



*Unofficial translation*

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## Regulation for Establishing the Internal Control System of an Investment Management Company

Issued in accordance with  
Paragraph 15 of Article 13  
of the Law on Investment Management Companies

1. The "Regulation for Establishing the Internal Control System of an Investment Management Company" (hereinafter – the Regulation) lays down the requirements for establishing an internal control system and it shall be binding on the investment management companies licensed in the Republic of Latvia (hereinafter – a company) when they provide management services. An investment management company licensed in another member state shall comply with those provisions of the Regulation that ensure compliance with and fulfilment of the requirements set out in Paragraph 9 of Article 77 of the Law on Investment Management Companies. Those investment management companies registered in the Republic of Latvia, which provide services listed in Article 5(2) and 5(3) of the law on Investment Management Companies, also follow the requirements of the Article 10 and Article 11 and Section V of the Financial Capital Market Commission (hereinafter the Commission) regulation of 1 December, 2020 No. 227 "Regulation on Establishment of the Internal Control System".

2. The following terms are used in the Regulation:

2.1. compliance laws, rules and standards – laws and other legal acts governing the operation of the company, standards set by self-managed institutions that relate to the operation of the company, professional and ethic codes of conduct and other best practice standards that relate to the operation of the company;

2.2. recipient of management services – an investment fund (open-end or closed-end), an investment plan or a pension plan;

2.3. counterparty risk – risk of loss for the recipient of management services in case the counterparty to a transaction will default on its obligations before the final settlement of the transaction's cash flow;

2.4. liquidity risk – risk that a position in the fund's investment portfolio cannot be sold, liquidated or closed at limited cost in an adequately short time frame and that the ability of the fund to repurchase or redeem its investment certificates at the request of any unit-holder is thereby compromised;

2.5. market risk – risk of loss for the recipient of management services as a result of revaluation of the financial instruments in its investment portfolio attributable to changes in the market value due to such factors as exchange rates, interest rates, equity and commodity prices or issuer’s credit worthiness;

2.6. operational risk – risk of loss for the recipient of management services as a result of non-compliant or inadequate internal processes and failures in relation to people or systems or effect of external events, and it includes legal and documentation risk as well as risk of loss deriving from trading, settlement and valuation procedures operated on behalf of the recipient of management services;

2.7. compliance risk – risk of loss for the company or probability that legal obligations may be imposed on the company, sanctions may be applied to it or its reputation may be damaged because of its non-compliance with or breaches of compliance laws, rules and standards;

2.8. other terms are used in the meaning of the terms used in the Law on Investment Management Companies and in the Regulation on Calculating of the Fund’s Global Exposure and Risk Exposure to a Counterparty of the Commission.

## **I General Requirements**

3. The management board and the supervisory board of the company shall be responsible for establishing and efficient functioning of the internal control system.

4. The management board and the supervisory board of the company shall ensure that:

4.1. the organisation of the internal control structure ensures safeguarding the assets of the company and of the recipients of management services against loss, unauthorised managing and using;

4.2. the company’s risks are identified and managed on an ongoing basis;

4.3. transactions are made in accordance with the developed operational procedures and policy of the company;

4.4. the company operates prudently and efficiently and complies with the regulatory requirements governing its activities.

5. The internal control system shall be established in view of the size of the company, the scale, diversity and complexity of its operations, the amount of risk inherent to each area of activity, the degree of management centralisation, IT support and other factors that are essential in achieving the goals of each particular company.

6. The fundamental elements of an internal control system shall be as follows:

6.1. organisation of the company’s operations;

6.2. identification and management of all material risks stemming from the operations of the company, including their measurement, assessment, control and reporting;

6.3. regular revision of the internal control system, assessment of its efficiency and improving the system in line with the changes in the company’s activities and in the external events affecting the company’s operation as well as timely preventing of any detected system deficiencies.

## **II Organisation of the Company’s Operations**

7. The company shall ensure appropriate organisation of its operations, including:

- 7.1. establishment of an organisational structure that is commensurate with its size and risks that the company assumes and is transparent;
- 7.2. ensuring appropriate personnel;
- 7.3. ensuring appropriate accounting system;
- 7.4. developing the management information system;
- 7.5. developing the policy and procedure for outsourcing services and taking the necessary measures to ensure compliance with these documents;
- 7.6. developing procedures and taking the necessary measures to manage conflicts of interest;
- 7.7. developing procedures and taking the necessary measures to ensure safeguarding of the company's assets and information systems.

## **1. Organisational Structure**

8. The company shall develop a description of its organisational structure whereby it indicates:
  - 8.1. duties (functions), authorisation and responsibility in carrying out and controlling transactions of the company's officials, members of the board of governors, structural units and managers thereof, including a job description (office instructions) for the responsible employees;
  - 8.2. structural units that are responsible for carrying out the risk management function, the compliance function and the internal audit function (hereinafter all jointly also referred to as internal control functions) in the company in accordance with the requirements of Section VI the Regulation;
  - 8.3. the reporting and information sharing procedure in the company and also with third parties, including what information, to whom and when is to be disclosed and received and what information shall be treated as confidential and shall not be disclosed.

## **2. Personnel Compliance and Remuneration System**

9. The company shall ensure that its employees are aware of their duties, know information related to the discharge of their duties, and their qualifications and experience are appropriate for the position. To ensure appropriate staff, the company shall:
  - 9.1. develop and document the staff policy and procedures whereby the procedure for selecting the heads of structural units and the managers of the recipients of management services is established, remuneration, supervision and job succession are planned and requirements for the skills needed for a particular position are set out, as well as the criteria and the procedure for assessing compliance of a particular employee are established;
  - 9.2. develop and document the professional training programme for employees aimed at preparing an employee for the performance of the duties associated with a certain position and at ongoing improvement of their knowledge and also the procedure for notifying employees of all changes in policy, procedures, compliance laws, regulations and standards related to their job duties;
  - 9.3. develop and document the employee remuneration system, ensuring that principles and elements of it does not only depend upon the achievement of short-term objectives (*inter alia*, a short-term profit) and does not encourage the taking of such risks which the company cannot effectively manage. In accordance with the Commission's Regulation on Core Principles of the Remuneration Policy for the Managers of Investment Management Companies and Alternative Investment Funds the company shall ensure the development of the remuneration policy.

10. The company shall ensure that performance of multiple functions by relevant persons does not and cannot prevent those persons from discharging any of the functions soundly, honestly and professionally.

### **3. Accounting Procedures**

11. The company shall arrange its accounting system in accordance with the regulatory requirements for the organisation of accounting and develop and document the accounting policy and the procedure for record keeping, control, valuation and reporting.

12. Where the company transfers the fund's investment portfolio for managing to another company, it shall take measures to ensure that, where necessary, it will have access to transaction records for the past 10 years.

### **4. Management Information System**

13. The company shall develop the management information system that enables to understand and in a timely manner assess the financial position of the company and of the recipient of management services, take decisions efficiently and assess their consequences, and detect non-compliance with control procedures in a timely manner. The company's officials, supervisory board and heads of structural units shall have timely access to accurate and adequate information that is needed for discharging their duties and taking decisions.

14. The management information system shall include at least the following:

14.1. information about the current financial position of the company and of the recipient of management services, performance analysis in comparison with previous periods and indicators of the activity plan;

14.2. analysis of assets, liabilities and off-balance-sheet items of the company and of the recipient of management services indicating their valuation;

14.3. analysis of income and expenses of the company and of the recipient of management services, including their dependence on various classes of assets, liabilities and off-balance-sheet items;

14.4. information about the comparison of the size of actual quantitative risks of the recipient of the company's management services with the established restrictions and limits;

14.5. information and analysis about the cases of non-compliance with the approved policy and procedures.

15. The management information system shall ensure the following:

15.1. timely provision of information to external users (annual reports, reports to the Commission, the Bank of Latvia etc.) in accordance with the regulatory requirements;

15.2. timely and appropriate recording of information to ensure compliance with the requirements of Paragraphs 16 and 17 of the Regulation.

16. The company shall ensure that for every transaction made at the expense of recipients of management services a record is produced without delay. The record of such transactions shall contain information that is sufficient to reconstruct the details of the transaction and related orders and it shall include the following information:

16.1. identification of the recipient of management services and of the person acting on behalf of the recipient of management services (name and surname or the name of the fund);

- 16.2. the details for identifying the financial instruments associated with the transaction;
- 16.3. the quantity of financial instruments;
- 16.4. the type of the order or the transaction;
- 16.5. transaction price;
- 16.6. the date and the exact time of the transmission of the order and the identification of the person to whom the order was transmitted;
- 16.7. the date and the exact time of the decision to make the deal and the execution of the transaction;
- 16.8. identification of the person transmitting the order or executing the transaction;
- 16.9. in cases when the order has been revoked, the reasons thereof;
- 16.10. identification of the counterparty and the execution venue (a regulated market, a multilateral trading facility, systemic internalizer, market maker or other liquidity provider).

17. The company shall ensure that the received subscription and redemption orders in respect of investment certificates of an open-end investment fund are centralised and promptly recorded and that the following information is included in the record:

- 17.1. the name of the open-end investment fund;
- 17.2. identification of the person who gave or transmitted the order;
- 17.3. identification of the person who received the order;
- 17.4. the date and time of the order;
- 17.5. the terms and means of the payment;
- 17.6. type of the order: buying, repurchase or redemption;
- 17.7. the date and time of the execution of the order;
- 17.8. the number of investment certificates subscribed to, repurchased or redeemed;
- 17.9. the subscription, repurchase or redemption price of each investment certificate;
- 17.10. total subscription, repurchase or redemption value of investment certificates;
- 17.11. gross value of the order, including issue commission fee, or net value after repurchase commission fee.

18. The company shall store the records so that the following conditions are met:

- 18.1. the Commission may access data contained in the records and is able to reconstitute each key stage of the processing for all transactions;
- 18.2. it is possible to ascertain of any corrections or amendments and also content of the record before corrections or amendments;
- 18.3. manipulating or altering records shall not be possible.

## **5. Procedure for Outsourcing Functions**

19. When the company outsources any of its functions, it shall ensure that:

- 19.1. the procedure for assessing and managing the risks associated with the outsourced service is developed and appropriately documented;
- 19.2. the provision of the outsourced service is efficiently supervised and there are sufficient resources for ensuring that supervision, including that the employees whose duty is to carry out that supervision have appropriate education and professional experience.

20. When the company outsources the risk management function, it shall ensure that:

- 20.1. the company retains responsibility for the effectiveness and appropriateness of the risk management process;

20.2. outsourcing does not impair or restrict the Commission's ability to carry out its monitoring functions set out in law.

## **6. Safeguarding Assets and Information Systems**

21. The company shall develop and document appropriate business continuity policy and safeguarding procedures that:

21.1. prevent unauthorised direct and indirect (through documents) access by third parties to assets, accounting, electronic communication and other records of the company and of the recipient of management services;

21.2. ensure safe and sound functioning of information systems, preservation of information (including its recovery in emergency), integrity and confidentiality of preserved information and security of information processing, storing and transmission;

21.3. ensure ongoing and systematic provision of management services.

## **III Identification and Management of the Risks of the Company and of the Recipients of Management Services**

### **1. Policy for Managing Material Risks**

22. The company shall develop, document and maintain the policy for managing material risks whereby it identifies the risks inherent to the activity of the company and of the recipient of management services or any contingent risks.

23. In respect of open-end investment funds, the company's policy for managing material risks shall include at least the following elements:

23.1. the procedure needed for the company to assess, in respect for each fund, the size of the market risk, liquidity risk, counterparty risk, concentration risk, operational risk and other risks that are likely to be material for the fund as well as concentration and interaction of these risks;

23.2. techniques, tools and measures to ensure compliance with the requirements for measuring and managing these risks as set out in Paragraphs 26–30 of the Regulation, as well as compliance with the requirements for calculating global exposure set out in Paragraphs 7, 7.1 and 7.2 of Article 66 of the Law on Investment Management Companies and Regulation on Calculating of the Fund's Global Exposure and Risk Exposure to a Counterparty of the Commission (hereinafter – requirements for measuring and managing risks and for calculating global exposure);

23.3. allocation of responsibilities related to risk management in the company;

23.4. the content, the frequency for submitting and the reporting procedure in respect of information that the persons responsible for ensuring risk management function in the company submit to the management board and the supervisory board of the company.

24. The company shall establish the policy for managing material risks and implement risk management function in view of the nature, scale and complexity of its own operations and of the recipients of management services.

25. The company shall assess, monitor and revise, on an ongoing basis:

- 25.1. the policy for managing material risks, efficiency of measures, procedures and techniques included in measuring and managing risks and calculating global exposure and their appropriateness to the operations of the recipient of management services;
- 25.2. to what extent the policy for managing material risks and measures, procedures and techniques included in measuring and managing risks and calculating global exposure are followed;
- 25.3. appropriateness and efficiency of the measures to eliminate irregularities and deficiencies in risk management.

## **2. Measuring and Managing Risks**

26. The company shall develop and implement arrangements, procedures and techniques appropriate to the nature of its operations in order to:

26.1. measure and manage, on an ongoing basis, risks inherent to the activity of recipients of management services as well as contingent risks;

26.2. ensure that the amount of the global exposure of an open-end investment fund, referred to in Paragraphs 7 and 7.1 of the Law on Investment Management Companies, and risk exposure to a counterparty referred to in Paragraph 8 of Article 66 of the Law on Investment Management Companies, is calculated in accordance with the requirements of Regulation on Calculating of the Fund's Global Exposure and Risk Exposure to a Counterparty of the Commission, to comply with investment limits set out in the Law on Investment Management Companies.

26.3. ensure that the entity when taking a decision on asset placement, purchase, sale or holding, assesses credit risk of its assets not mechanistically relying on credit ratings issued by credit rating agencies as defined in Regulation No 1060/2009 of the European Parliament and Council on credit rating agencies, and does not use the credit rating as the only criterion for assessing the credit risk.

27. When developing and implementing the arrangements, procedures and techniques referred to in Paragraph 26 of the Regulation, the company shall take into account the nature, scale, complexity and risk profile of its own activities and of recipients of management services.

28. To ensure compliance with the requirements of Paragraph 26 of the Regulation, the company, in respect of each open-end investment fund, shall:

28.1. establish and document the arrangements, procedures and techniques for measuring risks that ensure accurate measurement of the relevant risks and of their effect on the overall risk profile of the fund, on the basis of available, safe and reliable data;

28.2. assess the necessity to carry out regular back-testing to assess reliability of the results obtained by risk assessment measures, including forecasts and calculations obtained by internal models;

28.3. assess the necessity to carry out regular stress tests and scenario analysis that would enable identification of contingent events or likely changes in market conditions that could adversely affect the fund value;

28.4. establish, implement, document and maintain appropriate risk management procedures by determining internal limits in respect of the risks inherent to the fund that have been recognised as material risks in the policy for managing material risks in view of the fund's risk profile;

28.5. ensure that the internal limits for risks established for each fund are followed in practice;

28.6. develop, document and implement risk management procedures to ensure that in cases when the internal limits for risks are actually exceeded or exceeding them may be expected timely preventive measures are taken in the interests of fund investors.

29. The liquidity risk management process implemented by the company shall ensure that in respect of each open-end investment fund it manages compliance with the requirement for the redemption of investment certificates is ensured. In order to assess the liquidity risk in exceptional circumstances, the company shall carry out stress testing appropriate to the nature, size and complexity of the fund's activities, taking into account the guidelines of the European Securities and Markets Authority "[Guidelines on liquidity stress testing in UCITS and AIFs](#)" (ESMA34-39-897).

30. The company shall ensure that the liquidity profile of investments of each open-end investment fund is appropriate to the redemption policy laid down in the fund prospectus and the fund rules.

31. Where the company intends to make investments in objects with a notably different risk profile or to significantly change the structure of the investment portfolio, the company, when implementing the policy for managing material risks and before making the investment in accordance with the nature of the intended investment, shall formulate the forecasts and carry out analysis of the effect of the investment on the structure of the investment portfolio, liquidity, risk and profitability profile of the recipient of management services. The analysis shall be carried out on the basis of reliable and up-to-date information and it shall include assessment of both quantitative and qualitative indicators.

#### **IV Functions of the Supervisory Board of the Company in the Area of Internal Control System**

32. The supervisory board of the company shall monitor that the management board of the company establishes the internal control system and ensures its efficiency. In the area of the internal control system, the board of governors shall:

32.1. act honestly, fairly and professionally to safeguard interests of the recipients of management services;

32.2. monitor allocation of responsibilities among the members of the supervisory board and the company's officials;

32.3. establish the responsibilities of the members of the management board, their remuneration and the procedure for assessing the performance of the management board;

32.4. approve policies related to the operations of the company, monitor those policies and implementation of the procedures and measures related to those policies;

32.5. monitor that the company complies with the procedure for making personal transactions or transactions with financial instruments at the expense of the company and approve the procedure whereby the company can exercise voting rights deriving from the financial instruments in the investment portfolio of the recipient of management services;

32.6. follow whether the risk management function, the compliance function and the internal control function are clearly defined, whether these functions have an adequate place in the organisational structure of the company and a definite role in the management of the company, whether they are performed by qualified staff and operate efficiently;

32.7. oversee identification, measurement and management of risk (including compliance risk) and the procedure for relevant reporting in the company;

32.8. oversee functioning of an efficient management information system;

32.9. oversee submission of reports and information to the Commission, other institutions, recipients of management services and fund investors;



- 32.10. follow periodic improving of the internal control system in line with the changes in the operations of the company and external events affecting its operations;
- 32.11. review the reports by the internal control functions and opinions and recommendations by the internal audit, external auditors, the Commission and other institutions for improving the company's activities and eliminating the detected weaknesses.

## **V Functions of the Management Board in the Area of the Internal Control System**

33. The management board of the company shall be responsible for establishing a comprehensive internal control system, its implementing, managing and improving. In the area of the internal control system the management board shall:
- 33.1. establish the organisational structure of the company;
  - 33.2. ensure implementation of the policies established by the supervisory board and approve the corresponding procedures;
  - 33.3. approve the risk profile of the investment fund and of the investment plan;
  - 33.4. ensure implementation of the procedure for making personal transactions or transactions with financial instruments at the expense of the company and also the procedure whereby the company can exercise voting rights deriving from the financial instruments held in the investment portfolio of the recipient of management services;
  - 33.5. ensure implementation of the investment policy in accordance with the fund prospectus, the fund rules or the plan of the recipient of management services;
  - 33.6. monitor approval of the investment strategy in every investment fund and every investment plan;
  - 33.7. ensure identification, measurement and management of risks and the relevant reporting in the company;
  - 33.8. ensure ongoing and efficient carrying out of the compliance function (also when the function is outsourced) and in cooperation with the compliance unit carry out the duties referred to in Paragraph 47 of the Regulation;
  - 33.9. ensure and ascertain, on a regular basis, that the investment policy, investment strategy and established investment limits of each recipient of management services are appropriately and efficiently implemented and followed (also when the function is outsourced);
  - 33.10. approve and regularly review the procedure for making investment decisions on behalf of each recipient of management services to ensure that these decisions are consistent with the established investment strategy;
  - 33.11. regularly review the company's policy for managing material risks and the measures, procedures and techniques referred to in Paragraph 23 of the Regulation, including investment limits, and provide recommendations to the supervisory board for the necessary changes;
  - 33.12. implement and manage the management information system that covers all areas of the company's operation;
  - 33.13. ensure safeguarding of assets and of information systems of the company and of the recipient of management services and implement the business continuity policy established by the supervisory board;
  - 33.14. ensure taking of measures to eliminate deficiencies in the internal control system uncovered by the internal audit, external auditors, the Commission or other institutions;

33.15. ensure regular reports by the responsible structural units, including reports that contain information about the investment strategy and implementation of the measures, policy and the procedure referred to in Paragraphs 33.4–33.7 of the Regulation;

33.16. at least annually report to the supervisory board on the operation of the internal control system by assessing its efficiency and, where necessary, proposing changes to improve its efficiency in view of the changes in the company's activities and external events affecting its activities.

## **VI Internal Control Functions**

34. To facilitate establishment of an efficient and comprehensive internal control system covering all areas of activity, the company, in line with the nature of its operations, shall ensure that at least the following internal control functions are carried out:

34.1. risk management function;

34.2. compliance function;

34.3. internal audit function.

35. The company shall ensure that internal control functions are independent from the company's activities that are subject to their control (hereinafter, controlled activities). Internal control functions shall be regarded as independent from the controlled activities provided that the following conditions are met:

35.1. the duties of the employees who carry out internal control functions do not include duties related with the controlled activities;

35.2. internal control functions are separate from the controlled activities and the manager of a unit that carries out any internal control functions is hierarchically subject to the person who is not simultaneously responsible for the structural units that carry out controlled activities;

35.3. the head of a unit that carries out any internal control functions is accountable to the management board (or the supervisory board);

35.4. the remuneration of the employees who carry out internal control functions does not depend on the performance of controlled activities.

36. The company shall ensure that internal control functions are separate from one another.

37. In respect of the risk management function and the compliance function, derogations are permitted from the principles referred to in Paragraphs 35.2, 35.3, 35.4 and 36 of the Regulation provided that the company develops and implements control procedures that ensure preventing any existing or potential conflicts of interest where that is in line with the size and nature of the company's operations and that these derogations do not impair efficiency of internal control functions.

38. In order to enable that internal control functions discharge their responsibilities effectively, the company shall:

38.1. clearly define and document the authorisation of the structural units that carry out internal control functions;

38.2. ensure that internal control functions are functionally independent from daily operations;

38.3. ensure that the structural units that carry out internal control functions have free access to all documents, information and employees;

38.4. grant authorisation to the structural units that carry out internal control functions to control the outsourced operations of the company;

38.5. ensure that the structural units that carry out internal control functions have sufficient resources for the performance of the duties, including an adequate number of employees who have appropriate education and necessary professional experience to consider that they are able to discharge their duties professionally;

38.6. ensure that the structural units that carry out internal control functions have direct contacts with the management board and the supervisory board.

## **1. Risk Management Function**

39. The basic task of the risk management function shall be to establish a risk management system, including appropriate policy and procedures for managing risks, and to ensure its implementation.

40. The company shall ensure that its risk management function is commensurate with its size and nature of its operations and entrust the risk management function to one or several units (hereinafter each separately or all jointly referred to as a risk management unit); it shall also ensure that the duties and the role of the risk management unit are documented and it shall appoint employees responsible for managing risk.

41. The responsibilities of the risk management unit shall be as follows:

41.1. to identify the risks material to the operations of the company and of the recipient of management services, establish the policy and procedures for managing those risks and implement that policy and procedures;

41.2. to control compliance with investment limits, including investment limits set out in the Law on Investment Management Companies in respect of global exposure and risk exposure to a counterparty of open-end investment funds;

41.3. to provide advice to the supervisory board and the management board on issues relating to the risk profile of each fund or investment plan the company manages;

41.4. where necessary, to revise and support the procedure and processes for valuating financial derivative instruments;

41.5. to perform the duties set out in Regulation on Calculating of the Fund's Global Exposure and Risk Exposure to a Counterparty of the Commission in respect of using the value at risk method;

41.6. to regularly revise and improve the risk management policy and procedures to ensure that they are up-to-date and are in line with the changes in the company's operations and the external events affecting its operations.

42. The risk management unit shall report regularly to the management board and the supervisory board by disclosing information about the risks inherent to the activity of the company and of the recipient of management services to enable the management board and the supervisory board to make an ongoing assessment of risks that affect the company's ability to attain its objectives and, where necessary, to take decisions about taking relevant remedial measures.

43. In addition to the provisions of Paragraph 42 of the Regulation, the risk management unit shall report regularly to the supervisory board by disclosing the following information:

43.1. whether the risk level of each fund or investment plan is consistent with the established risk profile;

43.2. whether each recipient of management services ensures compliance with the established investment limits;

43.3. whether the risk management policy and procedures are adequate and efficient (including whether appropriate remedial measures have been taken, where necessary).

44. In addition to the provisions of Paragraph 42 of the Regulation, the risk management unit shall report regularly to the management board of the company by disclosing information about the current risk level of each recipient of management services and about detected or expected breaches of investment limits established for the respective recipient of management services to enable the management board to take timely decisions about appropriate remedial measures, where necessary.

## **2. Compliance Function**

45. The basic task of the compliance function shall be to identify, assess and manage the compliance risk.

46. The company shall ensure that its compliance function is commensurate with its size and nature of its operations and entrust the compliance function to one or several units (hereinafter each separately or all jointly referred to as a compliance unit); it shall also ensure that the duties and the role of the compliance unit are documented and it shall appoint employees responsible for compliance.

47. The management board of the company, in cooperation with the compliance unit, shall:

47.1. at least annually identify and assess any major compliance deficiencies and develop a plan for their elimination;

47.2. at least annually report to the supervisory board of the company about the compliance risk by disclosing information that would enable the supervisory board to assess efficiency of compliance risk management;

47.3. promptly notify the supervisory board of any material compliance deficiencies due to which the company may incur losses, legal obligations may be imposed on the company, sanctions may be applied to it or its reputation may be damaged.

48. The responsibilities of the compliance unit shall be as follows:

48.1. to identify, document and assess the compliance risk, including ensuring that before commencing a new business (including before introducing new products, services or procedures or before approving new recipients of management services or cooperation partners) the compliance risk associated with this business is identified and assessed or, when carrying out that business, the company will follow compliance laws, rules and standards;

48.2. to develop, document and implement the policy and procedures for managing compliance risk, including developing of appropriate procedures to ensure that all employees of the company follow the compliance laws, rules and standards;

48.3. to control compliance with the policy and procedures for managing compliance risk;

48.4. to regularly revise and improve the policy and procedures for managing compliance risk to ensure that they are up-to-date and are in line with the changes in the operations of the company and the external events affecting its activity;

48.5. to inform the management board and the supervisory board of the company about the compliance risk of the company, compliance deficiencies, the preferred and the taken measures to eliminate these deficiencies, compliance laws, rules and standards and any changes therein;

48.6. to assess the effect of the potential changes in compliance laws, rules and standards on the company's performance;

48.7. to consult and support the company's employees to ensure that they follow compliance laws, rules and standards when they discharge their duties.

49. The compliance unit shall operate in accordance with the work plan that is approved by the supervisory board or the management board and that discloses the activities to be carried out during the reporting period.

### **3. Internal Audit Function**

50. The basic task of the internal audit function is to carry out independent monitoring of the internal control system, to assess its adequacy and efficiency in order to assist the management board, the supervisory board and heads of structural units to discharge their functions more efficiently.

51. The responsibilities of the unit that carries out the internal audit function (hereinafter – the internal audit) shall be as follows:

51.1. to assess efficiency of the company's operations and its performance;

51.2. to verify whether the company's operations comply with the strategy, plans, policies and procedures;

51.3. to assess efficiency of the risk management function and of the compliance function;

51.4. to inspect the accounting system;

51.5. to assess information systems;

51.6. to inspect the performance of internal control procedures;

51.7. to verify reliability and completeness of financial information and the means for identifying, measuring, classifying and providing information;

51.8. to carry out special inspections and investigations.

52. The procedure for appointing and removing the head of the internal audit shall ensure that the head of the internal audit is independent from the company's officials when he/she takes decisions and actions and it shall clearly indicate his/her duties, authorisations and reporting procedures.

53. The internal audit shall be performed in accordance with the activity plan that is established by the supervisory board in which the following is disclosed:

53.1. the areas of activity to be inspected during the reporting period, frequency of inspections and the resources needed for carrying out these inspections;

53.2. the techniques for establishing and assessing risks in the areas to be inspected as well as the criteria for assessing risk management procedures;

53.3. the requirements for recording inspection results;

53.4. the procedure for reporting inspection results to the management board and the supervisory board of the company, the procedure for verifying the implementation of recommendations.

54. The internal audit shall prepare reports to the management board and the supervisory board of the company about each inspection by disclosing uncovered facts, deficiencies of the internal control system, violations of the policy and procedures, insufficiently identified or managed risks, and it shall provide recommendations for eliminating the uncovered deficiencies. The internal audit shall ensure that facts, opinions and recommendations of each inspection are discussed at the

appropriate managerial level and it shall follow implementation of the internal audit recommendations. At least annually the internal audit shall prepare a report about the inspections carried out, the major uncovered deficiencies and present an opinion about efficiency of the internal control system.

### **Concluding Provisions**

55. Upon coming into effect of this Regulation, the Commission's Regulation No. 246 of 11 November 2011 "Regulation for Establishing the Internal Control System of an Investment Management Company" shall become null and void.

### ***Informative Reference to European Union Directives and Other International Documents***

The Regulation contains provisions deriving from the following:

- 1) Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS);
- 2) Commission Directive 2010/43/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company;
- 3) the guidelines of the Committee of European Securities Regulators on the risk management principles for UCITS (CESR/09-178);
- 4) Directive 2013/14/EU of the European Parliament and of the Council of 21 May 2013 amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings;
- 5) Document of the European Securities and Markets Authority "*Guidelines on liquidity stress testing in UCITS and AIFs*" (ESMA34-39-897).

Chairwoman of the Financial and Capital Market Commission

S. Purgaile