reports that a broker-dealer company shall be obliged to file with the Commission not later than the 15<sup>th</sup> day of the month immediately following the month covered by the report.

The monthly reports referred to in Para. 1 of this Article shall be required to show the broker-dealer company's compliance with the capital adequacy requirements referred to in Articles 149 and 186 hereof and the Commission regulations, including the broker-dealer company's risk exposure.

The Commission shall prescribe the form and content and deadlines to file annual financial statements and reports of an independent auditor prepared in compliance with the law regulating accounting and audit and that the broker-dealer company shall submit to the Commission.

Within the deadline that shall not be less than 60 and not more than 120 days, a broker-dealer company shall submit to the Commission the annual report on its business operations the form and content of which shall be regulated by the Commission.

The report of an independent auditor referred to in Para. 3 of this Article shall be required to report also on the adequacy of the broker-dealer company's internal control mechanisms, accounting procedures required to calculate capital adequacy, risk exposure management and shall be required to identify any material weaknesses in such internal controls and procedures.

### **Auditing Obligations of Broker-Dealer Companies**

#### **Article 202**

Any person who carries out an audit of financial statements of a broker-dealer company shall have a duty to report promptly to the Commission in writing any fact or decision concerning that undertaking of which that person has become aware while carrying out that task and which is liable to:

- 1) constitute a material breach of this Law or Commission regulations, general act of the market operator or the Central Registry which lays down the conditions governing licensing or which specifically govern pursuit of the activities of an investment firm;
- 2) affect the undisturbed functioning of an investment firm;
- 3) lead to refusal to approve the financial statement audit report or to expression of reservations concerning the investment firm reports validity.

The person referred to in Para. 1 of this Article shall also have a duty to report any facts and decisions of which the person becomes aware in the course of carrying out the audit related to a company having close links with the investment firm within which he is carrying out that task.

The disclosure in good faith to the Commission by such person of any fact or decision referred to in Para. 1 of this Article shall not constitute a breach of data confidentiality and shall not involve such persons in liability of any kind.

### **Commission Supervision over Business Operations of Investment Firms and Licensed Persons**

#### **Article 203**

The Commission is authorized to pronounce all measures and sanctions prescribed by this Law to investment firms and licensed natural persons in order to be able to fulfill its legal powers and particularly to ensure lawful and regular trading in financial instruments, investors interest protection, a fair, efficient and transparent capital market and system risk reduction on the capital market as well as to submit proper notifications or requests in case of noticing any violation or irregularity.

The Commission supervision of the investment firm shall be based upon risk assessment that includes on-site examinations with emphasis placed on those investment firms that pose the greatest systemic risk in terms of the volume and type of investment services and activities performed and the Commission shall be obliged to conduct at least one, annual on-site examination of all licensed investment firms.

The Commission is authorized to perform supervision also over other persons that contrary to provisions of Articles 147 and 148 hereof perform investment services and activities.

### **Measures for the Termination of Established Violations and Irregularities**

#### **Article 204**

When the Commission in the course of supervision establishes violations and irregularities, it will issue a decision ordering their elimination or termination of the action and will issue supervisory measures.

In the decision referred to in Para. 1 of this Article the Commission will set out the deadlines within which the investment firm shall eliminate the established violations and irregularities that shall not exceed 6 months.

The Commission shall inform the market operator, the Central Registry, the National Bank of Serbia, the MTF operator and the credit institution, if appropriate on the decision referred to in Para. 1 of this Article.

Persons referred to in Para. 3 of this Article shall prevent on the basis of the Commission decision and during duration of the supervisory measures the investment firm to take part in and use rights of a member of the regulated market or a MTF user.

Where the Commission established violations and irregularities in keeping the account books and other business documentation which the investment firm is obliged to keep pursuant to the provisions of this Law or Commission regulation, it may order the investment firm to present a report on the termination of violations and irregularities, which should be supported by an opinion of an independent certified auditor from which it is clear that those violations and irregularities have been terminated.

### **Supervisory Measures**

#### **Article 205**

Should the Commission, in the course of supervising the investment firm, establish failure to comply with provisions of this Law, the Commission regulation, general act of the market operator or the Central Registry, for which the Commission is not obliged to undertake measures referred to in Article 206 hereof, it shall pass a decision imposing to the investment firm or a licensed natural person violating provisions to remove that irregularity within certain deadline and may also undertake one or several following measures:

- 1) issue a public reprimand;
- 2) issue an order for temporary prohibition on performing of some or all activities and related ancillary services to an investment firm or to a licensed natural person for the maximum duration of 60 working days;
- 3) forbid to the investment firm or a licensed natural person to accept clients orders in its business premises;
- 4) issue an order for temporary prohibition of management of funds in cash and securities accounts and management of other assets for the period of maximum three months;
- 5) issue a temporary prohibition to the investment firm to hold and manage financial instruments and cash assets of clients;
- 6) undertake other measures and sanctions, other than suspension or revocation of a license, which are authorized against licensed persons pursuant to provisions of this Law.

#### **Article 206**

To a person acquiring the qualified holding in a broker-dealer company contrary to provisions of Article 150 hereof, the Commission shall:

1) revoke its voting right stemming from qualified holding acquired in such a way i.e. prevent exercising of control over the broker-dealer company;

2) order sale of qualified holding.

The Commission may withdraw its approval for the qualified holding if a person possessing a qualifying holding has obtained the approval by giving false and incomplete statements or in some other non permitted way or no longer meets the requirements envisaged by Article 150 hereof for granting of consent for qualified holding and in those cases measures referred to in Article 205 of this Law shall apply.

The decision on the measures undertaken pursuant to Para. 1 of this Article and Article 207 hereof shall be published by the Commission on its website.

The Commission shall prescribe conditions and manner of effecting supervision, the procedure for issuing orders and undertaking measures, as well as the time limits for execution of orders and the duration of measures.

### **Suspension or Revocation of Licenses to Perform Activities of Investment Firms and Licenses for Natural Persons**

#### **Article 207**

The Commission shall be authorized to suspend for a period of not more than two years or revoke the license of an investment firm and any natural person licensed to perform investment services and activities for the investment firm pursuant to Article 153 of this Law if the Commission finds that:

1) the investment firm does not make use of its license within 12 months, expressly renounces the license, or has provided no investment services or activities within the preceding six months;

2) the investment firm or a natural person obtained the license based on false or incomplete information or by other irregular means;

3) the investment firm or a natural person fails to continue to satisfy the conditions prescribed for obtaining the license;

4) the investment firm or a natural person has committed a material violation of any provision of this Law or Commission regulations, and in the case of a license revocation, such material violations have been serious and systemic;

5) the investment firm or a natural person fails to comply within the prescribed time period with a Commission decision issued pursuant to Article 205 hereof;

6) the investment firm fails to fulfill its obligation in terms of timely and accurate reporting to the Commission for more than two times in three years or if in some other way hinder the supervision of the Commission over its business operations;

7) the investment firm fails systematically or in large extent to fulfill its obligation in terms of organizational, technical, staff and other requirements needed for provision of investment services and investment activities;

8) the investment firm fails to fulfill obligations envisaged by provisions of this Law regulating prevention of money-laundering and financing of terrorism;

9) the investment firm or a manager who is licensed pursuant to Article 151 hereof fails to exercise reasonable supervision over any licensed natural person or other employee of the investment firm who is the cause of a material violation of this Law or Commission regulations, general acts of the market operator or the Central Registry and such violations could have been prevented if reasonable supervision had been exercised.

Whenever the investment firm fails to fulfill its obligations in terms of organizational, staff and other requirements needed for provision of investment services and investment activities regulated by this Law, the Commission may issue a decision to ban provision only of those investment services and performance of those investment activities for which the investment firm fails to fulfill requirements regulated by this Law and Commission regulation instead of revoking its license.

In the decision referred to in Para. 2 of this Article, the Commission may order transferring of default orders and other documentation of clients of the investment firm subject to license revocation to another investment firm subject to consent by the client.



From the day of this Decision on license revocation to an investment firm becoming effective, the firm shall not enter into contract, initiate or perform investment services or activities for which the license is revoked.

#### **Article 208**

An investment firm and a licensed natural person subject to proposed license suspensions or revocation referred to in Article 201 hereof is entitled to a hearing before such suspension or revocation may be ordered by the Commission, in accordance with regulations that the Commission shall adopt for such purposes.

The Commission's authority to suspend or revoke a license under this Article shall be without prejudice to any action the Commission is authorized to undertake:

- 1) against licensed persons pursuant to provisions of Chapter XIII hereof;
- 2) in compliance with other provisions of this Law against directors, managers and persons with qualified holdings in the investment firm being a broker-dealer company or management of an authorized bank.

Should an investment firm or a natural person provided with the license file an application to the Commission for revocation of the license due to termination of performance of business activity or change of the scope of activity for which the license was granted in compliance with provisions of this Law, the Commission shall supervise its business operations and depending on findings thereof it may decide to revoke the license and cancel it from the register kept by the Commission.

The management of the investment firm shall submit an application and inform the Commission on decision to terminate or change the scope of activity on the first working day following the adoption of the decision.

The Commission is not obliged to revoke the license to the investment firm or legal person against whom there is a pending investigation or charges regarding violations of this Law or Commission regulations, general acts of the market operator or the Central Registry until such matters have been fully resolved.

#### **Special Rules regarding Investment Firms whose Licenses are Suspended or Revoked**

#### **Article 209**

In cases when the Commission suspends or revokes a license to perform investment activities to an investment firm, the investment firm shall forward an immediate written note to all clients so that they may decide to withdraw funds from accounts in investment firms or to transfer them into another investment firm provided with the license.

In cases where a license to perform activities of a broker-dealer company has been revoked, the liquidation or bankruptcy procedure shall be initiated in compliance with the law regulating business companies or the law regulating bankruptcy procedure.

Should the official receiver determine that there are insolvency issues he shall terminate liquidation proceedings and initiate the bankruptcy proceedings.

Assets of clients of the investment firm shall not be included in the liquidation or bankrupt's estate of the firm.

Costs of notification of clients referred to in Para. 1 hereof shall be paid by the investment firm.

#### **Provisions Applicable to Management Companies**

#### **Article 210**

Should the company managing investment funds provide portfolio management services referred to in Article 2, Item 8) sub-item (4) hereof to clients not being investment funds as defined by the law governing investment funds, the management company may also provide investment advices referred to in Article 2, Item 8) sub-item (5) hereof as well as ancillary services in terms of keeping and managing financial instruments on behalf of clients referred to in Article 2, Item 9) sub-item (1) hereof.

Provisions of Article 2, Items 10) and 16), Article 4, Items 2), 3) and 4), Article 151, Articles 164 - 171, Articles 176, 179, 182. and 200 and Article 201, Para. hereof shall apply to the management company.

## **X AUTHORIZED BANKS**

### **Authorization to Perform Investment Services and Activities**

#### **Article 211**

The credit institution shall not perform one or several investment services and activities referred to in Article 2, Items 8) and 9) hereof in relation to financial instruments referred to in Article 2, Item 1) hereof, without being licensed to perform activities of the investment firm to be issued by the Commission for authorized banks – organization unit of that credit institution.

The authorized bank referred to in Para. 1 hereof may perform prescribed services through a system of authorized banks and other systems of credit institution or by combining these two systems.

The credit institution not provided with the license referred to in Para. 1 hereof may perform ancillary services referred to in Article 2, Item 9) hereof without necessity to procure the license from the Commission.

The authorized bank referred to in Para. 1 hereof, shall not perform business operations of the market operator.

### **Conditions for Performing Activities of Authorized Banks**

#### **Article 212**

The authorized bank shall:

- 1) have a separate organizational unit solely intended for that purpose referred to in Article 211, hereof;
- 2) keep separate business records and information on business operations of such organizational unit;
- 3) comply with all provisions of Chapter IX of this Law, except for the provisions from which it is specifically excepted.

### **Application of this Law and Commission Regulations**

#### **Article 213**

The following provisions shall apply to an authorized bank:

- 1) Article 150, hereof regulating qualified holdings;
- 2) Articles 149 and 162 and Articles 186 – 199 hereof regulating the capital requirements, capital adequacy and risk management as well as registration into the Registry of Business Entities.

The National Bank of Serbia shall submit to the Commission report or information collected in relation to the capital adequacy and risk exposure of an authorized bank regardless whether those reports and information are collected in relation to a credit institution whose part is the authorized bank.

Reports and information referred to in Para. 2 of this Article represent inside information and in compliance with Commission regulation shall be kept as business secret.

### **Commission Supervisory Measures**

#### **Article 214**

The Commission shall perform the supervision over an authorized bank in compliance with this Law.

In performing the supervision referred to in Para. 1 of this Article, supervisory measures and sanctions shall be applied as well as measures of termination of activities regulated by this Law for the investment firm.

Information collected by the Commission in conducting the supervision are inside information and together with measures undertaken in relation to an authorized bank shall be forwarded to the National Bank of Serbia.

The National Bank of Serbia shall keep information referred to in Para. 3 of this Article as the business secret in compliance with provisions of this Law and its regulations.

## **XI CENTRAL REGISTRY**

### **Central Registry Organization**

#### **Article 215**

The Central Registry is a legal entity which is organized and operates as a joint stock company in compliance with this Law and the Law on Business Companies.

The share of the state capital in the Central Registry shall not be lower than 51%.

Shares of the Central Registry are ordinary voting shares.

The seat of the Central Registry is in Belgrade.

#### **Activities**

#### **Article 216**

The Central Registry perform as follows:

- 1) managing the registry of financial instruments;
- 2) keeping records of financial instruments in issuers' accounts;
- 3) managing and recording of accounts of Central Registry members and of their clients;
- 4) recording third party rights in financial instruments;
- 5) keeping electronic records on financial instruments and maintaining materialized securities;
- 6) managing money accounts of members of the Central Registry, including activities in relation to payment and other yields to financial instruments;
- 7) registering ownership of materialized securities in dematerialized form;
- 8) clearance and settlement based on concluded transactions involving financial instruments and determining of liabilities and claims of members of the Central Registry and their clients after the settlement of their mutual liabilities;
- 9) transfer of financial instruments in the accounts of the members of the Central Registry;
- 10) defining and assigning a unique identification number to financial instruments;
- 11) keeping the codebook of financial instruments;
- 12) performing transactions related to corporate operations of financial instrument issuers;
- 13) depositing of shares in relation to taking over of joint stock companies;
- 14) calculation of any taxes relating to transfer of financial instruments, in compliance with the law;
- 15) participating in and cooperating with international organizations dealing with registration, clearing and settlement;
- 16) other activities in the matters of financial instruments, including activities that are necessary to discharge the above activities.

The Central Registry shall not entrust its activities to another person before obtaining a prior approval of the Commission.

The Central Registry in administrative procedures shall apply provisions of the law regulating general administrative procedure.

The decision of the Central Registry are final and an administrative procedure may be initiated against it.

## **Minimum Capital Requirement, Acquisition of Qualified Holdings in the Capital of the Central Register**

### **Article 217**

The minimum capital of the Central Registry shall not be lower than 750,000 euro in dinar equivalent.

Funds for the operations of the Central Registry shall be provided from the fees for performed activities in accordance with the tariff booklet of the Central Registry and from other sources in compliance with the law.

The provisions of this Law governing the acquiring of qualified holding in the capital of a regulated market or market operator shall be applied to acquisition of the qualified holding in the Central Registry.

Provisions referred to in Para. 3 hereof shall apply to a case when the qualified holding is acquired by the Republic.

## **The Central Registry Bodies**

### **Article 218**

The Central Registry bodies shall be the General Meeting, the Management Board and the Director.

Competencies of the General Meeting are performed by the Government through its representatives.

Representatives in the General Meeting and the Director are appointed and released from their duties by the Government at proposal of the ministry in charge of finance affairs (hereinafter: Ministry).

The General Meeting shall appoint and relieve from their duties members of the management board.

The term of office of the director and members of the management board shall last four years and they can be re-elected.

The management board consists of a chairperson and four members.

The Director shall not be a chairperson of the management board.

Should the ownership structure change, bodies referred to in Para. 1 hereof shall be appointed in compliance with the memorandum on association.

## **Granting Approval for Appointment of the Director and Members of the Management Board and Employees**

### **Article 219**

The Central Registry shall be obliged to obtain prior approval from the Commission for the appointment of the director and members of the management board.

When granting the prior approval referred to in Para. 1 hereof, the Commission shall accordingly apply standards and procedures defined in Articles 107 and 108, hereof regulating conditions for selection of the director and members of the management board of the market operator.

Employees of the Central Registry shall not be directors, members of the management board or employed with the market operator or an investment firm, a member of the Central Registry or public company when the clearing and settlement of their financial instruments is performed by the Central Registry or for which the Central Registry is keeping records of those financial instruments.

General regulations related to working relations shall apply to rights and obligations of employees of the Central Registry.

## **General acts; Approval of the Commission**

### **Article 220**

General acts of the Central Registry are the statute, business rules, tariff booklet and other general acts which regulate business operations of the Central Registry.

The Commission shall grant a prior approval to the general acts of the Central Registry and all amendments thereto within 30 days from the day of receiving the application, and the proposed act shall come into force upon being approved by the Commission.

The Central Registry may pass also other rules and procedures to regulate business operations from its jurisdiction.

The Commission may decide to withdraw the approval to the general acts of the Central Registry and impose to the Central Registry adoption of general acts.

Should the Central Registry fail to adopt the general acts imposed by the Commission, the Commission may pass that act.

General acts referred to in Para. 1 and 5 hereof shall be published on the website of the Central Registry upon receiving the approval and adoption.

The code of Conduct of the director, members of the management board and employees containing provisions in relation to keeping of business secrets and procedures aimed at preventing misuse of confidential and inside information shall be an integral part; those procedures are to the greatest extent the same procedure relevant to the Commission and its employees referred to in provisions of Articles 254 – 256, hereof.

### **Business Rules**

#### **Article 221**

The Central Registry business rules shall govern:

- 1) registry management;
- 2) opening and managing accounts for financial instruments;
- 3) opening and managing money accounts;
- 4) safekeeping of financial instruments;
- 5) effecting the clearance and settlement of liabilities and claims on the grounds of concluded transactions;
- 6) transfer of financial instruments and rights arising from them, as well as the contents of orders for transfer (hereinafter - transfer orders) and order for recording the third party rights in financial instruments (hereinafter - recording orders);
- 7) forming and using a guarantee fund and other manners of eliminating the risk in case a member of the Central Registry fails to meet the liabilities;
- 8) other matters significant to the work of the Central Registry.

### **Tariff Booklet**

#### **Article 222**

Membership fee and other fees charged by the Central Registry for rendering its services shall be stipulated in the tariff booklet of the Central Registry.

The Central Registry shall inform its clients at least seven days prior to starting applying tariff booklet on its adoption or amendment thereto.

### **Membership in the Central Registry**

#### **Article 223**

Members of the Central Registry may be the Republic, the National Bank of Serbia, investment firms, credit institutions, market operators, regulated market, fund management companies, and foreign legal entities that perform clearing and settlement or registration of financial instruments, or other persons provided that they fulfill requirements for membership regulated by the general acts of the Central Registry.

Admission to Central Registry membership shall be effected on the grounds of an application and documentation prescribed by the general acts of the Central Registry.

The Central Registry shall be obliged to render a resolution on the admittance to the membership in the Central Registry within 30 days from the day of the receipt of the application referred to in Para. 2 of this Article.

The resolution referred to in Para. 3 hereof is final and an administrative procedure may be instituted against it.

The Central Registry shall regularly inform the Commission on each new member of the Commission and membership cessation as well as submit updated list of members in way prescribed by the Commission regulation.

### **Members` Right and Obligations**

#### **Article 224**

Rights and obligations of the Central Registry towards a member of the Central Registry, as well as the rights and obligations of that member, shall be prescribed by the acts of the Central Registry.

### **Control Performed by the Central Registry**

#### **Article 225**

The Central Registry shall conduct control over its members in the part of transactions that the Central Registry is in charge of.

In effecting the control, the Central Registry shall have the right of direct access to the documentation related to the transactions referred to in Para. 1.

Whenever the Central Register determines illegal conduct of irregularities representing violation of provisions of this Law, the Commission regulation and regulation of the Central Registry, it shall order to the member to remove those irregularities within certain timeframe.

The Central Registry shall promptly inform the Commission and the market operator in a manner prescribed by the Commission regulation on each significant violation of provisions of this Law and Commission regulation i.e. regulation of the Central Registry performed by a member of the Central Registry.

### **Membership Termination**

#### **Article 226**

A member's Central Registry membership shall be terminated:

- 1) should the member's license for performing business activities be revoked;
- 2) should the member no longer meet conditions required for the membership in the Central Registry;
- 3) should the member systematically and to a large extent fail to comply with obligations toward the Central Restrictor or fail to comply with general acts of the Central Registry;
- 4) in other cases envisages by the Commission regulations.

The Central Registry may suspend the membership in conformity with its rules of business operations.

### **Accounts**

#### **Article 227**

The Central Registry shall open and keep accounts of members of the Central Registry with the following sub-accounts for financial instruments:

- 1) securities accounts;
- 2) issuing accounts;
- 3) proprietary accounts;
- 4) management accounts;
- 5) omnibus or custody accounts.

The Central Registry shall open and keep sub-accounts of:

- 1) members of the Central Registry;
- 2) the guarantee fund.

The money accounts of the Republic with the Central Registry, a sub-account of the Share Fund or its legal successors shall be opened where funds shall be collected stemming from sale of shares performed by the Share Fund.

The Central Registry regulation may envisage opening also of other accounts and sub-accounts.

Money accounts of the Central Registry shall be kept and opened with the National Bank of Serbia.

Financial instruments and proceeds of members of the Central Registry on accounts kept by the Central Registry shall not be included into assets or the liquidation or bankruptcy assets of the Central Registry and shall not be subject to enforcement of claims.

### **Commencement and Transfer of Rights from Financial Instruments**

#### **Article 228**

The lawful possessor of financial instruments (hereinafter - the lawful possessor) required to be registered with the Central Registry is a person for whom is opened a securities account with the Central Registry where the financial instrument is held.

Rights of lawful possessors of financial instruments may be exercised as of the moment of the registration of the financial instrument on its account kept with the Central Registry.

Except for Para. 1 of this Article, when an investment firm or a credit institution keeps accounts with the Central Registry for clients to whom it provides additional services referred to in Article 2, Item 9) hereof, persons on whose behalf the additional services are provided shall be considered lawful possessors of financial instruments on that account.

### **Transfer of Rights Arising from Securities and Registration of Rights of Third Parties**

#### **Article 229**

The transfer of rights arising from financial instruments shall be performed on the ground of transfer order issued by a member of the Central Registry as well as on the ground of proper legal transactions, in compliance with regulations of the Central Registry.

Transfer of rights from financial instruments shall be performed on the basis of law provisions and valid court ruling i.e. ruling of a competent authority.

Transfer of rights from financial instruments on the grounds of a gift agreement i.e. assignment of securities without compensation shall be effected on the grounds of a gift agreement i.e. an agreement on assignment of securities without compensation in writing and certified by a competent authority whereas the certification by the competent authority is not required when one of the party is the Republic.

Filing third party rights on financial instruments shall be effected by the Central Registry on the grounds of a filing order issued by a member of the Central Registry on behalf of the lawful possessor of the financial instrument, or a person authorized by the lawful possessor or a legal proxy as well as on the grounds of the court ruling.

### **Clearing and Settlement**

#### **Article 230**

Clearing and settlement obligations arising from the transactions in financial instruments concluded in the Republic shall be met only through the Central Registry in conformity with this Law and the rules of the Central Registry.

Para. 1 of this Article shall not apply to transactions with financial instruments of the issuers from the Republic, provided that they are traded outside the Republic and that the investment firm orders clearing and settlement of those instruments through the system outside the Republic.

Members of the Central Registry shall perform their cash obligations from conclusion of transactions through cash accounts kept with the Central Registry.

### **Obligations and Responsibilities of the Central Registry**

#### **Article 231**

The Central Registry shall be obliged to protect the information system and the information at its disposal from unauthorized use, changes and losses and to keep for at least five years in a safe place original documentation on which bases the registration is performed.

The Central Registry shall be obliged to permanently keep the documentation and information recorded by means of electronic media.

The Central Registry shall be obliged to provide a continuous functioning of information system by creating secondary database and secondary computer system that would secure continuous operation in case of flood, fire and similar events, and which must be located at a certain distance from the location of the primary information system of the Central Registry and connected to another electrical grid.

The information in the Central Registry shall be confidential and disclosed only under the terms and in the manner prescribed by this Law, based on the court or other competent body request.

The Central Registry shall be obliged to let a member inspect a part of the database of the Central Registry, relating to that member and its clients, and/or to issue the transcript with that data in conformity with the business rules of the Central Registry.

The Central Registry shall be obliged to establish and implement a stable and safe management system including:

- 1) reliable organizational structure, supervisory procedures and operational guidelines;
- 2) efficient procedures to determine, assess and control risks to which the Central Registry is exposed in its business operations;
- 3) an efficient internal control system with proper administrative, accounting and internal audit procedures;
- 4) proper measures to prevent, set and resolve disputes between the Central Registry and a member of the Central Registry.

### **Information Access Right**

#### **Article 232**

The right to access information referred to in Article 231, Para. 1 and 2, hereof shall be granted to lawful possessors of financial instruments, members of the Central Registry keeping accounts for those lawful possessors as well as a person who can prove its legal interests in relation to those financial instruments.

The Central Registry is entitled to charge fees to compensate costs in relation to production and forwarding of data at request of a person referred to in Para. 1 and 3 of this Article in compliance with the tariff booklet.

### **Public Data**

#### **Article 233**

The data from the central records of shareholders issuers are public data and shall be published on the website of the Central Registry in a way prescribed by the regulation of the Central Registry.

The Central Registry shall render public the following data as well as update those data on its website regularly:

- 1) data on issuing, swapping and cancellation of financial instruments;
- 2) data on corporative activities of the Central Registry in relation to those financial instruments;
- 3) data on shareholders from the register it keeps and percentage of a class of financial instrument in the total volume of that instrument.

The Commission may regulate the content of data referred to in Para. 2 of this Article.

### **Responsibility for Data in the Central Registry**

#### **Article 234**

The Central Registry shall be responsible toward issuers, lawful possessors of financial instruments subject to registration in the Central Register against damage caused by failure to execute or irregular execution of transfer orders or by violation of other obligations set by this Law as well as against the damage caused by data incorrectness or loss.



Should a member of the Central Registry or an issuer to whom that member provides services has caused inaccurate or illegal registration into the Central Registry in relation to the financial instrument, he shall be responsible for damage caused to acquirers or persons to whom financial instruments are to be transferred i.e. rights stemming from them.

A member or a issuer is not liable for damage caused by defective data processing system of the Central Registry provided that he has not cause such defect.

### **Reporting of the Central Register**

#### **Article 235**

The Central Registry shall submit an annual report on business operations to the National Assembly, the Government and the Commission not later than four months upon termination of the financial year.

The Commission shall regulate in detail the content and a way of submission of reports referred to in Para. 1 of this Article as well as, contents, manners and deadlines of submission of other reports.

The Central Registry shall disclose annual financial statements, produced in compliance with the Law regulating accounting and audit and shall submit them to the Government and the Commission along with the report of an independent auditor, referred to in Para. 1 hereof.

### **Powers of the National Bank of Serbia**

#### **Artier 236**

The National Bank shall issue regulations that govern the manner of performing of payment operations through money accounts with the Central Registry.

The National Bank shall supervise the legal compliance of business operation of the Central Registry and its members in the part that relates to performance of payment operations through money accounts with the Central Registry.

The Commission and the National Bank of Serbia shall exchange information when conducting the supervision or control as referred to in Article 213, Para. 2 and Article 214, Para. 3 hereof.

### **Supervision of the Commission over the Central Registry**

#### **Article 237**

The Commission shall supervise operations of the Central Registry.

Competencies and powers of the Commission in relation to the supervision regulated in Chapter XIII, hereof shall be appropriately applied to the supervision of the Commission over the Central Registry aimed at monitoring whether the Central Registry operates in compliance with laws and in professional way to improve integrity of the capital market in the Republic including lawful and efficient clearing, settlement and registration of financial instruments in compliance with the objectives of this Law.

The supervision of the Commission over the Central Registry shall be based on a supervisory principle of assessment of risks, implying direct control of areas of operations representing the largest systemic risk in terms of the volume and type of transactions and activities performed, provided that the Commission shall be obliged to conduct at least one, annual on-site examination of the Central Registry.

### **Supervisory Measures**

#### **Article 238**

If the Commission should establish, in the course of the supervision over the Central Registry, any breach of the general acts of the Central Registry, the provisions of this Law or the regulation of the Commission whereby the Commission is not obligated to undertake the measures referred to in Para. 2 above, the Commission shall adopt a decision ordering the Central Registry to correct such non-compliance and irregularities within a reasonable period of time, and it may undertake one or several of the following measures:

- 1) issue a public warning;

2) issue an order for revision, amendment or adoption of a general act of the Central Registry;

3) undertake other measures and sanctions in accordance with Chapter XIII of this Law, with the exception of suspension or withdrawal of the operating license issued to the Central Registry.

The Commission may prohibit any person holding a qualified holding in the Central Registry, with the exception of the Republic, to use a voting right arising from qualified holding, i.e. may withdraw any previously issued consent by the members of the management or the Director of the Central Registry if it should establish as follows:

1) the person has committed a material breach of the provisions of the general acts of the Central Registry, of this Law or the Commission regulation;

2) the Director or a member of the Managing Board has been issued a license based on inaccurate or misrepresented information, by having omitted material facts necessary to make the disclosed information not misleading or in any other illegal manner;

3) the Director or a member of the Managing Board no longer complies with the prescribed approval requirements;

4) the person fails to act within the period and in the manner specified in the decision by the Commission referred to in Para. 1 above;

5) the Director or a member of the Managing Board of the Central Registry fails to supervise the staff in the Central Registry whose unconscientiously conduct has caused material breach of the general acts of the Central Registry, the provisions of this Law or the Commission regulation by the Central Registry, i.e. the staff member, and if such breach could have been prevented by adequate supervision.

The person referred to in Para. 2 above shall have a right to a hearing before the Commission adopts a decision on the measure to be implemented, in compliance with the act adopted by the Commission.

The decision on the measures implemented in accordance with Paragraphs 1 and 2 hereof shall be published by the Commission on its website.

The specific terms and conditions for the performance of supervision, the procedures for issuance of the decisions and the implementation of the measures, as well as the timelines for following up on the orders, and the duration of the measures shall be prescribed by the Commission.

## **XII SECURITIES AND EXCHANGE COMMISSION**

### **Statute of the Commission**

#### **Article 239**

The Commission shall be a legal entity, independent and stand-alone organization of the Republic of Serbia, reporting on its activities to the National Parliament of the Republic of Serbia.

The Commission shall be seated in Belgrade.

### **Statute of the Commission**

#### **Article 240**

The Commission shall adopt as its Statute, regulating, in accordance with this Law, its competencies; as well as its organizational structure and operating procedures for the performance of its competencies; the rights, obligations, and responsibilities of the members, the Chairperson, and the Secretary of the Commission; the rights, obligations, and responsibilities of other staff; funding terms; procedures for the adoption of general and specific acts; and other issues of importance to the operations of the Commission.

The Statute of the Commission shall be approved by the National Parliament of the Republic of Serbia.

## **Bylaws and Other Documents**

### **Article 241**

To allow for the implementation and performance of the activities specified in this Law and other laws, the Commission shall adopt its rulebooks, instructions, and other documents.

### **Application of the Law Governing General Administrative Proceeding**

#### **Article 242**

In deciding in any administrative matter, the Commission shall apply the provisions of the law governing the general administrative proceedings.

The decisions by the Commission shall be deemed final, and may be contested in administrative proceedings.

### **Statements, Opinions, and Views of the Commission**

#### **Article 243**

The Commission may issue its opinions, as well as other forms of public statements, whenever it is necessary to allow for the application and implementation of specific provisions of this Law or the acts adopted by the Commission.

### **Disclosure Requirements**

#### **Article 244**

The Statute and the bylaws of the Commission shall be published on the Commission's website.

### **Members of the Commission**

#### **Article 245**

The Commission shall comprise five members, including the Chairperson of the Commission.

The Chairperson and the members of the Commission shall be elected and removed by National Assembly of the Republic of Serbia, at the proposal by the competent working body for finance with the National Assembly of the Republic of Serbia.

The Commission shall be represented by the Chairperson, who shall be in charge of its operations.

The Chairperson and the members of the Commission shall be elected for a period of five years, and shall remain in office until they are removed from duty in accordance with Para. 2 above.

If the Chairperson, i.e. a member of the Commission has his/her office terminated before the expiry date of the term of office, the new Chairperson, i.e. member of the Commission shall be elected for the remaining period until the expiry date of the term of office of the Chairperson, i.e. member who office was terminated.

The Chairperson and the members of the Commission may be reelected.

The Chairperson and the members of the Commission shall be permanently employed within the Commission.

### **Qualifications**

#### **Article 246**

Such person may be appointed Chairperson or member of the Commission who is a citizen of the Republic of Serbia, with general working ability, university level qualifications, and minimum five years of relevant work experience in operations with securities in the Republic or abroad.

## **Ineligibility for Performance of Work Assignments**

### **Article 247**

Such person may not be appointed Chairperson or member of the Commission, as well as member of staff of the Commission who:

- 1) is subject to legal consequences of conviction;
- 2) is related or married to a member of the Commission;
- 3) holds an elected or appointed public office in a state authority or organization.

The Chairperson, members and the staff of the Commission may not have an ownership stake or manage legal entities obtaining operating licenses from the Commission, and may not represent the interests of such persons before the Commission, state authorities or other bodies.

The Chairperson, members and the staff of the Commission may not perform other activities that may compromise their independence, impartiality, and public reputation, i.e. the reputation of the Commission.

Any breach of the provisions of this Article shall be considered as grounds for removal from office and termination of employment.

## **Removal from Office and Termination of Employment**

### **Article 248**

The Chairperson, members, and the staff of the Commission shall be removed from office, i.e. shall have their employment terminated:

- 1) if they are unconditionally sentenced of imprisonment for a criminal offence for minimum duration of six months or for a criminal offence relating to labor law, commercial law, property, judiciary, money laundering and financing of terrorism, public order and legal transactions, and official duty;
- 2) if it is established, in accordance with a medical report and the opinion of a relevant health institution, that they have permanently lost their working ability needed for office as a result of their health condition;
- 3) if it is established that they have performed their duties unprofessionally;
- 4) if it is established that one or several conditions specified in the provisions of Article 247 herein are met.

## **Competent Body for Removal from Office and Termination of Employment**

### **Article 249**

The competent working body for finance with the National Assembly of the Republic of Serbia shall assess the conditions for termination of the term of office, i.e. removal of the Chairperson and the members of the Commission by initiating a proceeding before the National Assembly within 60 days from the date of assessment of such conditions.

The decision on termination of the term of office, i.e. removal of the Chairperson and the members of the Commission shall be adopted by the National Parliament, and shall specify also the date of termination of the term of office, i.e. removal.

The Commission shall be competent for the termination of employment for other staff employed with the Commission.

## **Employment Relations**

### **Article 250**

The rights and obligations of the staff in the Commission shall be governed by the general employment relations legislation.

## **Qualified Immunity; Compensation**

### **Article 251**

A member of the Commission, a staff member or a person hired by the Commission cannot be held personally accountable for any action or failure to act that occurred in the

course of performance of official duties in accordance with the competencies delegated to the Commission in compliance with this Law, the laws referred to in Article 4 herein, and the acts adopted by the Commission, unless it pertains to bad faith and intentional abuse of office.

The Commission shall reimburse the persons referred to in Para. 1 above for total court expenses, including any damage caused and any fine incurred, provided that such person has not been convicted for an act ensuing from such activities.

### **Decision-Making and Quorum**

#### **Article 252**

The Commission shall decide at its sessions, presided by the Chairperson of the Commission or a member authorized by the Chairperson.

Three members of the Commission shall constitute a quorum.

The Commission shall decide by a majority vote of all its members, including the Chairperson.

In the event of a tie vote, the Chairperson of the Commission shall have the tie-breaking vote.

The Chairperson and the members of the Commission shall be exempt from voting on the requests by legal entities in which they hold an equity stake.

### **Principles of Conduct**

#### **Article 253**

In performing their duties, the Chairperson, members, and the staff of the Commission shall act in a professional manner, conscientiously and impartially.

In adopting decisions, the Chairperson, members, and the staff of the Commission shall not compromise their autonomy, as well as the autonomy of the Commission.

It shall be prohibited for any person, body or organization to undertake any action that may compromise the autonomy of the operations and decision-making of the Commission or any of its members, with the exception of the right of such person, body or organization to present its case and be heard by the Commission, in compliance with the acts adopted by the Commission.

It shall be prohibited for any person, body or organization to undertake any activity that is delegated by law to the Commission as its competence, unless this Law stipulates otherwise.

### **Prohibition of Trading in Financial Instruments and Consulting, and Use of Commission's Status for Personal Gain**

#### **Article 254**

The Chairperson, members, and the staff of the Commission may not engage in trading in financial instruments or consulting on investments in financial instruments.

The persons referred to in Para. 1 above may not use their position in the Commission for their own personal interests or interests of other persons.

### **Personal Transactions in Securities**

#### **Article 255**

The Chairperson, members, and the staff of the Commission shall provide to the Commission the information about the securities they have in their possession, as well as the information about any movement of securities positions.

The obligation specified in Para. 1 above shall apply also to the family members of the persons referred to in that same Para.

The information about securities referred to in Para. 1 and 2 above must be available to the public.

## **Obligation to Protect Business Secrets**

### **Article 256**

Any previous and the current Chairperson, members, and staff of the Commission, as well as the persons delegated by the Commission to perform activities under its competence shall protect all information about the issuers of securities, persons supervised and licensed by the Commission, as well as other information about the facts and circumstances they become aware of in their office, i.e. by performing their activities, with the exception of publicly available information, and shall not use such information for their personal gain, disclose them to third parties or allow use of such information to third parties.

The information referred to in Para. 1 above, with the exception of publicly available information, shall be considered as business secret.

Any information that is considered to be business secret may be disclosed and allowed access to at the order of the court, i.e. at the order of the Commission.

The Commission may provide the information referred to in Para. 2 above and allow access to such information to:

- 1) the competent authorities in the Republic;
- 2) the competent authorities in other countries that have authorized the Commission to obtain or share information for the purposes of supervision, regulation, investigation or enforcement of law, in compliance with the provisions of this Law.

## **Information System**

### **Article 257**

The Commission shall establish its information system using electronic media, facilitating communication with the Central Registry, market operator, regulated market investment firms, management companies and investment funds, as well as with other capital market participants.

The Commission shall specify the communication security and data protection requirements for data submitted to the Commission, including the technical harmonization with the equipment and the information system of the Commission, and the use of electronic media for the reception, transmission, and publishing of information.

Any information received via electronic media, through the information and telecommunications system, in accordance with the requirements specified by the Commission, shall be considered as original document.

## **Tariff Rulebook**

### **Article 258**

The Commission shall adopt its Tariff Rulebook, specifying the tariffs for the activities under its competence.

The Tariff Rulebook referred to in Para. 1 above shall be published on the Commission's website.

## **Operating Funds of the Commission**

### **Article 259**

The operating funds of the Commission shall be provided from the fees charged, in compliance with the Tariff Rulebook, for the performance of the activities under its competence, as well as from other sources, in compliance with law.

A portion of the generated revenue shall be set aside as the Commission's reserves.

Any excess of expenditure over revenue shall be covered by the Commission from its own reserves, and if that is not sufficient, from the Republic budget.

Any surplus of revenue over expenditure shall be directed to the Republic budget.

## **Financial Statements; Financial Plan; Reporting**

### **Article 260**

The Commission shall submit its annual report to the National Assembly of the Republic of Serbia, within four months after the end of the financial year.

The annual report referred to in Para. 1 above shall include the financial statements for the previous year, authorized auditor's report and the operating report of the Commission for the previous year.

The annual financial statements and the audit of annual financial statements of the Commission shall be performed as specified by the law governing accounting and audit.

The Commission shall appoint an auditor to perform the audit referred to in Para. 2 above.

The Commission shall adopt its financial plan for the following year by 30<sup>th</sup> November of the current year, and shall submit it to the National Assembly for approval.

## **Reporting to the Government**

### **Article 261**

The Commission shall inform the Government once in every six months about its activities and capital market movements, enclosing the supporting documentation on:

- 1) all issued and revoked licenses, authorizations and approvals for securities operations, in compliance with this Law and other laws whose application is under the competence of the Commission;
- 2) the performance of the supervisory functions of the commissions and all supervisory measures undertaken in the reporting period;
- 3) the execution of the Commission's financial plan for the following year;
- 4) the rulebooks of the Commission and other acts and statements specified in Articles 241 and 243 herein adopted in the reporting period;
- 5) other annexes on the performance of the Commission's competencies.

## **XIII COMMISSION AUTHORITIES AND COMPETENCIES**

### **Commission Competencies**

#### **Article 262**

Within its competencies and in accordance with provisions of the Law, the Commission shall:

- 1) adopt secondary legislation and other documents necessary for enforcement of the law;
- 2) approve publication of the prospectus for public offer and admission to trading of a financial instrument;
- 3) approve offerings and admission of financial instruments in trading exempted from obligation to publish the prospectus but the approval of the Commission is required in compliance with provisions of Chapter III, hereof;
- 4) grant to natural and legal entities the status of qualified investors;
- 5) issue license to conduct business activities to investment firms, license to market operators and reject applications for issuing of licenses, suspend or revoke licenses;
- 6) issue a license to the Fund operator and approve regulations of the Fund as well as amendments thereto;
- 7) approve amendments to regulations, acquiring of qualified holdings, provide prior consent to appointment of members of the management of the market operator, investment firms and the Central Registry;
- 8) organize training and examination required for issuing of license for brokers, portfolio managers and investment advisers;

- 9) regulate, supervise and monitor:
- (1) the activities of issuers and public companies;
  - (2) fulfillment of obligations in relation to reporting to issuers and participants at the regulated market i.e. MTF;
  - (3) business operations of persons referred to in Item 5) of this Para., including persons possessing qualified holdings, management and employees thereof;
  - (4) business activities of the Central Registry, persons with qualified holdings, management and employees of the Central Registry;
  - (5) secondary trading in financial instruments in the Republic, regardless of whether conducted within or outside a regulated market or a MTF;
  - (6) business operations of the Fund, the Fund operator and Fund members;
- 10) monitor compliance with and violation of provisions of the Law, the Commission regulation referred to in Article 241, hereof and general acts of the market operators, investment firms and the Central Registry;
- 11) organize, undertake and control the implementation of measures and sanctions providing the fair, orderly and efficient functioning of the regulated market or the MTF with a view to minimizing market disturbances and the protection of investors;
- 12) keep the registers;
  - 13) perform other tasks within its general and special competencies regulated in detail in provisions of Articles 264 and 267, hereof;
  - 14) cooperate and conclude agreements with international organizations, foreign regulatory bodies and other local and foreign bodies and organizations in order to provide legal aid, exchange information as well as in other cases, when appropriate;
  - 15) compile reports and provide information on the regulated market or the MTF;
  - 16) promote education of investors;
  - 17) issue licenses and pass by-laws in relation to issuing of licenses, regulation and supervision of agencies dealing with credit risk assessment in the Republic;
  - 18) supervise, undertake measures and control implementation of measures and sanctions in relation to the law enforcement regulating overtaking of joint stock companies, the law regulating business operations of investment funds and the law regulating prevention of money-laundering and financing of terrorism;
  - 19) perform other tasks set by this and other laws.

Activities referred to in Para. 1, Items 1) -13), 17) and 18) hereof the Commission shall perform as delegated tasks.

The Commission may institute and conduct civil court proceedings in order to protect the interests of investors in financial instruments and of other entities for which it determines that certain rights of theirs, or their interest arising from that right, have been violated, in connection with transactions involving financial instruments.

Should the Commission consider that there are facts indicating existence of criminal acts, commercial violation or infraction, it shall refer a proposal to press charges i.e. request to a body competent for investigation, criminal prosecution and offence proceedings.

### **Commission supervision**

#### **Article 263**

The Commission shall conduct supervision over the subjects of supervision in compliance with the present Law and acts passed on the basis of this Law.

To the procedure conducted by the Commission within its jurisdiction shall be applied provisions of this Chapter, unless otherwise provided by this Law.

Subjects of supervision over which the Commission is exercising the supervision shall be entities stipulated as such by the provisions of the present Law.

### **Supervision procedure**

#### **Article 264**

The Commission shall perform supervision:



1) directly at the premises of the entity subject to supervision, of the Commission or of a legal entity to which the subject of supervision is connected directly or indirectly, through business operations, management or capital;

2) continuously based on the analysis of reports that subjects of supervision are obliged to submit to the Commission within a deadline, by monitoring, collecting and reviewing documentation, information and data received on special request of the Commission, as well as by monitoring, collecting and reviewing data and insight from other sources;

3) in cooperation with other bodies or legal entities on the capital market;

4) by entrusting those bodies or legal entities with operations on the capital market, whereby retaining responsibility;

5) by addressing the competent judicial bodies.

Supervision referred to in Para. 1 Item 1) of this Article may be regular and extraordinary.

The Commission shall perform the supervision procedure in the line of duty, based on a report and when to the best of its knowledge it follows that there are reasons for such supervision over entities that contrary to the ban referred to in this Law render investment services and conduct investment activities.

### **Supervision order**

#### **Article 265**

Supervision shall start by issuing a supervision order and by conveying it to the subject of supervision in writing, containing: the scope of supervision, data on persons authorized for supervision, business premises in which the supervision shall be conducted, as well as other data important for performing the supervision.

During the supervision, the Commission may supplement the scope of supervision.

Provisions of Para. 1 of this Article shall appropriately apply to the supplement of the order referred to in Para. 2 of this Article.

### **Delivery of the Supervision Order**

#### **Article 266**

The supervision order shall be delivered to the subject of supervision within a time limit that may not be shorter than eight days following the date of the beginning of the supervision.

In an exception to Para. 1 of this Article, in order not to endanger the purpose of the supervision, the supervision order may be delivered in a shorter timeframe based on the decision made by the Commission.

In the case referred to in Para. 2 of this Article, the authorized person of the Commission shall provide the supervision order directly prior to conducting the supervision.

### **General Competencies of the Commission in Conducting Supervision**

#### **Article 267**

The Commission may require the data and documents to be submitted by:

- 1) auditor, members of the board and director;
- 2) issuer and public companies;
- 3) offerors or persons asking for admission to trading on regulated market, or MTF;
- 4) investment firms and intermediaries who carry out transactions related to the public offer or by including financial instruments into trading;
- 5) regulated market, or MTF;
- 6) the Central Registry;
- 7) fund operator;
- 8) credit institutions;
- 9) persons conducting control over the specified entities or controlled by those entities;

10) all other persons that may provide data and information related to the purpose and subject of the supervision.

The Commission shall conduct supervision by direct insight into general acts, business records, transcripts of accounts, correspondence and other documents, including electronic media and other data that the subjects of supervisions are obliged to keep and submit to the Commission; by analysis of the data, taking statements from the accountable persons and other employees of the entity subject to supervision, as well as from other persons having information of interest for supervision.

The supervision referred to in Para. 2 of this Article shall be conducted by the authorized persons of the Commission – inspector, at the premises of the entity subject to supervision or legal entities with which the subject of supervision is closely connected.

For the purpose of verification of data of interest for supervision, the Commission may allow auditors or specialized professionals to verify specific data.

The supervision referred to in Para. 2 of this Article may be conducted in the business premises of the Commission, in the presence of the responsible person and the person authorized by the subject of supervision.

Subjects of supervision shall be obliged to enable the authorized persons of the Commission the access to the business premises and organization sections, to give an insight into the required documentation, statements, as well as to provide other conditions for unobstructed performance of supervision.

Subjects of supervision shall be obliged to give to the authorized person of the Commission, at his request, the required business documents, records of telephone calls and other forms of correspondence.

The Commission shall define in detail conditions and method of conducting supervision.

### **Conditions for Conducting Supervision**

#### **Article 268**

Subject of supervision shall be obliged to secure for the authorized person of the Commission appropriate premises, in which unobstructed conduct of supervision of transactions shall be possible, and without presence of other persons. Upon request by the authorized person of the Commission, the subject of supervision shall be obliged to secure professional and technical assistance, as well as necessary explanations, and to enable supervision conduct in its head office.

Upon request of the authorized person of the Commission, the subject of supervision shall be also obliged to secure other conditions necessary for conducting supervision.

Supervision referred to in Para. 1 and 2 of this Article shall be conducted by the authorized person of the Commission during working hours of the subject of supervision, and if necessary, due to the volume or nature of supervision, the subject of supervision shall be obliged to make possible for the authorized person of the Commission to conduct the supervision after working hours as well.

By issuing a certificate, the authorized person of the Commission may temporarily withdraw from the subject of supervision documents, money or objects that may serve as evidence in the criminal proceedings, in commercial violation proceedings and in infraction proceedings, but only until initiation of the proceedings, when he shall submit them to the bodies competent for conducting proceedings.

### **Termination of the Supervision Procedure**

#### **Article 269**

Minutes shall be taken in the course of conducting supervision and delivered to the subject of supervision, with detailed description of the actual conditions.

The responsible person or the authorized person of the subject of supervision may make objections to the actual conditions stated in the minutes before the finalization of the minutes.

If the minutes are made after carrying out the direct supervision, the minutes shall be delivered to the subject of supervision, and the subject of supervision shall have the right to file an objection on the delivered minutes within eight days following the date of their receipt.

In an exception to Para. 3 of this Article, the Commission may define a shorter term, when it is needed for preventing possible significant harmful effects.

### **Reasons for Objection**

#### **Article 270**

Objection to the actual conditions stated in the minutes shall be permitted if the actual conditions were misstated or failed to be fully stated in the minutes.

### **Contents of Objection**

#### **Article 271**

Objection must contain: designation of the minutes to which the objection refers, reasons for objection and other data that every statement must contain in compliance with the law regulating the general administrative procedure.

If in its statement the subject of supervision refers to documents or documentation, it shall be obliged to enclose them to the objection, as evidence.

If the subject of supervision fails to enclose documents or documentation as evidence to the objection, when making the decision, the Commission shall take into account only the evidence enclosed to the objection.

After expiry of the deadline for objection, the subject of supervision shall have no right to mention new facts and to submit new evidence.

Should the subject of supervision reasonably challenge the actual conditions in the minutes by objection, an annex to the minutes shall be made and delivered to the subject of supervision within 15 days following the date of filing the objection.

Should no annex to the minutes be delivered to the subject of supervision, its objection shall be deemed unsubstantiated.

### **Issuing Supervision Measures**

#### **Article 272**

Illegalities, in terms of this Law, are situations and procedures not in compliance with this Law, Commission regulation, other laws and by-laws, international acts and regulations giving the Commission the powers for applying, conducting the supervision or supervision over implementation.

Irregularities, in terms of this Law, are situations and activities in which the adopted business policies, measures and procedures are not applied consistently, if they jeopardize business operations of the subject of supervision.

Based on the conducted procedure of supervision, the Commission may issue supervision measures and sanctions stipulated by this Law to the subject of supervision, for the purpose of legal, true, fair and professional doing business that improves the integrity of the capital market.

When the Commission establishes a reasonable doubt regarding the committed criminal offence, commercial violation or infraction, it shall submit to the competent body the related report, or requirement.

### **Continuous Supervision**

#### **Article 273**

During the continuous supervision of subjects, the authorized person of the Commission shall:

- 1) establish whether the defined reports, information and other data have been submitted within the deadline and in the prescribed form;
- 2) establish whether the data in reports, information and other required documents are true and correct.

In case that during continuous supervision illegalities and irregularities in business operations of the subject of supervision are stated, the Commission may determine direct supervision or based on the established actual conditions in that supervision it may issue the appropriate decision for the remedy of disclosed illegalities and irregularities.

### **Issuing Measures in Summary Proceedings**

#### **Article 274**

If issuing measures is necessary for proper functioning of financial market or protection of investors, and it refers to measures that cannot be delayed and facts on which the measure is based have been established, the Commission may decide on their issuance in summary proceedings.

### **General Supervision Measures and Sanctions**

#### **Article 275**

Supervision measures shall order illegalities and irregularities to be removed, as well as to take activities for their removal.

In the case of established illegalities and irregularities the Commission shall issue a decision ordering the taking of measures and activities for the purpose of setting up legality and orderly business operations.

By decision referred to in Para. 2 of this Article, the Commission shall determine the deadline for execution of the decision and the obligation to submit to the Company evidence of the corrected illegality and irregularity.

Independently from other measures taken based on this Law, the Commission may pronounce a fine to the subject of supervision, as well as to a member of the board, neither lower than 1% nor higher than 5% of the prescribed minimum capital requirement, or capital of the subject of supervision according to the last financial statement, i.e. it cannot be lower than one wage nor higher than the sum of twelve wages received by the director or a member of the management board in the period of twelve months prior to the date of issuance of the decision.

The income obtained on the basis of collected fines referred to in Para. 4 of this Article shall be the income of the budget of the Republic.

The decision referred to in Para. 4 of this Article, after being delivered to the subject of supervision, shall be an executive document.

Before pronouncing a measure to the entity to which it issues a license, or previous consent, the Commission shall provide a hearing, in conformity with the act of the Commission.

Should the Commission establish that illegalities and irregularities have not been removed the Commission may pronounce a new measure.

When the Commission establishes a repeated violation of provisions of the laws and acts passed on the basis of the Law, it may pronounce a public warning.

When necessary, the Commission shall inform the regulated market, or MTF, Central Registry, National Bank of Serbia and the credit institution of the decision referred to in Para. 2 of this Article.

More detailed terms and conditions and method of conducting supervision, procedure of issuing orders and taking measures and sanctions, deadlines for execution of the order and duration of the measure, as well as criteria for pronouncing sanctions shall be defined by the Commission.

### **Notice in writing**

#### **Article 276**

When during supervision the Commission establishes illegalities or irregularities that violate provisions of this Law and Commission regulation and other laws referred to in Article 262 of the present Law, and acts passed based on those laws, and the nature and scope

of the established illegalities and irregularities do not have a significant impact and consequences, the Commission may pronounce to the subject of supervision a notice in writing.

A notice in writing may also contain the order to the subject of supervision to rectify the established illegalities and irregularities and the deadline to carry it out.

If the subject of supervision fails to rectify the established illegalities and irregularities within the deadline referred to in Para. 2 of this Article, the Commission shall issue a decision on removing the established illegalities and irregularities.

### **Report on Removing Illegalities and Irregularities**

#### **Article 277**

According to the decision of the Commission, the subject of supervision shall be obliged to remove the established illegalities and irregularities and to submit to the Commission a report on activities taken for their removal within the deadline defined by the Commission,

Besides the report referred to in Para. 1 of this Article, the subject of supervision shall be obliged to enclose the documentation and other evidence proving that the established illegalities and irregularities have been removed.

When the report referred to in Para. 1 of this Article is not complete or the enclosed documentation fails to prove that illegalities have been removed, the Commission may order an amendment to the report and the deadline within which the report must be amended.

If the report, enclosed documentation and other evidence prove that the established illegalities and irregularities have been removed, the Commission shall adopt the report.

When the Commission fails to order an amendment to the report referred to in Para. 1 of this Article within 60 days following the date of submission of the report, it shall be deemed that illegalities and irregularities have been removed.

#### **Article 278**

Before considering the report referred to in Article 277 of this Law, the Commission shall be authorized to conduct supervision over the subject of supervision to the extent and volume necessary to determine whether the established illegalities and irregularities have been removed in the appropriate manner and in the adequate volume.

### **Registers in the Scope of the Official Information Register**

#### **Article 279**

The Commission shall be obliged to keep the following types of public registers, as well as to post on the website of the Commission:

- 1) the register of issuers to whom the Commission has approved the publishing of the prospectus for public offer of securities;
- 2) the register of issuers whose financial instruments are included into trading on the regulated market or MTF in the Republic;
- 3) the register of public enterprises, including subregisters of:
  - (1) financial statements, annual, semiannual and quarterly reports, important information and prescribed data submitted by every company;
  - (2) issuers who have issued financial instruments and the Commission approved the offer without the obligation to publish the prospectus;
  - (3) holders of significant share in public enterprises who submitted information in conformity with Chapter V of the present Law;
  - (4) public companies that fail to meet their obligations referred to in Chapter V of the present Law or to acts of the Commission and the pronounced measures and sanctions;
  - (5) companies whose capacity of public companies has ceased to be;

4) the register of legal entities and physical persons that were approved the status of a qualified investor;

5) the register of issued and withdrawn work licenses, licenses for carrying out business activities, including subregisters of: consent to general acts, members of the management board, acquisition of the qualified holding in the capital, pronounced measures and sanctions;

6) the register of persons having the license to carry out business activities of brokers, portfolio managers and investment advisors, and persons whose license has been withdrawn;

7) the register kept in compliance with the law regulating investment funds, including sub registers of: issued and withdrawn working licenses to companies dealing with management of investment funds and funds entered into the register of investment funds, consents to general acts, members of the management board, acquisition of the qualified holdings in the capital, pronounced measures and sanctions;

8) the register kept in compliance with the law regulating the takeover of joint stock companies.

The Commission shall define a more detailed contents and method of keeping the registers referred to in this Article.

### **Multilateral Memorandum of Understanding of the International Organization of Securities Commissions (IOSCO)**

#### **Article 280**

The Commission is a signatory of the Multilateral Memorandum of Understanding (MOU) of the International Organization of Securities Commissions (IOSCO), being authorized to render services to members of IOSCO that are signatories of MOU, and to exchange with them:

1) information and documents related to the required data, including:

(1) updated records by means of which may be reconstructed all transactions with financial instruments, as well as records of all cash assets and property on the accounts of the credit institution and broker-dealer company, with reference to those transactions;

(2) records of indirect owner and person conducting the control;

(3) data on each transaction, owner of the account, amount of purchase or sale, time of transaction, price, as well as the person, credit institution or investment firm that carried out the transaction;

2) statements given by persons under material and criminal responsibility related to issues being the subject of cooperation.

Information shall be exchanged, or services rendered as referred to in Para. 1 of this Article, with explanation why the applying body asks for information or assistance, and if appropriate evidence on keeping confidential information is provided.

The State bodies of the Republic, as well as other entities possessing information being the subject of cooperation referred to in Paragraph 1 of this Article, shall be obliged to submit them to the Commission in compliance with provisions of this Law, unless it means violation of the Law or other regulations applied by those bodies.

## **XIV PUNITIVE PROVISIONS**

### **1. Criminal Offences**

#### **Market Manipulation Prohibition**

##### **Article 281**

Any person engaged in market manipulations on which basis generates economic gains for himself or other person or causes damage to other persons through:

- 1) transactions or orders to trade which give, or are likely to give, false or misleading signals as to the supply of, demand for or price of financial instruments, or which secure, by a person, or persons acting in collaboration, the price of one or several financial instruments at an artificial level;
- 2) transactions or orders to trade which employ fictitious devices or any other form of deception or contrivance;
- 3) dissemination of information through the media, including the Internet, or by any other means, which gives, or is likely to give, false or misleading signals as to financial instruments, where the person who made the dissemination knew, or ought to have known, that the information was false or misleading

shall be punished to imprisonment for a minimum of six months and a maximum of five years and a pecuniary penalty.

Should the actions referred to in Para. 1 of this Article cause significant disruption on the regulated market or MTF, a perpetrator shall be punished to imprisonment for a minimum of one year to a maximum of eight years and a pecuniary penalty.

#### **Using, Revealing and Recommending Inside Information**

##### **Article 282**

Should any person use inside information in the intention to generate economic gains for himself or other persons or causes damage to other persons:

- 1) directly or indirectly when acquiring, alienating and attempting to acquire or attempting to alienate financial instruments to which the information refers to for own account or for account of third parties;
- 2) by revealing and rendering accessible inside information to any other person;
- 3) by recommending or inducing other person based on inside information to acquire or alienate financial instruments to which the information refers to, shall be punished to imprisonment of up to a year and a pecuniary penalty.

Should the action referred to in Para. 1 hereof gain benefits or cause damage to third parties amounting to over one million and five hundred thousand dinars, the perpetrator shall be punished to imprisonment of up to three years and a pecuniary penalty.

Should the action referred to in Para. 1 hereof be performed by a person in possession of inside information thanks to its membership in the management of supervisory bodies of issuers of public companies, share in capital of the public company, access to information through performance of his/her duties on work place, exercising profession or other tasks i.e. by committing a criminal offence, the perpetrator shall be punished to imprisonment of up to three years and a pecuniary penalty.

Should the action referred to in Para. 3 hereof gain benefits or cause damage to third parties in the amount exceeding one million and five hundred thousand dinars, the perpetrator shall be punished to imprisonment of up to six months and a pecuniary penalty.

#### **Unauthorized Provision of Investment Services**

##### **Article 283**

A person, who provides investment services intended to materialize property benefit to him or other persons, shall be punished by a fine or imprisonment of up to a year.

If the action referred to in Para. 1 of this Article causes materialization of property benefit or causes damage to other persons in the amount exceeding 1,500,000 dinars, the perpetrator shall be punished by imprisonment of up to three years and a fine.

## **2. Commercial Violations**

### **Article 284**

The issuer, the public company or the offeror shall be punished for commercial violation by a fine ranging from 500,000 to 3,000,000 dinars should it:

- 1) act contrary to provisions of Articles 11 and 25 hereof in relation to prospectus publication obligations;
- 2) allow further sale of securities issued based on exceptions envisaged by Article 12 hereof;
- 3) act contrary to provisions of Article 19, Para. 5, hereof and claim directly or indirectly that the Commission has approved the truthfulness and comprehensiveness of data stated in the prospectus or a part of the prospectus for the public offer or admission to trading;
- 4) fail to submit or publish data on final price and quantity of securities subject to public offer, pursuant to provisions of Article 21, Para. 2 hereof;
- 5) publish or otherwise use the prospectus, base prospectus or registration documents or a part of those documents upon expiration of the deadline set forth in Article 22 hereof;
- 6) fail to act pursuant to provisions of Article 33 hereof related to the supplement to the prospectus;
- 7) act contrary to provisions of Article 34 hereof in relation to the beginning of the public offer and the deadline for subscription and payment;
- 8) fail to publish a report on public offer outcome pursuant to Article 36 hereof;
- 9) fail to submit to the market operator a request to be admitted to trading pursuant to Article 38 hereof;
- 10) the issuer of securities which is not subject to obligatory publication of the prospectus acts contrary to Article 41, Para. 1 and 4, hereof;
- 11) fail to submit the request to admit its equity securities to trading pursuant to Article 46, Para. 1 hereof;
- 12) act contrary to provisions of Articles 57, 58, 59 and 61 hereof regulating acquiring of qualified holding;
- 13) act contrary to provisions of Article 64, Para. 1 or Article 66, hereof regarding the equal treatment;
- 14) fail to enable persons authorized by the Commission to perform supervision in compliance with Articles 71 and 264 hereof;

A responsible person in the issuer, the public company or offeror of securities shall be punished for commercial violation for actions referred to in Para. 1 of this Article by a fine from 50,000 to 200,000 dinars.

In addition to punishment for commercial offences referred to in Para. 1 and 2 of this Article, there may be pronouncement of a protective measure of prohibition to execute specific duties of the responsible person for a period from one to five years and the protective measure of public announcement of the sanction.

### **Article 285**

A market operator or MTF shall be punished for a commercial violation by a fine ranging from 500,000 to 3,000,000 dinars should it:

- 1) perform activities of the market operator or MTF without the license provided by the Commission and contrary to provisions of Article 95 hereof;
- 2) act contrary to provisions of Article 104 hereof regulating acquisition of the qualified holding;
- 3) fail to act pursuant to provisions of Articles 111 and 112 hereof in relation to submission of the request to amend the license;
- 4) fail to enable persons authorized by the Commission to perform supervision in compliance with Articles 131 and 264 hereof;
- 5) director and members of the management board perform duties without the consent of the Commission and contrary to provisions of Articles 154 and 155 hereof.



The person in charge employed with the market operator or MTF shall also be punished for committing commercial violation referred to in Para. 1 of this Article by a fine ranging from 50,000 to 200,000 dinars.

In addition to punishment for commercial offences referred to in Para. 1 and 2 of this Article, there may be pronouncement of a protective measure of prohibition to execute specific duties for the responsible person for a period from one to five years and the protective measure of public announcement of the sentence.

#### **Article 286**

The Investor Protection Fund or a Fund member shall be punished for a commercial violation by a fine ranging from 500,000 to 3,000,000 dinars should it fail to enable persons authorized by the Commission to perform supervision in compliance with Articles 145, 146 and 264 hereof.

A person being a Fund operator shall be also punished for committing commercial violations referred to in Para. 1 of this Article by a fine ranging from 50,000 to 200,000 dinars.

In addition to punishment for commercial offences referred to in Para. 1 and 2 of this Article there may be pronouncement of a protective measure of prohibition to execute specific duties for the responsible person for a period from one to five years and the protective measure of public announcement of the sentence.

#### **Article 287**

An investment firm or an authorized bank shall be punished for a commercial violation by a fine ranging from 750,000 to 3,000,000 dinars should it:

1) intermediate in transactions involving sale of securities issued based on exceptions envisaged by Article 12 of this Law failing to respect prescribed limits of the following sale;

2) perform activities of the market operator or MTF without the Commission approval and contrary to provisions of Article 95 hereof;

3) perform investment services and activities without the Commission approval and contrary to provisions of Article 147, Para. 1 and Article 211 hereof;

4) provide services and perform activities contrary to provisions of Article 148 hereof;

5) act contrary to provisions in relation to acquisition of qualified holdings (Article 150);

6) provide services to another investment firm or through another investment firm contrary to provisions of Article 152 hereof;

7) allow that persons without the license issued by the Commission pursuant to provisions of Article 153 hereof provide investment services and perform investment activities;

8) directors and members of the management board perform duties without the consent of the Commission and contrary to provisions of Articles 154 and 155 hereof;

9) perform activities in branch offices contrary to provisions of Article 158, hereof;

10) fail to act in compliance with Articles 159 and 160 of this Law in relation to submission of an application to amend the license to the Commission;

11) perform activities without the contract concluded with a client, contrary to provisions of Article 171 hereof;

12) fail to enable persons authorized by the Commission to perform supervision in compliance with Articles 203 – 208 hereof;

A person employed with the investment firm or the authorized bank shall be also punished for committing commercial violations referred to in Para. 1 of this Article by a fine ranging from 50,000 to 200,000 dinars.

In addition to punishment for commercial offences referred to in Para. 1 and 2 of this Article there may be pronouncement of a protective measure of prohibition to execute specific duties for the responsible person for a period from one to five years and the protective measure of public announcement of the sentence.

### **Article 288**

The Central Registry or a member of the Central Registry shall be punished for a commercial violation by a fine ranging from 500,000 to 3,000,000 dinars should:

- 1) it limit or ban the transfer of a financial instrument or a right stemming from it contrary to provisions of Articles 5 and 9 hereof;
- 2) the Central Register fail to apply an order of the Commission in relation to suspension of the voting right referred to in Articles 62, 105 and 206 hereof;
- 3) the Central Register entrust performance of its duties to a third person without the approval of the Commission and contrary to provisions of Article 216, Para. 2 hereof;
- 4) the director and members of the management board perform their duties without the approval of the Commission and contrary to provisions of Article 219 hereof;
- 5) the Central Register fail to report to the Commission in compliance with Article 225 hereof and in relation to the control it performs;
- 6) transfer rights from securities and register rights of third parties contrary to provisions of Article 229 hereof;
- 7) the Central Register fail to meet its duties and obligations envisaged by provisions of Article 231 hereof;
- 8) the Central Register fail to enable the supervision in compliance with Articles 236 and 237 hereof.

A responsible person employed with the Central Registry shall be also punished for committing commercial violations referred to in Para. 1 of this Article by a fine ranging from 50,000 to 200,000 dinars.

In addition to punishment for commercial offences referred to in Para. 1 and 2 of this Article there may be pronouncement of a protective measure of prohibition to execute specific duties for the responsible person for a period from one to five years and the protective measure of public announcement of the sentence.

### **Article 289**

A legal entity shall be punished for a commercial violation by a fine ranging from 500,000 to 3,000,000 dinars should:

- 1) the auditor fail to report to the Commission and the public company on violations of the law, regulations, material changes or circumstances stated in Article 54 hereof;
- 2) it fail to meet obligations related to data on significant proportion of voting rights pursuant to Articles 57, 58 and 59 hereof;
- 3) fail to enable an authorized person by the Commission to perform the supervision and act contrary to provisions of Articles 93, 94 and 264 hereof;
- 4) it acquire and increase without the approval of the Commission the qualified holding in the market operator or the regulated market, the investment firm or the Central Registry contrary to provisions of Articles 100, 150 and 217 hereof;

A responsible person employed with the legal entity shall be also punished for committing commercial violations referred to in Para. 1 of this Article by a fine ranging from 50,000 to 200,000 dinars.

In addition to punishment for commercial offences referred to in Para. 1 and 2 of this Article there may be pronouncement of a protective measure of prohibition to execute specific duties for the responsible person for a period from one to five years and the protective measure of public announcement of the sentence.

## **3. Infraction**

### **Article 290**

The issuer, the public company or the offeror shall be punished for an infraction by a fine ranging from 100,000 to 2,000,000 dinars should:

- 1) it issue financial instrument contrary to provisions of Article 8 hereof;
- 2) the issuer fail to meet obligations in relation to the document on published information prescribed by provisions of Article 23 hereof;

- 3) if fail to act in compliance with provisions of Article 31 and 32 hereof in relation to publication and advertising;
- 4) it perform subscription and payment of securities contrary to provisions of Article 35 hereof;
- 5) it fail to submit to the Central Registry a request envisaged by provisions of Article 37 hereof;
- 6) it fail to submit on time or fail to publish financial statement in compliance with provisions of Articles 50, 52 and 53 hereof;
- 7) it fail to meet obligations in relation to data disclosure in compliance with provisions of Article 55 hereof;
- 8) it fail to disclose to the public data in compliance with Article 63 hereof;
- 9) it fail to meet obligations regulated by provisions of Article 67 and in relation to data access;
- 10) it fail to report in relation to inside information contrary to provisions of Articles 79, 80, 81, 82 and 83 hereof;
- 11) it fail to report in a way envisaged by provisions of Article 84 hereof.

A responsible person employed with the legal entity shall be also punished for an infraction to in Para. 1 of this Article by a fine ranging from 5,000 to 150,000 dinars.

#### **Article 291**

The market operator or MTF shall be punished for an infraction by a fine ranging from 100,000 to 2,000,000 dinars should:

- 1) it fail to meet obligations in relation to data publication referred to in Article 38, Para. 2 hereof;
- 2) it allow to a person not being an investment firm provided with the license to trade contrary to provisions of Article 45, Para. 1 hereof;
- 3) it fail to act in compliance with provisions of Articles 75, 76, 77 and 78 hereof on ban to misuse inside information;
- 4) it fail to comply with provisions of Article 86, Para. 4 hereof on reporting to the Commission;
- 5) if perform activities contrary to provisions of Articles 97, 98 and 129 hereof;
- 6) it start performing activities for which it is not licensed prior to registration of the activity into the Register of Business Entities contrary to provisions of Article 114 hereof;
- 7) it employ persons contrary to restrictions referred to in Article 115 hereof;
- 8) it admit new members contrary to provisions of Article 117 hereof;
- 9) it fail to meet obligations in relation to the supervisions envisaged by provisions of Article 119 hereof;
- 10) it fail to act in compliance with rules and procedures for admission to and exclusion from trading in compliance with Articles 120 – 123 hereof;
- 11) it fail to meet obligations referred to in Articles 124 – 126 hereof in relation to pre-trade and post-trade data disclosure;
- 12) it fail to keep records and fail to report in compliance with provisions of Article 130 hereof.

A responsible person employed with the legal entity shall be also punished for an infraction to in Para. 1 of this Article by a fine ranging from 5,000 to 150,000 dinars.

#### **Article 292**

The Fund operator or a Fund member shall be punished for an infraction by a fine ranging from 100,000 to 2,000,000 dinars should:

- 1) it fail to pay in mandatory contribution to the Fund, fail to calculate the penalty interest and fail to inform the Commission or fail to keep proceeds on the account in compliance with Article 136, hereof;
- 2) it fail to act in compliance with provisions of Article 137, hereof in relation to using and recording Fund's proceeds and reporting to the Commission on Fund's proceeds;
- 3) it set fees and terms for payment contrary to provisions of Article 138, hereof;

- 4) the Fund operator act contrary to provisions of Articles 139 – 141 hereof in relation to secured claims and claims management of clients to a member of the Fund;
- 5) the Fund operator fail to report in compliance with provisions of Article 143, hereof.

A responsible person employed with the legal entity shall be also punished for an infraction to in Para. 1 of this Article by a fine ranging from 5,000 to 150,000 dinars.

#### **Article 293**

An investment firm or an authorized bank shall be punished for an infraction by a fine ranging from 100,000 to 2,000,000 dinars should:

- 1) it trade on the regulated market or MTF where it is not a member or a user contrary to provisions of Article 45, hereof;
- 2) it fail to timely submit data in relation to conducted transactions contrary to provisions of Articles 47 and 185, hereof;
- 3) it fail to act in compliance with provisions of Articles 75, 76, 77, 78, 82 and 83, hereof in relation to ban to misuse inside information;
- 4) it start performing activities for which it obtained the license prior to registration of that activity into the Registry of Business Entities contrary to provisions of Article 162, hereof;
- 5) it charge fees contrary to provisions of Article 163, hereof;
- 6) it fail to do business in the best interest of clients and fail to respect principles of safe and fair business operations in compliance with provisions of Articles 164 – 168, hereof;
- 7) if fail to act in compliance with provisions of Articles 169 and 176 – 178, hereof in relation to acting on clients orders;
- 8) it fail to act in compliance with provisions of Article 170, hereof in relation to preventing conflict of interest;
- 9) it fail to act in compliance with provisions of Articles 172 – 175, hereof in relation to professional clients;
- 10) it fail to act in compliance with provisions of Articles 179. и 180, hereof in relation to confirmation on execution of clients orders, money accounts and financial instruments;
- 11) it perform portfolio management services contrary to provisions of Article 182, hereof;
- 12) it land financial instruments contrary to provisions of Article 183, hereof;
- 13) it fail to meet obligations in compliance with provisions of Article 184, hereof in relation to record keeping and reporting;
- 14) it fail to act in compliance with provisions of Article 185, hereof in relation to trading data disclosure;
- 15) it fail to provide and maintain the capital or fail to manage risks in compliance with provisions of Articles 186 and 187, hereof;
- 16) fail to develop or fail to implement procedures and rules regarding the risk management contrary to provisions of Articles 189 – 192, hereof;
- 17) it exceed allowed levels of risk exposure contrary to provisions of Articles 193 and 194, hereof;
- 18) it fail to act in compliance with provisions of Article 199, hereof in relation to capital adequacy;
- 19) it fail to keep records and report in compliance with provisions of Articles 200 and 201, hereof;
- 20) it fail to comply with provisions of Article 209, hereof in relation to license revoking.

A responsible person employed with the legal entity shall be also punished for an infraction to in Para. 1 of this Article by a fine ranging from 5,000 to 150,000 dinars.

#### **Article 294**

The Central Registry shall be punished for a violation by a fine ranging from 100,000 to 2,000,000 dinars:

- 1) should it act contrary to provisions of Article 37 hereof related to registration and transfer of securities to lawful possessor of accounts;
- 2) should it fail to act in line with provisions of Articles 75 – 77 hereof related to the inside information;
- 3) charge fees contrary to provisions of Article 217, Para. 2 hereof;
- 4) should the Central Registry act contrary to provisions of Articles 223 and 226 of this Law in respect to admitting to and termination of membership in the Central Registry;
- 5) should obligations regarding the clearing and settlement be contrary to provisions of Article 230 hereof;
- 6) should it perform incorrect or illegal registration in the Central Registry contrary to provisions of Article 234 hereof;
- 7) should the Central Registry act contrary to provisions of Article 235 hereof related to obligation to submit and disclose the annual reports.

A responsible person shall be punished for actions referred to in Para. 1 of this Article by the fine ranging from 5,000 to 150,000 dinars.

#### **Article 295**

A fine ranging from 100,000 to 2,000,000 dinars shall be imposed for a violation to a legal entity:

- 1) acting contrary to provisions of Articles 75, 76, 77 and 78 hereof regarding prevention of misuse of inside information;
- 2) providing recommendations contrary to provisions of Articles 87 – 92 hereof.

A responsible person shall be punished for actions referred to in Para. 1 of this Article by the fine ranging from 5,000 to 150,000 dinars.

#### **Article 296**

A fine ranging from 5,000 to 150,000 dinars shall be imposed for a violation to a natural person for actions referred to in Article 289 hereof.

A fine ranging from 10,000 to 500,000 dinars shall be imposed for a violation to an entrepreneur for actions referred to in Article 289 hereof.

## **XV TRANSITIONAL AND FINAL PROVISIONS**

### **Securities Commission**

#### **Article 297**

The Commission conducting operations in compliance with the Law on the Market of Securities and Other Financial Instruments („Official Gazette of RS”, No. 47/06) shall continue to conduct operations in compliance with this Law.

The Commission shall organize and harmonize its operations in compliance with this Law within six months of its coming into force.

Licenses, rulings, measures, approvals and other decisions enacted by the Commission in compliance with the Law on the Market of Securities and Other Financial Instruments („Official Gazette of RS”, No. 47/06) shall continue to be effective upon this Law coming into force.

The proceedings initiated before the Commission before the day of the present Law coming into force, shall be finalized in compliance with the Law on the Market of Securities and Other Financial Instruments („Official Gazette of RS”, No. 47/06).

The members of the Commission appointed according to regulations valid until the coming into force of the present Law, shall continue doing the tasks until new members are elected in compliance with provisions of this Law.

On the first appointment of the president and members of the Commission pursuant to Para. 5 of this Article, the president is appointed for the period of five years, one member to the period of four years, one to three, one to two and one member to one year.

## **Central Registry**

### **Article 298**

The Central Registry conducting its operations in compliance with the Law on the Market of Securities and Other Financial Instruments („Official Gazette of RS”, No. 47/06), shall continue to conduct operations in compliance with the Law and shall organize and harmonize its operations in compliance with this Law within nine months of its coming into force.

Rulings, measures and other decisions enacted by the Central Registry in compliance with the Law on the Market of Securities and Other Financial Instruments („Official Gazette of RS”, No. 47/06) shall continue to be effective upon this Law entering into force.

## **Stock Exchange**

### **Article 299**

The stock exchange conducting operations in compliance with the Law on the Market of Securities and Other Financial Instruments („Official Gazette of RS”, No. 47/06), shall continue to conduct operations in compliance with this Law and shall be obliged to organize and harmonize its general acts with the present Law within maximum nine months from the date of coming of this Law into force.

Rulings, measures and other decisions enacted by the stock exchange referred to in Para. 1 of this Article in compliance with the Law on the Market of Securities and Other Financial Instruments („Official Gazette of RS”, No. 47/06) shall continue to be effective upon this Law entering into force.

Securities traded on the stock exchange pursuant to the Law on the Market of Securities and Other Financial Instruments („Official Gazette of RS”, No. 47/06) upon entering of this Law into force shall be considered admitted to a regulated market or to a listing of the regulated market pursuant to regulations of the market operator and provisions of Article 121 hereof.

Securities on the over-the-counter market pursuant to the Law on the Market of Securities and Other Financial Instruments („Official Gazette of RS”, No. 47/06) upon entering of this Law into force shall be admitted to MTF or a segment of the regulated market which is not listing by the market operator, pursuant to regulations of the market operator and provisions of Article 121 hereof.

## **Broker-Dealer Companies and Authorized Banks**

### **Article 300**

Broker-dealer companies and authorized banks licensed by the Commission until entering of this Law into force, shall continue their operations and shall harmonize their organizations and general acts with the present Law and Commission regulations within maximum a year from the date of coming of this Law into force.

## **Custody Banks**

### **Article 301**

As of the day of this Law coming into force, organizational units of credit institutions licensed by the Commission to perform custody bank services in compliance with the Law on the Market of Securities and Other Financial Instruments („Official Gazette of RS”, No. 47/06), shall not longer be considered to be licensed pursuant to this Law.

As of the day of this Law coming into force, custody banks referred to in Para. 1 of this Article shall be considered licensed entities pursuant to the law regulating investment funds and shall continue performing their activities pursuant to that law.

## **Investor Protection Fund**

### **Article 302**

The Deposit Insurance Agency established in compliance with the Law on Deposit Insurance Agency („Official Gazette of RS”, Nos. 61/05, 116/08 and 91/10), shall organize its

operations and submit an application to the Commission to obtain the license for the organization of the Fund within a maximum of nine months from the date of coming of this Law into force.

### **Repeal of Prior Law**

#### **Article 303**

As of the day of this Law coming into force, the Law on the Market of Securities and other Financial Instruments („Official Gazette of RS”, No. 47/06), shall cease to be effective.

### **Timeframe for Adoption of Regulations**

#### **Article 304**

Regulations the enactment of which are envisaged by this Law, shall be passed within six months from the day of entering of this Law into force.

Without prejudice to Para. 1 of this Article, regulations referred to in Article 73, Para. 5, Article 186, Para. 3 and 4, Article 187, Para. 2, Article 195, Para. 3, Article 198, Para. 3, Article 199, Para. 1 and 2 and Article 279, Para. 2 hereof shall be enacted within a year from the day of entering of this Law into force.

Until beginning of enforcement of regulations referred to in Para. 1 and 2 of this Article, regulations enacted based on the Law on the Market of Securities and other Financial Instruments („Official Gazette of RS”, No. 47/06) shall accordingly apply, provided they are not in conflict with provisions of this Law.

### **Entry into Force**

#### **Article 305**

This Law shall enter into force on the eighth day from the day of its publishing in the „Official Gazette of the Republic of Serbia”, and shall be applied after the expiry of the period of six months following the day of its coming into force, except from provisions providing authorizations to pass regulations, general and other acts harmonizing operations and work of some entities with provisions of this and other laws to be applied as of the day of this law entering into force.