Biljana Petrevska[1]

LEGAL FRAMEWORK OF INVESTMENT FUNDS IN MACEDONIAN ECONOMY

Abstract

The subject of research of this paper presents the relevant legal framework for providing everyday work of investment funds in the Macedonian economy. The purpose of the research of this paper is to analyze whether there are prudent laws for investment funds, or some changes are necessary to be made in the legal system in the Macedonian economy. The first part of the paper is an introduction, which explains the topic of the research, while the second part of this paper focuses on the relevant laws for investment funds in our country. The third part of the paper explains various directives and resolutions of the European Union for investment funds. The fourth part of the paper analysis the necessary reforms that should be made in the future in our economy to harmonize Macedonian law on the investment funds with the directives of the European Union. Finally, the fifth part of the paper is the conclusion.

Keywords: investment, fund, law, an investment fund.

I. INTRODUCTION

Investment funds are joint monetary funds, intended for investing, collected from investors by open call or private call, and managed by the investment fund management company on behalf of the investors. An investment fund can be founded as an open-end investment fund, closed-end investment fund and private investment fund.

Open-end investment fund presents separate assets, without the capacity of a legal entity, whose shareholders have the right to a proportional part of the fund's profit and who at any time have the right to request payment of the share, wherefore they will step out of the fund. Buying of shares shall be performed exclusively by paying monetary funds, whereas the buyer of shares founds an agreeable relation with the management company, which bonds to manage the paid monetary funds, as part of the joint assets under the conditions listed in the prospect.[2]

A closed-end investment fund is a joint-stock company founded to collect monetary funds through public offers of stocks and invest those funds, applying the principle of risk diversification thereof. *The provisions of the Law on Trade Companies and the Law on*

[1] Biljana Petrevska, Ph.D., , Ph.D., Associate Professor, Ss. Cyril and Methodius University in Skopje, Iustinianus Primus Law Faculty

[2] Law on the Investment Funds („Official Gazette of the Republic of Macedonia"No. 12/2009, 67/2010, 24/2011, 188/2013, 145/2015 and 23/2016), Article 57, Paragraph 1, 2.

Securities shall be applied to the closed-end fund unless otherwise regulated by the Law of Investment Funds.[3]

Private investment fund shall refer to special assets, without the capacity of a legal entity, formed to collect monetary funds through a private offer for selling documents for shares in the fund, whose means are being invested under the purposes of the investment determined in the prospect of the private fund. The owners of documents for shares, beside the right to share in the profit of the private fund, can also request payment of the share and in that manner to step out of the fund, in a manner and under conditions determined in the prospect of the fund.[4]

The open-end and closed-end investment fund are founded and *managed by the management company*, whereas the private investment fund is founded and managed by *the private fund's management company*. However, the *Investment fund Management Company* is a joint-stock company with head office in our country, with permission from the Securities and Exchange Commission to perform activities concerning foundation and investment fund management.[5]

In the first half of the year 2019, there were 5 investment funds management companies operating in the Macedonian economy managing 16 open-end funds. The total net asset value of the funds has amounted to Denar 7.008.155.319, which is an increase of 10.8 per cent compared to the end of 2018. According to the investment fund structure of the investment funds, most of the investors' funds were invested in the financial services sector - 26% of the total assets of the funds. The remaining investments are more evenly distributed, with most of them in healthcare companies accounting for 15% of all investments, telecommunications with 13% and energy investing with 11%. According to the geographical exposure of the investment funds, most of the assets i.e. 81.20% of the total assets of the funds are invested in our country. *This geographical structure of investments is primarily due to the investment of funds in deposits, which according to the Law on Investment Funds can only be deposited in Macedonian banks*.[6]

In addition to the open-end investment funds, there are 12 private equity funds in the Macedonian economy. However, investment in those funds is extremely low. That is, on average, 1.4 euros per capita, for example in Slovenia it is 1429 euros per capita. This situation is primarily due to two factors: *first*, the relatively poor solvency (poverty), which leaves the average citizen in our country with little (if any) money to invest in investment funds; and *second*, very poor information of the citizens about the advantages and benefits of investing in investment funds. In that sense, of course, *greater awareness of the citizens would strengthen their culture and awareness of the benefits of investing in the funds* and, instead of investing part of their money only in commercial banks as savings deposits, to invest in investment funds as well.[7]

[3] Ibid, Article 69, Paragraph 1, 2.
[4] Ibid, Article 93.
[5] Todorova S., Uzunov V., Petrevska B., "Applied Economics", Skopje, Kultura, 2018, pp.223-226.
[6] Securities and Exchange Commission of the Republic of North Macedonia, Quarterly Report, April-June 2019, p.10.
[7] Ibid, pp.226.

II. LEGAL FRAMEWORK OF INVESTMENT FUNDS IN MACEDONIAN ECONOMY

The basic Law that regulates the investment funds everyday work in Macedonian economy is the *Law on Investment Funds*[8]. Besides this Law, *the provisions of the Law on Securities, the Law on Trade Companies, the Bankruptcy Law and the Law on the General Administrative Procedure* can be applied on issues that are not regulated by the Law of Investment Funds.[9] In addition, the legal framework for the operation of investment funds in the Macedonian economy includes *many by-laws of the Securities Commission (over 31 Regulations)*[10], which specify certain

[8] Law on the Investment Funds („Official Gazette of the Republic of Macedonia"No. 12/2009, 67/2010, 24/2011, 188/2013, 145/2015 and 23/2016).

[9] Ibid, Article 1, Paragraph 2.

[10] Regulation on determining the procedure for termination and continuation of sale and repurchase of units in the open-end investment fund; Regulation on the accounting plan, content of account groups in the accounting plan of closed-end investment funds and form and content of the financial statements of closed-end investment funds; Regulation on the accounting plan, content of account groups in the accounting plan of open-end investment funds and form and content of the financial statements of open-end investment funds; Regulation of the manner, procedure and type of activities that the investment funds management company can transfer to third parties; Regulation on the manner and procedure for granting consent for appointment of members of the management board, or executive members of the board of directors of investment funds management company; Regulation on the manner, procedure and required documentation for issuance of operating license for establishment a branch office of foreign investment funds management company in the Republic of Macedonia; Regulation on personnel, technical and organizational capacities necessary for the establishment and operation of investment funds management company; Regulation on the content and form of the contract for management with the closed-end investment fund; Regulation on the form and content of the request for issuance of approval for election of the depositary bank; Regulation on the form and content of the request for issuance of approval for establishment of closed-end investment fund; Regulation on the methodology for calculation of risks from investments in financial derivative instruments; Regulation for necessary documentation submitted as a proof of fulfillment of the conditions for appointment of member of the management board, executive member of board of directors of investment fund management company; Regulation on permitted investments, investment limitations and exceeding the limits for investment of the assets of the open-end investment fund; Regulation of the manner, procedure and the necessary documentation required for issuance of operating license to the investment funds management company; Regulation on permitted investments, investment limitations and exceeding the limits for investment of the assets of closed-end investment fund; Regulation on the obligatory content, form and deadlines of mandatory reports on business operations of investment funds, management companies and depositary bank; Regulation on the manner of operation of the investment funds management company; Regulation on the procedure, conditions and manner for merger of open-end investment funds; Regulation for determining the structure, calculation and manner of maintaining the assets of the minimal charter capital of investment funds management company; Regulation on the form and content of the request for issuance of approval for organizing an open-end investment fund; Regulation on the form and content of the prospectus of open-end and closed-end investment fund; Regulation on the content and the time of publication of the price of the units in open-end and the shares in closed-ended investment fund; Regulation on the necessary documentation for issuance of approval for acquiring a qualified holding in the investment funds management company; Regulation on the criterion for ranking of the sub-depositary bank of an investment fund; Regulation on the form, content and manner of maintaining Register of investment funds and the manner of determining the identification number of the investment fund; Regulation on the form, content and manner of maintaining the register of units in open-end investment fund and publishing the data from the register; Regulation on the form and content of the simplified prospectus of the open-end investment fund; Regulation on the manner and procedure for performing supervision and monitoring of the activities on the investment funds, investment funds management companies and the depositary banks by the Securities and Exchange Commission; Regulation on the procedure for taking over the activities of management of investment funds that had been performed by an investment fund management company; Regulation on the procedure, expenses and time limits for the winding-up of open-end investment funds; Regulation for determining the categories of own funds and the method of calculation of the amount and structure of

aspects of the day-to-day operation of investment funds. However, despite many *Regulations* that we have in our legal system, *our legal framework in the area of investment funds is still not completely aligned and harmonized with the Directives and Regulations of the European Union that regulates the investment funds*.
Bearing in mind that our country strives to be in the process of joining the European Union and that it faces the pending obligation of gradual acquisition of the European Union solutions and harmonization of local regulation with the relevant European Union Directives, *in this paper, we analyze the room for amendments to the Law of Investment Funds*, with a view to further harmonization of domestic regulations related to investment funds, and the facilitation of the local fund industry's development.

III. DIRECTIVES AND REGULATIVE OF THE EUROPEAN UNION FOR INVESTMENT FUNDS

The basis for regulating the operations of investment funds in the European Union includes three main directives: UCITS (Undertakings for Collective Investment in Transferrable Securities), *MIFID* (Markets in Financial Instruments Directive) and *AIFMD* (Alternative Investment Fund Managers Directive). UCITS and AIFMD differ not only in terms of the investment strategy of the funds they regulate but also in terms of the type of investors, they target.
UCITS Directive[11] 2009/65/EC replaced the Directive 85/611/ECC, which regulated undertakings for collective investment in transferrable securities until 1 July 2011. It was desirable to provide better harmonization of provisions concerning the issuance of operating licenses for UCITS funds, and the indirect supervisory system in the member states, so that a *license issued to a UCITS fund in an open member state would be valid across the entire European Union*. To achieve this goal, relevant requirements were prescribed in terms of *initial capital and own funds of UCITS management companies*. For investors' protection, a *two-person management system* is required.
UCITS funds are allowed to manage individual clients' portfolios as well, in the manner prescribed by the MIFID Directive 2004/39/EC. The Directive, therefore, *prescribes special rules for preventing conflicts of interest* when a management company simultaneously manages the fund's portfolio and an individual client's portfolio. Moreover, the Directive defines the functions that a management company may delegate to third parties, to increase the efficiency of performing the main functions of the UCITS fund. One of the *objectives* of this Directive's adoption *was to enable UCITS funds to invest in order financial instruments other than transferable securities* if they are liquid. The Directive especially allows UCITS funds to invest in financial derivatives, as part of their investment policy or for hedging purposes, but it limits the overall exposure to financial derivatives to the level of total net assets value of the fund's portfolio. The Directive also describes *three ways of merging funds*.

capital at the time of establishment and the assets from the balance sheet that authorized legal entity should have in continuity.

[11] European Parliament and Council Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (recast), OJ L302, 17.11.2009, p.32.

MIFID - Financial Instruments Markets Directive[12] in the European Union was adopted on 21 April 2004 and represents an important *reform for the regulation and creation of a single financial services market in the European Union*. In the year 2007, it replaced the Investment Services Directive[13], which was adopted in the year 1993 and applied only to some financial instruments and investment services. MIFID covers categories such as: *investment companies, investment advisory by brokers, dealers and fund managers*. This Directive contains provisions that have amended and improved the legislation on investment services in the European Union, and also improved the functioning of investment firms, thus *simplifying cross-border trade and promoting the integration of capital markets into the European Union*. Namely, compared to the Investment Services Directive, *MIFID II and MIFIR has enabled greater harmonization and transparency requirements for trading in securities* to allow comparisons of regulated market offerings, multilateral trading platforms and other system internalises.[14]

In response to the financial crisis of the year 2008, which exposed a series of vulnerabilities in the global financial system, the European Parliament and the Council of the European Union adopted the *Alternative Investment Fund Managers Directive* 2011/61/EU (AIFMD)*[15]*. AIFMD aimed to extend appropriate regulation and oversight to all actors and activities that embed significant risks, by introducing harmonized requirements for Alternative Investment Fund Managers (AIFMs). *This Directive (AIFMD) is aiming at the goal of regulating the non-UCITS fund managers who have more than EUR 100 million of assets under management*. So, the objective of this directive's adoption was to monitor the contribution to the *systemic risk exposure of large individual funds*, other than UCITS funds (hedge funds), operating in the European Union.

Strict *rules on transparency and disclosure of reports, risk assessment and liquidity management, leverage arising from lending money, leverage from securities, or leverage from their derivatives positions, fees and takeovers are expected to improve the publicity of the business and protect investors*. AIFMD requires that their assets must be kept by an *independent depositary*.

AIFM Directive concerns *alternative investment funds managers*, regardless of whether these funds were based through a public offering or not; which legal form they have, and whether they are quoted on stock exchanges. At the same time, this Directive does not refer to holding companies, family business relying on their capital with no external capitalization or pension funds management companies. *The Directive regulates the operations of management companies by setting up capital requirements and prescribing portfolio management and risk management as mandatory functions of these companies*.

[12] European Parliament and Council Directive (2004/39/EC) on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and the Council and repealing Council Directive 93/22/EEC (MIFID), 30.4.2004 EN Official Journal of the European Union L 145/1, pp.1-44.

[13] European Parliament and Council Directive (2006/73/EC) implementing Directive 2004/39/EC of the European Parliament and the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the Directive (MIFID Implementing Directive).

[14] European Parliament and Council Directive 2006/31/EC of 5 April 2006 amending Directive 2004/39/EC on markets in financial instruments, as regards certain deadlines (OJ L 114, 27.4.2006, p. 60).

[15] European Parliament and Council Directive 2011/61/EC of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174, 1.7.2011, p.1.

The domestic private and closed-end funds in our country, due to the value of assets under management, do not undergo of the regulations of the AIFM Directive, except for the provision of one article of this Directive, generally prescribing that a fund must be registered, must provide information about its investment policy, and report to the competent supervisory body.
On 20 June 2019, the European Parliament and the Council introduced a more harmonized *framework on cross-border distribution of funds*. The aim of the *new Directive 2019/1160 and the Regulation 2019/1156*[16] is *to reduce regulatory roadblocks or barriers that hinder the cross-border distribution of funds within the European Union and to enhance fund managers' ability to fully benefit from the internal market*. The new rules provide notably for a harmonized definition of pre-marketing, create a central database on *cross-border marketing*, modify the rules applicable to marketing communication requirements and specify new requirements regarding facilities available to investors.
The European investment funds market is still largely fragmented along national lines. According to figures collected by the European Commission, in 2017, 70% of assets under management in the European Union were held by investment funds that were only active in their countries of origin. Only 37% of undertakings for collective investment in transferable securities ("UCITS") and 3% of alternative investment funds ("AIFs") were registered in more than three Member States. European Union Member States must transpose the Directive into their national laws by 2 August 2021 at the latest.
Concerning the provisions relating to depositaries in *UCITS V, the following is to be noted*: except for a few divergences, this proposal is a word-for-word copy of level 1 of the AIFM Directive. This practically identical reproduction of the Alternative Funds Directive confirms the European Commission's wish to harmonize, in a broad and precise way, *the functions of depositaries* in Europe.[17]

IV. THE NECESSARY REFORMS IN MACEDONIAN LAW ON INVESTMENT FUNDS IN THE FUTURE

While *the beginnings of investment funds* in the world were in the 19th century, investment funds as a type of financial institution in the financial and legal system in the Macedonian economy have a short history. Namely, *for the first time in the year 2000*, the legal and institutional framework for investment funds was established, and for the first time, *they appeared on the Macedonian capital market in the year 2007*.
The *Law on Investment Funds* in our country has been amended several times in the years: 2007, 2009, 2010, 2011, 2013, 2015, and 2016. This Law on Investment Funds regulates *the foundation and operation of the investment funds and investment fund management companies, issuance and sale of shares and stocks redeem of stocks, promotion of investment funds,*

[16] EU Directive 2019/1160 concerning the cross-border distribution of undertakings for collective investment amending both the UCITS Directive and the AIFM Directive and EU Regulation 2019/1156 on facilitating cross-border distribution of collective investment funds and amending the EuVECA, the EuSEF and the PRIIPS Regulations.
[17] European Parliament and Council Directive 2014/91/EU of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions.

activities performed by third parties on behalf of the investment funds and the operation of a depository bank.[18]

Analysing the existing regulation in our country that regulates the operation of investment funds management companies and the investment funds they manage, we can conclude that *the legal framework for investment funds in Macedonian economy is not fully aligned with the Directive 2009/65/EU of Undertakings for Collective Investment in Transferrable Securities (UCITS Directive).*

As for the *core capital* of a management company, the Directive prescribes the minimum of EUR 125.000. Furthermore, the Directive prescribes the obligation of maintaining an adequate level of the management company's capital, equal to at least one-fourth of the company's general expenditure in the preceding business year, *which is, according to our regulations implemented in our Law of investment fund*.

Our existing Law on Investment Funds does not define the terms *branch office* and *branch of an investment fund management company*, so it is unclear whether and *under what conditions foreign management companies may operate in our country*. Also, the Law of Investment Funds does not contain provisions that regulate *the opening of branches abroad* by the management companies registered in our country. Also, *there is no possibility of performing the activity of the investment fund management companies based in our country through a branch in the European Union and third countries*, as well as the manner of performing effective supervision and control. On the other hand, *there is currently no precise procedure for entry of investment funds management companies from the European Union Member States and from third countries* on the territory of our country.

While Article 62 of our Law on Investment Funds prescribes *the maximum compensation* for the repurchase of investment units that management companies can calculate for their clients to be *no higher than 3% of the total value of the open-end assets, the comparable regulations do not set any such limits, nor does the European Union Directive*. Namely, the repurchase compensation *is determined freely*, being an instrument of market competition among the funds. Given the situation in which domestic funds are now, this compensation is often not charged at all, to attract new clients to join the fund. This provision of the Law of Investment Funds is neither necessary nor purposeful, bearing in mind the voluntary nature of investing in investment funds, serving as an administrative limit of the fund's compensations.

When it comes to *funds' borrowing*, the current legal solution *does not allow new types of investment funds to emerging on the capital market*, such as *master and feeder funds*, relatively major funds and power funds, which makes it impossible for investors to meet investing needs. At present, *open-end investment funds are prohibited from investing more than 10% of the funds in units of another fund, i.e. They cannot be feeder funds. That solution is not in line with the European Union Directive*, where feeder funds can invest 85% of the funds in units of another fund - the master fund.

The Directive also prescribes special provisions concerning *the audit of management companies' financial statements*, in line with the provisions of the law regulating the capital market, in the segment related to the public companies' financial statements auditing. The Directive prescribes *the obligation of public disclosure and submission of annual financial reports* to the Commission, for the concerned company and investment funds under its management, *along with the external auditor's report*, by 30 April of the current year for the year before, and *the*

[18] Law on the Investment Funds („Official Gazette of the Republic of Macedonia" No. 12/2009, 67/2010, 24/2011, 188/2013, 145/2015 and 23/2016).

obligation of submitting semi-annual reports for each investment fund separately, by 31 August of the current year for the preceding period. *This provision was fully transposed into the domestic regulations for open-end investment funds.* Namely, according to our law, *investment fund management companies are required to prepare and submit to the Securities and Exchange Commission semi-annual audited financial statements.* Also, the management company *should publish the prospect in at least two daily newspapers that appear on the territory of our country*. Such legal solutions make it difficult for investors to make investment decisions because of *the extensive information in the prospect*[19] and *make the operation of investment funds management companies more expensive. Therefore, we suggest that the semi-annual report does not have to be revised, which means that they do not incur additional costs to the management company, yet increase the transparency of the funds' operations*.

Under existing Law on Investment Funds in our country, there is insufficient compliance with *risk management*. Namely, the management company does not have a prescribed obligation for the risk management system to be based on prescribed and documented risk management strategies, policies, measures and procedures, as well as risk measurement techniques. There is a *problem in the existing Law on Investment Funds* also because the manner of managing the risks in the operation of the management company and the management of the investment funds 'assets by the management company *is not sufficiently regulated*, thus leaving the investors' interests in jeopardy.

According to the European Union Directive, when discussing *mergers and acquisitions of open-end investment funds,* the members of open-end funds being merged have the right to repurchase investment units or convert these units into the units of another fund managed by the same management company, without any compensation, but up to 5 days, at the latest, before the merger takes place. The costs of funds' merger related to administrative costs or consulting services cannot be at the expense of the funds being merged, or at the expense of the funds' members. *We think that to harmonize our Law on Investment Funds with the European Union Directive, these provisions should be integrated into the Law on Investment Funds, to protect the assets of the funds' members*.

Namely, upon *the termination of the operation of the management company* in accordance with the current legal solution, transfer of the management of the investment funds to another management company shall not be permitted, so the termination of the operation of the company also requires the liquidation of the investment funds it manages, which calls into question the interests of investors in those mutual funds. The *existing Law on Investment Funds does not stipulate in which cases the liquidation of the fund can be carried out*, which is usually done only by the management company. However, it is not foreseen the situations that if the depositary bank ceases to function, as well as what happens if the company is deprived of its work permit or in case of *bankruptcy or liquidation* of the company. There is no possibility of transferring the management of the investment funds' assets managed by the investment fund management company in such situations, so *with the termination of the investment company, ceases to exist also the investment funds it manages*.

[19] The prospect that has to be prepared by the company for each investment fund it manages is a comprehensive document that must contain detailed information on the investment fund's objectives, investment policy and risk profile, as well as other information relating to investment fund management. Also, at present, the prospect that is published by management companies in our country is a large and complex document, from which potential investors are unable to focus on significant investment fund information, which affects their investment decision in a particular investment fund.

According to the existing legal solution in our country, the investment fund accounts are managed on behalf of the management company and *in case of possible blocking of the management company account, the investment funds are also blocked*, thus again jeopardizing the interests of the investors in the investment funds. Some of the provisions of the current regulation in our country cause significant *problems in practice, such as the inappropriate separation of management companies' funds from the funds they manage, leading to the situation that investment funds are blocked for expenses not provided by the Law on Investment Funds and by the prospect of open-end and private funds*. *The incomplete regulation in the procedures for conducting status changes of the investment funds management companies causes an inability to effectively implement those procedures in practice*.

On the other hand, private funds and the companies that manage them in our country *are exempt from the provisions of the Law on Investment Funds* relating to the exercise *of control and supervision* over their operations, *therefore it is advisable to take regulatory action in this regard* to bring it into line with the requirements of the European Union Directive of Alternative Investment Funds. Namely, in accordance with the Law on Investment Funds, these financial institutions in our country are *exempt from the obligation to submit regular reports to the appropriate authority and that is the Securities and Exchange Commission*. In addition, these securities institutions *do not have any control and oversight of their work by the Securities and Exchange Commission*. *We think that this must be changed in the future period in our Law of Investment Funds in order to harmonize our legal system of investment funds with the European Union Directives for investment funds*.

V. CONCLUSION

Given that ahead of our country, there is the extremely complex process of harmonizing complete legal and regulatory framework with the European Union Directives, whose principles are binding for all European Union member states, it is necessary to continuously perform the *harmonization of domestic laws*. As for the *closed-end and private funds, we have to consider further liberalization of their operations*, given that they neither fall into the category of UCITS funds in terms of the European Union 2009/65/EC Directive, not do they possess the required capital under management to be subject of the AIFM Directive.

The *Law on Investment Funds* does not provide the institute of *Alternative Investment Funds*. Prescribing the possibility of *establishing new forms of these funds and regulating this area in more detail* will create conditions for market participants who have not recognized the basis for achieving their strategic business goals in the current legal framework in our country. In other words, *we think that one of the reasons for creating a New Law for Investment Funds is certainly the need to provide a greater degree of protection in case of risky investments of alternative investment funds, as well as to define in detail the rules that exist concerning companies managing alternative investment funds*. Also, *we think that this new law will provide more opportunities for financing of micro, small and medium-sized businesses („venture capital funds" and „private equity funds") that will encourage the further development of micro, small and medium-sized businesses and the capital market in our economy*.

When it comes to *open-end funds*, there is, yet, considerably *more room for further harmonization with the UCITS Directive of the European Union*. Namely, *it is necessary to provide master and feeder funds*, because of the limited ability to invest open-end investment funds in stakes of other funds, as well as to move the type and offer of investment funds on the domestic market. Besides, there is need for an *opportunity for the investment funds management*

companies in our country to perform their activities abroad by acquiring qualified participation or through their affiliates, intending to register investment funds and sell their stakes abroad. We have *to regulate the procedure for opening of branches of investment funds management companies from European Union member states*, as well as from third countries to carry out activities in Macedonian economy. We also have *to establish a comprehensive and efficient risk management system for the management company* and the investment funds it manages, appropriate to the nature, type and scope of management company's operations, based on prescribed and documented strategies and policies, to facilitate and more efficient risk management on one hand and safeguard investor interests on the other hand. It is also necessary *to refine the merger and winding-up procedures, and to introduce the merger procedure as a status change*, thereby improving and facilitating the application and implementation of the *status changes of open-end investment funds*. *Our Law on Investment Funds should also enable the transfer of the management of investment funds from one management company to another* for the smooth functioning of the investment funds and protection of investors, if, for any reason, the operation of the management company ceases. We must *introduce an obligation to keep the assets of the investment funds in a separate account*, in order to overcome the problems of practice when *blocking the assets of the investment funds management company*. Our Law on Investment Funds should *facilitate the access of potential investors to the fund's basic characteristics and the process of making their investment decision*. The purpose of this amendment is to make the *current prospect to provide clearer and more comprehensible information to the investor*, and it *should be provided free of charge to investors*. Finally, we have *to remove the obligation on management companies to submit audited semi-annual financial statements to the Securities and Exchange Commission, removing the obligation to publish prospect in two daily newspapers, and removing the obligation to approve advertising materials, to overcome problems and costs in practice*.

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