

**LAW**  
**ON ISSUANCE AND SALE OF SECURITIES   PART ONE**  
**PART ONE**

**OVERALL PROVISIONS**

**TITLE I.**

**GENERAL PROVISIONS**

**Article 1.**

(1) This Law shall regulate the issuance of securities and trade in those securities through a public offering for subscription to and/or the purchase of securities, the scope, rights and obligations of entities on the capital market, and the organization, scope and powers of the Securities Commission of the Republic of Croatia and the central depository agency.

*The Security*

**Article 2.**

For the purpose of this Law, 'security' means a document or electronic record containing rights without which they cannot be exercised or conveyed.

*Essential Elements of Securities*

**Article 3.**

The security must contain the following:

1. indication of the security's class,
2. the security's serial number and reference number,

3. the corporate name, domicile and address of the issuer,
4. indication whether the security is made out to bearer or registered; if registered, the security shall contain the corporate name and *address* of the legal entity or the full name and unique personal identity number of the individual,
5. description of the rights and obligations the security contains, obligations of the issuer and the manner of their discharge,
6. place and date of the security's issuance,
7. signatures of the persons so authorized by the issuer's by laws.

## **TITLE II.**

### **SECURITIES COMMISSION OF THE REPUBLIC OF CROATIA**

#### **Article 4.**

(1) This Law shall establish the Securities Commission of the Republic of Croatia (hereinafter "the Commission") as a permanent independent legal entity established to regulate and oversee the issuance of securities and the securities trade, and shall set forth its obligations and public authority.

(2) The headquarters of the Commission shall be in Zagreb.

(3) In performance of the functions established by law, the Commission shall be independent and self-sufficient and shall be accountable to the Assembly of the Republic of Croatia.

(4) Every form of influence on the decisionmaking of the Commission shall be prohibited, in particular, the use of public authority and the news media and any public effort to influence the course of the Commission's work and outcome of its decisionmaking.

## *Members of the Commission*

### **Article 5.**

- (1) The Commission shall consist of five members, one of whom shall discharge the duties of the Commission's chairman and two the duties of deputy chairmen of the Commission. Membership on the Commission shall be a professional appointment.
- (2) The Commission shall have its specialized staff services.
- (3) General regulations on employment shall apply to persons employed in the specialized staff services of the Commission.

## *Appointment of Members of the Commission*

### **Article 6.**

- (1) To be appointed a member of the Commission, an individual must be an adult citizen of Croatia who has graduated from the university, has the appropriate professional knowledge, abilities and work experience and is worthy of being a member of the Commission.
- (2) The members of the Commission shall be appointed to terms of six years. The term of two members shall expire every two years, and every seventh, one new member shall be appointed to a six-year term.
- (3) The term of the member's appointment shall commence on the day of appointment. If any of the members of the Commission cease to perform their duties before the end of their term, a person shall be appointed to complete the term of the member being replaced. A member of the Commission may be reappointed.
- (4) Members of the Commission shall be nominated by the Government of the Republic of Croatia and appointed by the Assembly of the Republic of Croatia. The chairman of the Commission shall be selected by the Government of the Republic of Croatia from among members of the Commission. The chairman shall appoint the deputy chairmen from among the members.

## **Article 7.**

(1) The members of the Commission may not be members of the management, boards of directors, oversight committees nor other bodies of issuers of securities nor perform other service or function which might influence their independence, disinterestedness and self-sufficiency or diminish their public reputation nor may they do or be anything which is otherwise incompatible with the behavior of the duties of a member of the Commission.

(2) The members of the Commission shall be authorized to write and publish professional and scientific papers on the content of the enactments adopted by the Commission and to participate in the proceedings of professional or scientific meetings.

(3) The members of the Commission must behave so as not to detract from their own reputation or the prestige of the Commission and so as not to jeopardize their independence and self-sufficiency in making decisions and the independence of the Commission.

(4) The members of the Commission must not use their work in the Commission and the prestige of the-Commission in pursuit of their own rights.

## *Decisionmaking*

## **Article 8.**

(1) The members of the Commission present in the meeting shall decide on all rules, orders and regulations and on other general or individual enactments of the Commission in performance of their tasks in accordance with law.

(2) Three members of the Commission shall constitute a quorum. Every session of the Commission must be attended by the chairman or a deputy.

(3) The Commission shall make decisions by a majority of at least three votes.

(4) All enactments referred to in Paragraph I of this article must be published in NARODNE NOVINE before they take effect.

### *Internal Organization*

#### **Article 9.**

The Commission shall adopt bylaws regulating its organization and business operation. The Commission's bylaws shall be subject to consent of the Government of the Republic of Croatia.

### *Reporting*

#### **Article 10.**

(1) The Commission shall be required to submit a report to the Government and the Assembly of the Republic of Croatia on its work and the situation on the securities market in the Republic of Croatia at least once every calendar year.

### *Financing*

#### **Article 11.**

(1) Every budget year funds shall be appropriated in the budget of the Republic of Croatia for the work, education and employment of appropriate personnel and fulfillment of the technical and other conditions necessary for performance of the functions of the Commission.

(2) The revenues realized from administrative charges which the Commission collects for its services shall be revenues of the State Budget of the Republic of Croatia.

**Article 12.**

(1) The Commission shall:

1. issue regulations to implement this Law when so authorized,
2. issue permits and approval when so authorized by law,
3. oversee observance of the rules of customary trade and loyal competition on the securities market,
4. exercise oversight over securities companies, regulated public markets, issuers of securities, banks with respect to transactions they conduct on the securities market (hereinafter "banks"), investment funds and companies for management of investment funds in connection with performance of securities transactions and other transactions defined by this Law,
5. organize, undertake and oversee measures to guarantee the effective functioning of the securities market and protection of investors,
6. keep books and registers pursuant to provisions of this Law,
7. cooperate with related organizations abroad,
8. provide information and spread knowledge about the principles on which the securities market operates,
9. adopt codes of regulations and orders regulating the functioning and operation of the central depository agency, the operation and work of account managers and other matters related to non-physical and immobilized securities,
10. prescribe the mandatory content of the reports which must be published for all shareholders and the public by persons who distribute securities through a public offering.
11. lay down the general conditions which must be met by those professionally engaged in the trading in securities,

12. and take other measures and perform other tasks within its legal authority.

(2) The Commission may file a civil suit for compensation of loss from issuers, securities companies, investment funds, underwriters and other legal entities or individuals if it believes that by their acts they have unlawfully injured owners of securities, and in that suit, it shall have the status of an injured party, although it is not an owner of securities and has not suffered a loss. If successful in the suit, damages will be paid to all the injured owners of securities of the *class* on whose behalf the suit was filed.

#### *Administrative Dispute*

#### **Article 13.**

(1) Enactments of the Commission shall be final.

(2) An aggrieved party may institute an administrative dispute against the acts of the Commission.

#### *Confidentiality*

#### **Article 14.**

(1) All members or former members and officials or former officials of the Commission, associates and former associates, and members and former members of advisory bodies of the Commission must preserve the secrecy of information about material facts or privileged facts which they learn in discharge of their obligations or performance of their tasks in the Commission or in some other way, regardless from whom, unless they are authorized otherwise by law. Such information shall be considered an official secret. They may not give advice concerning trade in securities and investment in securities or furnish opinions on whether it is favorable or unfavorable to obtain or sell securities traded on the territory of the Republic of Croatia.

(2) The ban on activities enumerated in the previous paragraph of this article shall expire six months from the date of termination of performance of functions in the Commission.

**Article 15.**

(1) All reports which must be published under the provisions of this Law and/or under enactments of the Commission must be presented to the Commission before publication.

(2) The Commission may also require that other reports be presented in addition to those enumerated in Paragraph 1 of this article.

(3) The reports covered by this article are to be filed with the Commission in writing, signed and verified by the authorized individuals. The Commission may require that information be furnished in the form of a recording on magnetic or similar media.

**PART TWO**

**TITLE I.**

**PUBLIC OFFERING**

*The Prospectus*

**Article 16.**

(1) The prospectus shall be a public invitation to subscribe for and/or purchase securities, which must contain all the information necessary for the investor to form a realistic picture of the property and obligations, profit and loss, financial position, and prospects of the issuer and concerning the rights contained in the securities to which the prospectus pertains.



(2) An issuer of a security shall submit to the Commission an application for approval of the securities prospectus, to which the - prospectus and text of the decision of the competent body of the issuer on issuance of the securities shall be appended.

(3) It shall not be necessary to prepare a prospectus for an issue of Government bonds.

*Mandatory Content of the Prospectus*

**Article 17.**

(1) The prospectus shall contain the following data on securities, subscription and payment:

1. indication of the class and description of the characteristics of the securities, their total number, and description of the rights contained in such securities,

2. the period during which securities may be subscribed to and paid for,

3. precise description of the manner of distribution of the securities if the subscription is greater than the number being issued,

4. precise name, domicile and address of the issuing agent (if any),

5. precise name, domicile and address of the person or persons guaranteeing the obligations of the issuer with respect to the security (if any),

6. precise description of limitations on the free transfer of securities,

7. names and addresses of institutions through which the issuers are meeting financial obligations to owners of securities,

8. the price and manner of determination of the price of the securities,

9. procedure for exercising a right of priority in subscription and payment (if such rights exist).

(2) The prospectus shall contain the following data on the issuer of securities:

1. corporate name, address, date of establishment, Legal form, name of the court keeping the register in which the issuer is entered and the number of the entry in that register,

2. the amount of subscribed and/or authorized capital and paid-in capital, details on securities constituting the initial capital in the case of a joint stock company, and if initial capital has not been entirely paid in, the amount of the unpaid portion and the reasons why it has not been paid in, the number of convertible debt securities or rights to subscribe to securities issued and conditions for their conversion or subscription,

3. data on the managing underwriter if the issuer is a syndicate,

4. if the prospectus pertains to shares, the list of the shareholders who directly or indirectly have or could have prevailing influence on management of the issuer.

(3) Data on the nature of the issuer's business:

1. description of the issuer's type of business and possible extraordinary circumstances which have influenced or are influencing performance of some of those activities,

2. dependence on patents of others and licenses or other contracts with third parties which have major importance to the conduct of business,

3. data on major current investments,

4. basic data on current court suits or other disputes or other Legal actions which could have a significant effect on the issuer's financial position,

5. when the securities to which the prospectus pertains are exchangeable or have been issued along with rights of purchase or subscription, and the issuer of securities whose acquisition affords the right or for which they may be exchanged is not the issuer of securities to which the prospectus pertains, the data covered by this article must also be furnished concerning the other issuer.

(4) Data on property and debt, financial condition and profit or loss of the issuer, specifically for the last three years, if the issuer, has been in business that long. The data shall contain the following:

1. its own statements and, if they exist, consolidated financial statements as well; if the issuer prepares only consolidated statements, they must be included in the prospectus, and if the issuer prepares both its own and consolidated financial statements, it must include them in the prospectus except when the statement omitted does not contain, essential additional data, when the data in the various statements are indicated in tables, which makes it possible to compare the various items for successive financial years,

2. the name or corporate name of the entity or individual responsible for auditing the financial statements, and if that entity or ' individual has refused to do an audit or sign it or has qualified its opinion, those facts must also be given, including the reasons behind that action.

(5) The prospectus shall contain the following data on the responsible individuals of the issuer:

1. full names and addresses of members of management and the board of directors or other corresponding body of the issuer, and posts held in those bodies who are responsible for the content of the prospectus, and if the prospectus pertains to shares, earnings which members of management and the board of directors receive from the issuer,

2. full names and positions of other persons than those cited in Subparagraph 1 of this Paragraph responsible for the content of the prospectus and a statement which they must sign: "To the best of our belief and in keeping with all our knowledge and the data we possess, we declare that all the data in this prospectus constitutes a full and truthful presentation of the property and obligations, profits and losses, financial condition and business operation of the issuer, the rights contained in the securities to which they pertain, and that facts which might influence the completeness and truthfulness of this prospectus have not been omitted."

(6) If one or several persons have issued a guarantee to meet obligations under the securities to which the prospectus pertains, the prospectus must also contain the data enumerated in Paragraph 2 of this article concerning the issuer of that guarantee.

(7) The Commission may extend the period referred to in Paragraph 4 of this article.

## Changes in *Circumstances*

### **Article 18.**

Every new important fact or inaccuracy in the prospectus which could affect assessment of the security and which arises between publication of the prospectus and expiration of the period for subscription to and payment for securities, must be mentioned or corrected in a supplement to the prospectus, which must be accessible to the public in the same manner as the prospectus.

## *Abridged Prospectus*

### **Article 19.**

(1) The content of the abridged prospectus shall be defined by the Commission.

(2) The abridged prospectus may be issued in these cases:

1. when the issue of securities is being placed privately,
2. when securities are issued pursuant to the provisions of Article 20 Paragraph 6 of this Law.

(3) If shares are issued in connection with establishment of a joint stock company, an abridged prospectus shall be issued in keeping with the provisions of the Law on Corporations.

## *Approval of the Prospectus*

### **Article 20.**

(1) The prospectus must be approved by the Commission before publication.

(2) By approving the prospectus, the Commission confirms that the prospectus contains all the data required by law and regulations of the Republic of Croatia and may be published.

(3) The issuer, the persons cited in the prospectus, and other persons who have used the prospectus to conceal or misrepresent material facts, regardless of whether they are cited in the prospectus and whether or not the prospectus has been approved by the Commission, shall alone be accountable for the truthfulness and completeness of the information the prospectus contains.

(4) The Commission shall be required to render a decision on an application for approval of a prospectus and deliver it to the issuer within 30 days from the date the application is filed with the Commission.

(5) If the Commission does not issue a decision or does not deliver it to the issuer within the period stated in Paragraph 4 of this article, it shall be assumed that the prospectus has been approved, and the issuer shall have the right to publish it. In the case of proving that a prospectus has not been duly approved, the burden of proof shall fall on the Commission.

(6) When the value of an entire issue of securities being issued ' does not exceed the amount of 200,000 kunas or a higher amount as established by the Commission, it may allow:

1. issuance of an abridged prospectus, and/or

2. issuance of securities without prior approval of the prospectus.

(7) An issuer may issue securities under the provisions of Paragraph 6 of this article no more than once every three years, and it must notify the Commission of the intention to issue and of the issue.

(8) The Commission may adopt regulations defining in more detail manner and dates for filing the notification referred to in Paragraph 7 of this article and its content.

## *Distribution of the Prospectus*

### **Article 21.**

- (1) The prospectus must be published as a supplement in a daily newspaper sold regularly in the Republic of Croatia or in the form of a brochure available without payment on the territory of the Republic of Croatia. In that case, a notice must be published in the press stating where this brochure can be obtained and the manner in which it can be ordered by mail without specific payment.
- (2) In addition, either the prospectus or a notice of where and how it can be obtained must be published in NARODNE NOVINE of the Republic of Croatia.
- (3) The prospectus must be published no later than simultaneously with the public offering of the securities to which it pertains.
- (4) The prospectus must not be published before the decision is made to approve the prospectus or expiration of the period stated in Article 20, Paragraph 4 of this Law.

### **Article 22.**

- (1) A bank or other financial organization through which securities are subscribed to and paid for must within 10 days after expiration of the period for subscription to and payment for securities inform the Commission of the number of securities subscribed to and paid for.
- (2) The issuer of securities must publish data on the number of securities subscribed to and paid for in the daily press within the following eight days.

### **Article 23.**

- (1) Upon expiration of the period for subscription to and payment for securities, the issuer and his agent may not dispose in any manner of the securities which have been subscribed to and paid for.

#### **Article 24.**

Government bonds shall be issued in accordance with a separate law.

### **TITLE II.**

#### **ENTITIES AND INDIVIDUALS AUTHORIZED TO CONDUCT TRANSACTIONS WITH SECURITIES**

#### **Article 25.**

Entities and individuals authorized to conduct transactions with securities shall be securities companies, the securities exchange, regulated public markets, banks, account managers, transfer agents, the central depository agency and other legal entities so authorized by the Law on Investment Funds.

#### **Article 26.**

(1) Transactions with securities shall be as follows:

1. purchase and sale of securities b order of a customer (in the company's own name, but on someone else's account),
2. trade for speculative purposes -- purchase and sale of securities in one's own name and one's own account
3. transactions in special exchange trade,
4. management of a securities portfolio on behalf of clients,
5. performance of the business of an issuing agent in the issuance of new securities,

6. sponsorship of an issue,
7. providing investment advice,
8. the business of a transfer agent.

(2) The transactions and business referred to in Paragraph 1 of this article shall be entered in the court register as the activities of ' companies authorized to conduct transactions involving securities.

(3) Securities companies registered to perform the activities enumerated in Paragraph 1, Subparagraph 2 of this article may also perform the transactions of special exchange trade subject to the rules of the exchange.

(4) A securities company performing the transactions of special exchange trade must consent to all offers to purchase or sell securities at the prices it has quoted.

#### **Article 27.**

(1) The transaction and business enumerated in Article 26 of this Law may be engaged in as a business exclusively by corporations which the Commission authorizes to do business with securities (securities companies) and which on the basis of the Commission's decision are registered with the competent courts for the conduct of that business.

(2) Banks may engage in the businesses enumerated in Article 26, Paragraph I, Subparagraphs 5 and 6 of this Law.

(3) Banks may engage in the businesses enumerated in Article 26, Paragraph I, Subparagraphs 1, 2, 3, 4, 7 and 8 of this Law only through a securities company, which may be their fully owned subsidiary.

(4) A bank may have a property interest in only one securities company.



## **Article 28.**

(1) Securities companies shall be corporations which may be organized as joint stock companies or limited liability companies domiciled in the Republic of Croatia whose business is confined exclusively to the businesses and transactions enumerated in Article 26 of this Law.

(2) Securities companies organized as joint stock companies may issue only registered shares.

## *Initial capital*

## **Article 29.**

(1) The initial capital of a securities company may not be less than 200,000 (two hundred thousand) kunas to engage in the business activities enumerated in Article 26, Paragraph 1, Subparagraphs 1, and 8 of this Law.

(2) The initial capital of a securities company may not be less than 400,000 (four hundred thousand) kunas to engage in the business activities enumerated in Article 26, Paragraph I, Subparagraphs 2, 3 and 4 of this Law.

(3) The initial capital of a securities company may not be less than 4,000,000 (four million) kunas to engage in the business activities enumerated in Article 26, Paragraph I, Subparagraphs 5 and 6 of this Law.

(4) Securities companies, each of which individually meet conditions with respect to the amounts of initial capital to engage in the business activities enumerated in Article 26, Paragraph I, Subparagraphs 5 and 6 of this Law, may on the *basis of* a contract with some other company or companies apply for a permit from the Commission to act as issuing agents for some precisely defined issue of securities, and the Commission shall be required to issue that permit if they meet these conditions:

1. if the parties to the contract are securities companies;

2. if the parties to the contract together meet the condition with . respect to the amount of initial capital to engage in the business activities enumerated in Article 26, Paragraph 1, Subparagraphs 5 and 6 of this Law.

### *Ownership*

#### **Article 30.**

- (1) The same individual or entity may not directly or indirectly have stock or shares in more than one securities company.
- (2) Securities companies may not directly or indirectly have stock or shares in other securities companies.
- (3) Individuals may not be employed simultaneously in more than one securities company or be members of the board of directors or management of more than one securities company.
- (4) Securities companies may not deal in securities with companies with which they have either a dependent or controlling relationship.
- (5) Securities companies shall be required to regularly furnish data on their direct and indirect ownership structure to the Commission when they obtain a permit to operate and within eight days of every change in the ownership structure.

### *The Keeping of Books*

#### **Article 31.**

- (1) The securities company must, in connection with performance of the business activities enumerated in Article 26, Paragraph I, Subparagraph 1 of this Law, keep a separate book of orders in which it enters the orders of customers for the purchase and sale of securities and cancellations of those orders.

(2) A securities company shall be required to issue to the customer at his request a certified excerpt from the order book concerning all transactions pertaining to his orders.

(3) The order book shall contain the following data:

1. the date, time (hour and minute) and manner of the order's receipt,

2. customer's name (for individuals, the unique personal identity number as well),

3. precise designation of the security or securities to which the order pertains, conditions for executing the order (the price or limits on price, time limitations, etc.), indication of cancellation of the order, the date when the cancellation occurred

4. precise date, time (hour and minute) and conditions of the order's execution if the order was executed.

(4) The order book must be kept in a manner which allows subsequent changes of the data entered.

(5) The Commission may prescribe additional elements of the order book and the manner in which it shall be kept.

#### Duty to Inform *the Customer*

#### **Article 32.**

(1) The securities company must report every transaction concluded the customer's order promptly and whenever he specifically requests.

(2) The customer may not waive the right to the reports referred to in Paragraph 1 of this article.

## *Assets of the Customer*

### **Article 33.**

(1) The securities company must keep the money remitted to it by customers to pay for securities in a separate account or separate accounts (customer's account, opened specifically for that purpose in authorized institutions. Funds from customers' accounts may be used only to make payments according to their orders.

(2) Funds in customers' accounts shall be the property of the customer, and they shall not be the property of the securities company, nor part of its assets nor of the estate in liquidation or bankruptcy proceedings, nor may they be used for execution of claims against the securities company.

(3) The securities company must open a separate securities account for the customer in the central depository agency in which it shall keep his securities for the purpose of conducting transactions. The provisions of Paragraphs 1 and 2 of this article shall be appropriately applied to that account.

## *Borrowing of Securities*

### **Article 34.**

(1) A securities company may lend and borrow securities only with written permission of the owner of those securities.

(2) The Commission may issue regulations establishing in more detail the conditions and manner of the borrowing of securities.

*Authorized Intermediaries*

**Article 35.**

- (1) Authorized intermediaries shall be individuals authorized to conduct trades in securities as officials of a securities company.
- (2) The Commission shall prescribe the conditions for obtaining a permit to do business as an authorized intermediary.
- (3) The Commission shall keep a register of authorized intermediaries.
- (4) Securities companies may engage in the activities described in Article 26 of this Law only if they have employed at least one official who is an authorized intermediary.

*Investment Advisor*

**Article 36.**

- (1) The investment advisor shall be a legal entity or individual who furnishes advice related to investments in securities and in connection with their purchase or sale.
- (2) The Commission shall prescribe conditions for obtaining a license to do business as an investment advisor.
- (3) The Commission shall keep a register of individuals authorized to operate as investment advisors.
- (4) Securities companies may perform the business activities enumerated in Article 26, Paragraph I, Subparagraphs 4 and 7 of this Law only if they have employed at least two officials who are entered in the register referred to in Paragraph 3 of this article.

*Filing of Data*

**Article 37.**

(1) Securities companies shall be required to file the following with the Commission:

1. annual income statements and financial statements within 30 days of the date when such statements are prepared,

2. data related to change in circumstances which affect fulfillment of the conditions prescribed for performance of those activities immediately after such changes occur.

(2) The Commission may issue regulations which set forth in detail the reports which securities companies must furnish.

*Powers of the Commission*

**Article 38.**

(1) The Commission may issue enactments regulating the operation of securities companies.

(2) The Commission shall establish in its enactments the rules of behaviour to guarantee scrutiny of the business operation of the securities company, shall issue and revoke permits, and shall adopt other suitable measures to protect investors and ensure normal operation of the securities market.

(3) Bylaws and codes of regulations of professional associations of authorized intermediaries, investment advisors, securities companies and other legal entities and individuals professionally engaged in the securities industry shall be subject to the Commission's approval. The Commission may issue regulations on the mandatory provisions which such documents must contain.

### **TITLE III.**

#### **TRADING IN SECURITIES**

##### **Article 39.**

(1) Securities which have been issued in a public offering shall be traded in an organized manner on the exchange and on other regulated \_ public markets established to create conditions to bring together the supply of and demand for securities.

(2) Performance of the business activity referred to in Paragraph I of this article shall be subject to the Commission's approval.

#### **Section 1. SECURITIES EXCHANGE**

##### *Securities Exchange*

##### **Article 40.**

(1) The securities exchange shall be established as a joint stock company in accordance with the provisions of the Law on Corporations and the provisions of this Law.

(2) Exchanges must have the personnel, equipment, technical conditions and organizations so that:

1. all participants in trade on the market can simultaneously, equally and under equal conditions make and accept offers for the purchase and sale of securities,

2. all participants in trade on the exchange shall at the same moment have equal access to market information on securities being traded, and all may sell or purchase securities under equal conditions.

(3) Only securities companies which are members of the exchange, may be participants in trade on the exchange.

#### Specialized *Exchanges*

##### **Article 41.**

(1) The exchange may be Specialized in that only certain class of securities are traded on it.

(2) The class and form of securities in which the exchange is specialized must be stated in the corporate name of the exchange.

#### Establishment of an *Exchange*

##### **Article 42.**

(1) An exchange may be established by a group of at least 20 Croatian securities companies and must at all times have at least that number of members in order to operate.

(2) Only members of the exchange may be shareholders in the exchange.

(3) The exchange must enrol in its membership any securities company which meets the conditions for membership within six months after that company applies for membership.



#### **Article 43.**

- (1) The exchange shall be entered in the court register. (2) The exchange shall have bylaws in which it regulates the organization and management of the exchange.
- (3) Trade in securities and the business operation of the exchange shall be regulated by enactments adopted by the exchange.

The bylaws and enactments of the exchange shall be subject to the approval of the Commission.

#### *Initial capital of the Exchange and Shares*

#### **Article 44.**

- (1) The initial capital of the exchange must amount to at least 1,000,000.00 kunas.
- (2) Members of the exchange shall have an equal number of shares. Shares in the exchange may not be conveyed except on termination of membership in the exchange.

All exchange shares shall be registered common shares, and each share shall entitle the owner to one vote in the meeting of the exchange's general assembly. '

#### *Disinterestedness*

#### **Article 45.**

- (1) Unlike the securities company, the exchange may not engage in trade in securities nor issue advice on trade in securities and on investment in securities nor issue opinions on the favorability or unfavorability of obtaining or selling securities.
- (2) The exchange shall be authorized to present in public the advantages of listing securities on the exchange and of trading in these securities.

## *Management*

### **Article 46.**

(1) The exchange shall have a board of directors consisting of at least five members. At least two members of the board of directors shall be officials of the exchange.

(2) The compensation received by members of the board of directors of the exchange shall be public and shall be published in the annual report on its business operation, in which data shall also be published on attendance of meetings of the board of directors by the various members.

(3) The exchange shall be required to file its annual business statement with the Commission, to deliver it to all shareholders and members of the exchange, and to publish it in NARODNE NOVINE..

## *Confidentiality Requirements*

### **Article 47.**

(1) Officials and members of the board of directors and other bodies of the exchange may not:

1. divulge information constituting material facts or privileged information they learn of in performance of their duties or in performance of jobs on the exchange or in some other manner to any person whatsoever unless so authorized by law, if such information is considered a business secret,

2. give advice on trade in securities and investment in securities, furnish opinions on the favorability or unfavorability of obtaining or selling securities traded on the territory of the Republic of Croatia.

(2) The management of the exchange must see to the regular supply of information to the persons referred to in Paragraph 1 of this article concerning their obligations with respect to maintaining confidentiality.

(3) The persons referred to in Paragraph 1 of this article shall be required to abide by the restrictions stated in Paragraph 1 of this article for a period of six months after they cease to be officials or members of the board of directors and other bodies of the exchange.

#### **Subsection 1. LISTING OF SECURITIES ON THE EXCHANGE**

##### *Quotation Board*

#### **Article 48.**

(1) The exchange must prescribe differing conditions for at least two quotation boards on which securities are listed, the highest of which is the official or regular quotation board.

(2) The conditions for listing on the quotation board shall be prescribed by the exchange in keeping with the provisions of this Law and enactments of the Commission.

(3) The issuer of a security or person whom he authorizes shall file application for the listing of a security on one of the envisaged quotation boards.

##### *Qualifying Conditions for Listing on the Quotation Board*

#### **Article 49.**

(1) The conditions enumerated in this Law must be met for listing on the official or regular quotation board and other securities quotation boards on the exchange.

(2) The securities offered for listing must meet the requirements prescribed by laws of the Republic of Croatia with respect to form, content and in other respects.

(3) An offer for listing must pertain to all the securities of the same class of the issuer in question.

(4) Securities may begin to be listed on the quotation board only. at the end of the offering period, if such a period was defined when they were issued or has been established by law.

(5) As an exception to the provision of Paragraph 4 of this article, the issuer may conduct the primary distribution of securities through the exchange under conditions prescribed by the Commission and the exchange.

*Unlimited Negotiability*

#### **Article 50.**

Securities quoted on the exchange must be fully negotiable and entirely paid for.

### **Subsection 2. LISTING OF SHARES ON THE OFFICIAL (REGULAR) QUOTATION BOARD ON THE EXCHANGE**

*Conditions With Respect to Issuers*

#### **Article 51.**

(1) The issuer must be a joint stock company registered in the register of corporations and doing business under regulations of the Republic of Croatia.

(2) Initial capital and reserves, including loss or profit in the last financial year, may not be less than the amounts prescribed by Commission.

(3) Financial statements of the issuer must be published or presented to the competent institutions for a period of at least the three years.

#### **Article 52.**

At least 25 percent of the shares of the class for which listing on the official or regular quotation board is being applied for must have been sold in a public offering before the application for listing was filed.

### **Subsection 3. LISTING OF CORPORATE BONDS ON THE EXCHANGE**

#### **Article 53.**

(1) The corporate bond shall be a bond whose issuer is a corporation carrying on business activity and registered and doing business under regulations of the Republic of Croatia.

(2) The initial capital and reserves of the issuer, including profit or loss in the last financial year, may not be less than the amounts prescribed by the Commission.

(3) Financial statements of the issuer must be published or presented to the competent institutions for the period of at least the last three financial years.

#### **Article 54.**

(1) Corporate bonds (hereinafter "bonds") offered for listing on the exchange must conform to regulations of the Republic of Croatia with respect to content.

(2) Bonds must be freely negotiable and fully paid for.

(3) When bonds are issued for the public before the offer is filed for listing, they can begin to be posted on the quotation board only after the end of the period for their subscription and payment, if such a ' period has been fixed when they were issued or has been established by law.

(4) The amount of the obligation which the issuer assumes under all bonds of one class may not be less than the amount prescribed by the Commission.

(5) Convertible bonds and bonds issued with a right of purchase may be listed on the exchange only if the securities for which these bonds can be exchanged or which can be acquired on the basis of rights contained in the right to purchase are listed on the same exchange.

(6) The offer for listing must pertain to all bonds of the same class.

#### **Subsection 4. LISTING OF GOVERNMENT BONDS ON THE EXCHANGE**

##### **Article 55.**

Government bonds may be listed on the exchange; no special conditions have been prescribed for them.

#### **Subsection 5. LISTING OF FOREIGN SECURITIES ON THE EXCHANGE**

##### **Article 56.**

(1) Foreign securities are defined as securities whose issuer is sY` foreign legal entity duly established under the law of the country in which it has its registered domicile outside the territory of the Republic of Croatia and issued in accordance with the regulations of the state in which the issuer is domiciled.

(2) Securities of foreign issuers must meet all the conditions prescribed for domestic securities by this Law and regulations founded on it.

(3) Issuers of such securities and the securities themselves must at the same time meet all the requirements envisaged by regulations which apply to issuers in his domicile.

(4) If foreign securities listed on the exchange exist in physical form, they shall be deposited in electronic form in the central depository agency, which shall issue a document concerning their safekeeping.

## **Subsection 6. POWERS OF THE COMMISSION AND THE EXCHANGE**

### **Article 57.**

(1) The Commission may prescribe more detailed conditions for the listing of securities on the official or regular and/or unofficial quotation board on the exchange.

(2) Exchanges may pose stricter requirements than those prescribed by this Law and enactments of the Commission.

(4) (sic; no (3) in original) The Commission and exchanges shall be required to define the conditions for other quotation boards than the official or regular quotation board, specifically with regard to the following:

1. issuer's initial capital,
2. period of time the issuer has existed and done business ,
3. minimum nominal or market values of the entire series of securities proposed for listing,
4. minimum number of the issuer's shareholders.

### *Data Which Must Be Published When Securities Are Listed on the Exchange*

### **Article 58.**

(1) Figures which must be published when stocks and bonds are listed on the official or regular quotation board must contain everything prescribed for the content of the prospectus in keeping with the provisions of this Law.

(2) The data referred to in Paragraph 1 of this article must conform to the nature of the issuer's business and must allow investors and their investment advisors to realistically assess the assets and liabilities, financial condition, and profit and loss of the issuer, and the rights contained in the securities.

(3) Publication of the data referred to in Paragraph 1 of this article must be approved by the Commission.

(4) The data mentioned in the previous paragraph shall be published in the same manner as that prescribed for the prospectus.

*Data Which Issuers of Listed Securities Must Publish Regularly*

**Article 59.**

(1) Issuers of securities listed on the official or regular quotation board on the exchange must regularly publish annual and semi-annual statements on their business operation.

(2) The Commission shall fix the dates for publication and the content of the statements referred to in Paragraph 1 of this article.

**Section 2. ORGANIZED PUBLIC MARKETS**

**Article 60**

(1) Organized public markets shall be places where the offer of and demand for securities which do not have an official quotation, are brought together.

(2) The listing of a security on regulated public markets may be sought by issuers and securities companies.

(3) The provisions of Article 40 and Articles 42 through 47 of this Law shall apply to regulated public securities markets.

(4) The Commission must prescribe the information which the issuer must make public when his security is listed on regulated public markets.



(5) The information referred to in Paragraph 4 of this article, which the issuer must make public, shall contain at least the financial statements pursuant to the Law on Accounting.

#### **Article 61.**

(1) Regulated public markets shall be required to publish in the daily press offers to buy and offers to sell securities and data on the trading done by price and quantity.

(2) These markets shall be required to present weekly reports to the Commission on transactions concluded on the regulated public market with respect to prices and quantities. The Commission shall establish the mandatory content of the reports under this article.

### **TITLE IV**

#### **BANS AND RESTRICTIONS ON BUSINESS ACTIVITIES**

##### **RELATED TO SECURITIES**

#### **Section 1. PRIVILEGED INFORMATION**

#### **Article 62.**

(1) All facts which are not known to the public and which pertain to one or more issuers of securities or to the securities themselves and which if made public would probably influence their price shall be privileged information.

(2) Members of the management, boards of directors and other corresponding bodies of the issuer of securities shall be considered, persons who possess privileged information pertaining to the security and the company which the issuer controls.

Article 63.

- (1) Persons who possess privileged information shall be all those persons who learn privileged information in performance of their work tasks, profession, or duty.
- (2) Members of management, boards of directors, and other equivalent bodies of issuers of securities shall be considered persons who possess privileged information pertaining to the issuer and the company which the issuer controls.
- (3) Officials of securities companies shall not be authorized to divulge material facts related to securities or their issuers which they learn in the conduct of their business.
- (4) Securities companies which learn privileged information may not purchase and sell on their own account and furnish investment advice on securities to which that privileged information pertains.

*Persons Who Possess Privileged Information*

**Article 64.**

- (1) Persons who possess privileged information and persons who have learned such information from them and who are aware of the nature of that information must not:
  1. realize the advantages offered by access to privileged information in buying or selling securities directly or indirectly which are traded on the territory of the Republic of Croatia or securities issued by issuers registered in the Republic of Croatia, regardless of where they are traded,
  2. divulge privileged information to third parties,
  3. realize the advantages offered by access to privileged information in furnishing advice to third parties on the purchase or sale, directly or indirectly, of securities traded

on the territory of the Republic of Croatia or securities issued by issuers registered in the Republic of Croatia, regardless of where they are traded.

(2) Persons who possess privileged information may divulge that information only if they are so authorized as part of their business activity or duty.

(3) The persons referred to in Article 63, Paragraph 2 of this Law shall be required to report every transaction whereby they acquire or release directly or indirectly securities of the issuers cited in Article 63, Paragraph 2 to the issuer, to the Commission and to the exchange on which such securities are listed and do so within seven days from the date the transaction takes place.

(4) Transactions of companies controlled by the persons referred to in Article 63, Paragraph 2 of this Law shall also be regarded as transactions for the purpose of Paragraph 9 of this article, which must be reported to the Commission and the exchange.

#### Issuer's Obligation with *Respect to Privileged Information*

#### **Article 65.**

(1) Issuers of securities traded on the territory of the Republic of Croatia must promptly inform the public of all information pertaining to circumstances or decisions which constitute material facts.

(2) When an issuer is unable to publish the information referred to in the previous paragraph because it would jeopardize his legitimate interests, he shall so inform the Commission, which may exempt him from the obligation contained in the previous paragraph, but only for a period of time which may not be longer than three months.

### **Section 2. MANIPULATION OF PRICES**

#### **Article 66.**

(1) The following shall be prohibited in order to avoid creation of a false impression of the market for a particular security:

1. to conduct a transaction with securities in such a manner that the real owner does not change,

2. issue an order for purchase or sale of a security in the knowledge that an order has been given or will be given for the sale or purchase of that security at approximately the same price by the same or another person.

(2) It shall be prohibited to conduct transactions with securities:

1. in order to increase the price of that security and encourage other investors to buy that security,

2. in order to depress the price of that security in order to encourage investors to sell that security, or

3. in order to give the appearance of active trading in that security and thus encourage other investors to purchase and/or sell that security.

(3) It shall be prohibited to purchase or sell securities or make offers for the purchase or sale of securities contrary to instructions which the Commission may issue in order to prevent manipulation of the prices of securities and creation of a false impression of the market for individual securities.

### **Section 3. SPREADING FALSE INFORMATION**

#### **Article 67.**

It shall be prohibited to spread false information so as to influence the price of securities.

#### **Section 4. COMMISSION - MOTIVATED TRADING**

##### **Article 68.**

In performance of the business activity of managing a portfolio of securities, it shall be prohibited to sell securities or issue orders for their sale from that portfolio or to buy securities or issue orders for their purchase for the portfolio exclusively with the intention of earning the commission collected for that purchase and sale.

#### **Section 5. ORDER IN WHICH TRANSACTIONS ARE CONDUCTED**

##### **Article 69.**

Securities companies shall be required, when transactions involving the same security under the same or similar conditions are involved, to conduct first the transactions covered by orders of clients and only afterward transactions on their own account.

## **TITLE V.**

### **PROTECTION OF THE INVESTOR**

#### **Section 1. OVERALL PROVISIONS**

##### **Subsection 1. SECURITY FOR FULFILLMENT OF OBLIGATIONS BASED ON SECURITIES**

###### *Prohibition Against Securing Payment of a Dividend*

#### **Article 70.**

- (1) An issuer's obligation to pay dividends may not be secured by a bank guarantee, warranty or a similar form of security.
- (2) Any guarantee or security for payment of a future dividend shall be null and void.

###### *Bank Guarantee*

#### **Article 71.**

- (1) A bank may issue a guarantee for the obligations of an issuer to pay the principal and interest which arise from debt securities.
- (2) Such guarantee may cover the obligations of the issuer referred to in Paragraph 1 of this article in their entirety and may be activated on the first call of any owner of the debt security without right of objection.

Real Estate Mortgage or Hypothecation of Securities

**Article 72.**

- (1) An issuer's obligation to pay the principal and interest on a security may be secured by mortgaging real estate and/or hypothecating securities.
- (2) The real estate mortgage must be entered in the appropriate public books and registers where real estate is recorded, and : hypothecated securities must be deposited in the central depository agency during the entire life of the hypothecation. A mortgage shall be entered in the register of real estate if real estate is being mortgaged to secure claims under debt securities to the advantage of owners of securities of a particular series or issue, so that those securities can be clearly distinguished from others without notation of the owners.
- (3) The value of pledged real estate or securities must be established by an authorized forensic expert.
- (4) The value of pledged real estate or securities ma not be less than the issuer's total obligation under all securities secured by the real estate mortgage or hypothecation of securities.

**Section 2. DATA WHICH MUST BE REGULARLY PUBLISHED**

**BY ISSUERS OF SECURITIES DISTRIBUTED TO THE PUBLIC**

**Article 73.**

- (1) The Commission shall prescribe the data which issuers of securities distributed to the public must publish regularly.

(2) The data referred to in Paragraph I of this article must at the least include semi-annual statements on the issuer's business, which would include at least net sales, profit or loss before and after taxes, shown in the form of a table, any early dividend proposed or paid, and a cover statement containing all data essential to investors so that they can realistically evaluate the trends with respect to business operation, profit or loss of the issuer, and particular circumstances which have influenced the business operation, profit or loss of the issuer and compare those data with data from the corresponding period in the previous financial year.

(3) Data which must be regularly published by issuers of securities distributed to the public shall be published in the same manner as the Prospectus.

## **Section 2. PROTECTION OF SHAREHOLDERS**

### **Subsection I. NOTIFICATION OF CHANGES IN THE STRUCTURE OF OWNERSHIP**

*Obligation to Report Ownership to the Issuer and to the Commission*

#### **Article 74.**

(1) When individuals or legal entities directly or through an intermediary acquire or release securities, acquire or relinquish voting rights in a meeting of the assembly of a company registered in the Republic of Croatia as a joint stock company, and when as a consequence of that acquisition or relinquishment the proportion of votes that person ' possesses exceeds or falls below one of the following thresholds: 10 % (ten percent), 20% (twenty percent), 1/3 (one-third), 50% (fifty percent), 2/3 (two-thirds) or 75% (seventy-five percent), that person or entity must notify the issuer and the Commission within seven days.

(2) The seven-day period referred to in Paragraph 1 of this article shall begin to run on the day when the person referred to in Paragraph 1 of this article learns of acquisition or relinquishment of voting rights or when, in view of the circumstances, that person should have learned' it.



(3) The notice referred to in Paragraph 1 of this article must contain information on the class and series of shares acquired or released, the number of votes possessed in absolute and relative terms, and the full name and address (for individuals) or corporate name and domicile (for legal entities)..

*Exemption from the Obligation to Report Ownership*

**Article 75.**

(1) The Commission may exempt securities companies from the notification referred to in Article 74 of this Law if acquisition or relinquishment of such stock has taken place through the legal entities referred to in Article 27 of this Law as part of performance of the business activity of those companies with no intention of their interfering in management of the issuer of the stock in question.

*Notification of the Public*

**Article 76.**

An issuer who receives the notice cited in Article 74, Paragraph I of this Law shall be required to publish it in the daily press accessible on the territory of the Republic of Croatia within seven days of the data of its delivery.

*Exemption from the Obligation of Informing the Public*

**Article 77.**

(1) On the written proposal of the issuer filed within three days from the date of receipt of the notice referred to in Article 74 of this Law, the Commission may temporarily (but in no case for a period longer than three months) exempt the issuer from the obligation of publication under Article 76 of this Law if such publication would obviously be very detrimental to the issuer, provided it is not likely that non-publication would prevent the public from evaluating the facts and circumstances whose familiarity is necessary in appraising the value of securities issued by the issuer.

(2) If the issuer who has filed a proposal with the Commission under Paragraph 1 of this article does not receive a written decision of the Commission exempting him from the obligation of publication within eight days from the date when the application was filed with the Commission, he must act in conformity with the provision of Article 76 of this Law.

**Subsection 2. STOCK SPLIT OR REVERSE SPLIT**

*Stock Split*

**Article 78.**

The general assembly of a joint stock company may decide to divide the issuer's shares so that each shareholder will be issued two or more shares for one.

## *Reverse Stock Split*

### **Article 79.**

- (1) The general assembly may decide to reduce the number of shares of the issuer by issuing each shareholder one share instead of two or more.
- (2) The rights of shareholders whose shares go through a reverse split may not be reduced by that reverse split.
- (3) Shareholders who do not have enough shares for replacement in the reverse split procedure must be given an opportunity by the issuer to acquire shares up to the number necessary for the reverse split at the same price within three months from the date when they receive notice of the reverse split.

## *Notice of Split and Reverse Split of Stock*

### **Article 80.**

- (1) Within eight days from the date when the assembly of the joint stock company adopted a decision on a split or reverse split of stock the issuer shall give notice to all shareholders.
- (2) The notice referred to in Paragraph 1 of this article must contain very detailed information on the conditions and procedure for the replacement of shares in the split or reverse split.
- (3) Shareholders must be given an opportunity to exchange shares within a period of time which may not be shorter than 30 days nor longer than three months from the date the decision was made on the stock split or reverse split.
- (4) The issuer shall bear the costs of the split or reverse split.
- (5) The issuer shall be required to make a detailed report to the Commission on a split or reverse split of stock and shall issue a press release on this and see that it is published in the daily *press* accessible on the territory of the Republic of Croatia.

## **PART THREE**

### **FORMS AND SAFEKEEPING OF SECURITIES**

#### **TITLE I.**

#### **GENERAL PROVISIONS**

##### **Article 81.**

- (1) Securities shall be issued in non-physical form.
- (2) Non-physical securities shall exist only in the form of electronic records on media in the central depository agency.
- (3) Immobilized securities shall exist in the form of physical documents of paper or other suitable material but stored in the central depository agency or in a bank of deposit on the basis of specific contracts and in legal transactions occurring as electronic records in the central depository agency.

#### *Securities Accounts*

##### **Article 82.**

- (1) An owner of securities shall have a securities account in the central depository agency.
- (2) The owner of the account and account manager shall have the right to examine the securities account.

- (3) Account managers and the central depository agency shall be required to keep data on the balance of individual accounts secret.

### **Article 83.**

Account managers are defined as legal entities authorized by the Commission to manage securities accounts opened in the central depository agency in the name and on the account of owners of the accounts or owners of securities.

## **TITLE II.**

### **CENTRAL DEPOSITORY AGENCY**

### **Article 84.**

- (1) The central depository agency shall perform tasks related to the safekeeping and conveyance of non-physical and immobilized securities and the tasks of clearing and settlement in accordance with transactions concluded in the securities trade.

- (2) The central depository agency shall be a joint stock company whose business is the handling and safekeeping of non-physical securities. The central depository agency may also perform tasks related to the immobilization of securities.

- (3) The central depository agency shall be established by authorized participants on the capital market and the Agency for Payment Operations.

- (4) The central depository agency shall be required to enroll in membership any securities company which meets the conditions for membership, and do so within six months from the date when that company has filed application for membership.

*Board of Directors and Management*

**Article 85.**

- (1) The central depository agency shall have a board of directors consisting of at least five members.
- (2) The Commission shall nominate and the Government of the Republic of Croatia shall appoint one member of the board of directors.
- (3) Data on the amount of compensation received by members of the board of directors and on the amount of income of members of management ' shall be public and shall be published in the annual business report of the central depository agency, which shall also contain information about attendance of meetings of the board of directors by the individual members.
- (4) The annual business report of the central depository agency shall be filed with the Commission and sent to all the agency's shareholders and issuers of non-physical securities and shall be published in NARODNE NOVINE of the Republic of Croatia.

*Expenses*

**Article 86.**

Issuers of securities shall cover the expenses of guarding and safekeeping non-physical securities and other expenses of the central depository agency.

*The Hook of Owners of Non-physical Securities*

**Article 87.**

(1) The central depository agency shall be required to furnish the issuer all data necessary for keeping the book of owners of securities (the book of shareholders, the book of bond holders, etc.).

(2) The central depository agency may itself, under a contract it concludes with the issuer, keep a book of owners of securities for the issuer and distribute material which under regulations and enactments of the issuer are delivered to owners of securities.

*Ban on Trading*

**Article 88.**

(1) The central depository agency may not trade in securities, may not furnish advice on trade in securities and investment in securities, nor furnish opinions on the favorability or unfavorability of acquiring or selling securities.

(2) The central depository agency shall be authorized to present in public the general advantages of non-physical securities or the particular advantages of certain non-physical securities.

## *Data Storage and Safekeeping*

### **Article 89.**

(1) The central depository agency shall be required to protect the computer system and data which it contains against unauthorized use and against change and loss, to preserve the original documentation used for making entries in the data storage media for five years in the original form, and thereafter in micrographic form, and see to the regular daily copying of the data stored on suitable media (diskettes, magnetic tape, etc.). They must be kept in a safe place, secure from flood, fire or similar events, which is different from the place where the computer system is located. Data recorded on electronic media shall be kept permanently.

(2) Any person with a legally founded interest may, for a reasonable compensation, examine the data containing the history of transactions in individual securities.

(3) The Commission may establish more detailed standards and techniques for protecting the computer system and data it contains and which pertain to nonphysical securities.

## ***Liability***

### **Article 90.**

The central depository agency shall be liable for loss, including lost income, occurring because of inaccuracy or loss of data related to nonphysical or immobilized securities on the principle of presumed guilt.



## *Persons Responsible*

### **Article 91.**

- (1) Certain individuals responsible for the accuracy of data and the correctness of individual operations in connection with nonphysical and immobilized securities must be designated in enactments of the central depository agency and the scope of their responsibility defined.
- (2) Members of management of the central depository agency shall be accountable for the accuracy of data related to nonphysical and immobilized securities, regardless of the content of the enactments referred to in Paragraph 1 of this article.

## *Confidentiality*

### **Article 92.**

- (1) All officials or former officials and members or former members of the board of directors and other bodies of the central depository agency and account managers shall be prohibited from:
1. divulging information constituting material facts or privileged information which they have learned in performance of their duties or performance of tasks in the central depository agency or in some other manner and which are considered a business secret, unless they are so authorized by Law,
  2. furnishing of advice on trade in securities and investment in securities or providing opinions on the favorability or unfavorability of acquiring or selling securities traded on the territory of the Republic of Croatia,
  3. unauthorized divulgence of data on the balance of securities accounts of individual account holders.
- (2) The management of the central depository agency must see that the persons cited in Paragraph 1 of this article are regularly informed about their obligations with respect to preserving professional secrecy at least once a year.

### **TITLE III.**

#### **TRANSFER OF OWNERSHIP**

##### **Section 1. OWNERSHIP OF SECURITIES**

###### *Ownership of Nonphysical Securities*

The owner of the account in the central depository agency in which the security is recorded shall be considered the owner of the nonphysical security.

###### *Holding Securities for Third Parties*

##### **Article 94.**

(1) If persons entered in the book or register of issuers as owners of securities (owners of accounts in the central depository agency where those securities are recorded) are holding securities for third persons, they shall be required in filing for entry in that book or register to state that they are holding them for third parties. That fact must be entered in the book or register.

(2) Persons entered in the book or register of issuers as owners of securities, if they are holding securities for third parties, shall be required to identify the person or persons for whom they are holding securities upon a substantiated request from the issuer, from the Commission or from an owner of another security of the same class.

*Manner of Acquiring Ownership of Nonphysical Securities*

**Article 95.**

- (1) Ownership of nonphysical securities shall be conveyed by transfer to the account of the new owner and entry in the book or register of issuers in keeping with the provisions of this law.
- (2) Technical matters related to transfer of ownership of nonphysical securities shall be handled by the central depository agency.

**Section 2. TRANSFER OF SECURITIES**

*Limitation on Acquisition of Ownership*

**Article 96.**

- (1) The Assembly of the Republic of Croatia may on recommendation of the Government of the Republic of Croatia adopt a decision prohibiting foreigners from acquiring securities of certain issuers or limiting foreigners in that acquisition.
- (2) The decision referred to in Paragraph 1 of this article must contain provisions on measures of enforcement and penalties in case of violation of these prohibitions and/or restrictions.

**Article 97.**

- (1) The parties in a legal transaction in which ownership of securities is transferred must settle their obligations (pay the price and transfer ownership to the security) within a period not to exceed seven days from the date of the transaction unless the contract, which is the basis for transfer of ownership, provides otherwise.
- (2) The date of the transaction referred to in the previous paragraph of this article shall be the day on which the parties concluded the legal transaction.
- (3) Ownership of the security shall be acquired as of the date of the transaction.

**Section 3. COMMUTATION OF INTEREST**

**Article 98.**

The actual number of days in the year or in the period for which interest is being computed shall always be taken when interest is computed on debt securities.

## **PART FOUR**

### **PUNITIVE PROVISIONS**

#### **TITLE I.**

#### **MISDEMEANORS**

##### *Misdemeanors of Legal Entities*

(1) A legal entity shall commit a misdemeanor:

1. if it issues or puts up for sale securities in a public offering without filing application with the Commission pursuant to Article 16, Paragraph 2 of this Law,
2. if it publishes a prospectus whose content differs from the content prescribed by Article 17 of this Law,
3. if it issues an abridged prospectus, contrary to the provision of Article 19 of this Law,
4. if it issues securities without a public offering, contrary to the conditions prescribed in Article 20, Paragraph 7 of this Law,
5. if it distributes a prospectus contrary to the provision of Article 21 of this Law,
6. if without permission of the Commission it engages in the business activities enumerated in Article 26 of this Law,
7. if a securities company under Article 28 of this Law has not been organized as a joint stock company or limited liability company or the business activities enumerated in Article 26 of this Law are not its sole business,
8. if a securities company performs certain business activities but does not meet the conditions stated in Article 29 of this Law,
9. if a securities company directly or indirectly holds stock or shares in other securities companies (Article 30, Paragraph 2),

10. if a securities company omits to organize and keep books pursuant to the provision of Article 31 of this Law,
11. if a securities company omits to notify the customer pursuant to Article 32, Paragraph 1 of this Law,
12. if a securities company does not keep the assets of the customer in a separate account pursuant to the provision of Article 33. of this Law,
13. if a securities company lends or borrows securities contrary to the provisions of Article 34 of this Law,
14. if a securities company omits to submit reports to the Commission or furnish data and notices pursuant to the provision of Article 37 of this Law,
15. if it engages in the activity referred to in Article 39. Paragraph 1 of this Law, but is not registered as a legal entity under that article,
16. if a legal entity as referred to in Article 39 of this Law does not meet the conditions stated in Article 40 of this Law, or if it engages as a fellow shareholder or member an entity which is not a securities company, contrite to Article 40, Paragraph 3 of this Law,
17. if a legal entity as referred to in Article 39 engages in performance of the activities prohibited in Article 45, Paragraph 1 of this Law,
18. if the legal entity referred to in Article 39. has a board of directors organized contrary to the provision of Article 46. of this Law, or if in its annual report it omits to state or incompletely states the compensation which members of the board of directors receive as members of that body or information on attendance of meetings of the board of directors by the individual members (Article 46, Paragraph 1 and 4),
19. if the exchange omits to prescribe conditions for at least two securities quotation boards or prescribes conditions for a quotation board contrary to the provisions of this Law and regulations based on it (Article 48, Paragraph 1),
20. if an exchange lists on the official or other quotation board securities which do not meet the prescribed conditions (Article 49),
21. if an issuer omits to publish data pursuant to the provisions of Articles 58 and 49 of this Law,

22. if a regulated public market does not act in conformity with the provision of Article 61 of this Law,

23. if a securities company uses privileged information or divulges it to others (Article 63, Paragraph 4),

24. if an issuer of securities omits to publish material facts it was required to publish on the basis of Article 65 of this Law,

25. if it manipulates the price of a security, contrary to the provision of Article 66 of this Law,

26. if it spreads false information, contrary to Article 67 of this Law,

27. if it makes trades solely in order to earn a commission, contrary to the provision of Article 68 of this Law,

28. if a securities company conducts transactions contrary to the sequence prescribed in Article 69 of this Law,

29. if an issuer issues stock secured by a guarantee or issues a guarantee for payment of obligations on stock, contrary to the provision of Article 70 of this Law,

30. if an issuer issues debt securities secured by a guarantee which does not conform to Article 71, Paragraph 2 of this Law,

31. if an issuer issues debt securities which are secured by a real estate mortgage not entered in the appropriate public books and registers or whose value has not been appraised by an authorized forensic expert or whose value is less than the amount established in Article 72, Paragraph 4 of this Law,

32. if an issuer of securities distributed to the public omits to publish information or submit that information to the Commission contrary to Article 73 of this Law,

33. if it omits to furnish data on ownership to the Commission or issuer or if the report does not contain the data set forth in Article 74, Paragraph 3 of this Law,

34. if in the procedure of a reverse split of stock the issuer omits to guarantee the rights of stockholders pursuant to the provision of Article 79 of this Law,

35. if the issuer omits to file a report within the prescribed period on a split or reverse split of stock to stockholders and the Commission (Article 80, Paragraphs 1 and 5),,

36. if as the central depository agency it engages in business activities prohibited under Article 88, Paragraph 1 of this Law,

37. if as the central depository agency it omits to protect the computer system and data which it contains pursuant to the provision of Article 89 of this Law,

38. if as the central depository agency it omits to designate responsible individuals pursuant to Article 91, Paragraph 1 of this Law,

39. if it holds securities for third parties and falsely represents that it is holding them for itself or omits to cite the fact that it is holding them for third parties when required to do so (Article 94, Paragraphs 1 and 2),

40. if issuers of debt securities compute interest contrary to Article 98 of this Law.

(2) A fine not to exceed 400,000 kunas may be pronounced against the Legal entity for a misdemeanor under Paragraph 1 of this article.

(3) A member of the management or board of directors shall be subject to a penalty for a misdemeanor if under the provisions of this Law or the company's bylaws he is the person actually responsible in the company with respect to the operations referred to in Paragraph 1 of this article, specifically with a fine whose amount may not exceed 8,000 kunas, but if a serious violation of regulations has been committed in order to realize an unlawful gain of property, the fine may be as high as 40,000 kunas.



*Misdemeanors of Individuals*

**Article 100.**

(1) An individual shall commit a misdemeanor:

1. if that individual holds stock or shares in two or more securities companies (Article 30, Paragraph 1),
2. if individuals possessing privileged information act contrary to the provision of Article 64 of this Law.

(2) The maximum fine for a misdemeanor under Paragraph 1 of this article shall be 400,000.00 kunas.

**TITLE II.**

**CRIMES**

*Use of Privileged Information, Manipulation of Prices and the Spreading of False Information*

**Article 101.**

(1) Whosoever uses or divulges to others privileged information contrary to the provisions of Articles 69 and 64 of this Law, manipulates prices of securities contrary to the provision of Article 66 of this Law, or spreads false information contrary to the provision of Article 67 of this Law shall be subject to a fine not to exceed 400,000.00 kunas or imprisonment not to exceed one year.

(2) Whosoever attempts to commit the acts enumerated in Paragraph 1 of this article shall also be punished.

(3) When a sizeable material loss has occurred because of the crime committed under Paragraph 1 of this article or the perpetrator has realized a property gain, he shall be subject to imprisonment not to exceed two years.

*Presentation of False Data in the Prospectus and Its Unauthorized*

*Distribution*

**Article 102.**

(1) Whosoever as a member of management or the board of directors of an issuer allows or facilitates distribution of a prospectus whose contents differ from the contents prescribed by Article 1? of this Law, or as a member of management or the board of directors allows or facilitates the presentation of false data and false representation of material facts in the prospectus shall be subject to imprisonment not to exceed two years.

(2) Whosoever attempts to commit the acts enumerated in Paragraph 1 of this article shall also be punished.

(3) If a sizeable material loss occurs because of the crime committed under Paragraph of this article or the perpetrator realizes a property gain, he shall be subject to imprisonment not to exceed three years.

*Unauthorised Listing of Securities*

**Article 103.**

(1) Whosoever as a member of the management of an axchange allows the listing on the official or other quotation board of securities who do not meet the conditions prescribed under this Law shall be subject: a fine not to exceed 600,000.00 kunas or imprisonment not to exceed two years.

(2) When sizeable material loss has occurred because of the crime committed under Paragraph 1 of this article or the perpetrator has realized a property gain, he shall be subject to -imprisonment not 'to exceed three years.

*Concealment of Ownership*

**Article 104.**

Whosoever omits to supply data on ownership pursuant to the provisions of Article 74 of this Law shall be subject to a fine not to exceed 400,000.00 kunas or imprisonment not to exceed one year

**PART FIVE**

**TRANSITIONAL AND FINAL PROVISIONS**

*Securities Issued Before This Law Takes effect*

**Article 105.**

(1) Securities issued before this Law takes effect shall be considered securities issued in a public offering.

(2) Shares issued during the procedure of transformation of socially owned and public enterprises under the provisions of the Law on Transformation of Socially Owned Enterprises or separate laws, regardless of whether they are privately owned or stated owned, shall be considered stock issued in a public offering.

*Appointment of Members of the Commission*

**Article 106.**

- (1) The members of the Securities Commission shall be nominated by the Government of the Republic of Croatia and appointed by the Assembly. of the Republic of Croatia before March 31, 1996. The Government of the. Republic of Croatia shall provide the material, technical and financial. conditions for it to begin its operation.
- (2) When the first members of the Commission are appointed, two of them shall be appointed for two years, two of them for four years, and one of them for six years.
- (3) Until appointment of members of the Commission under the provisions of this Law, its business shall be conducted by the Securities Commission established under the Law on Securities.

*Bringing the Organization of the Exchange into Conformity*

**Article 107.**

- (1) Legal entities engaging in the business activity under Article 39, Paragraph 1 of this Law shall be required by June 1, 1996 to apply to the Commission for approval to engage in those activities and to establish themselves as an exchange under Articles 40 and 41 of this Law or as regulated public markets and do so by January 1, 1997.
- (2) Persons who do not act in accordance with Paragraph 1 of this article shall be required to terminate their activities and transactions defined as those of an exchange under this Law.
- (3) Legal entities as referred to in Paragraph 1 of this article shall be required to bring their membership and shareholding structure into conformity with the provisions of this Law by January 1, 1999.

(4) At the end of the period stated in Paragraph 3 of this article, shareholders in the exchange who are not its members shall relinquish voting rights on shares of the exchange, and shareholders of the exchange, who are members of the exchange but have more shares than the number prescribed by this Law, shall relinquish the voting rights which arise from that surplus of shares.

#### *Establishment of the Central Depository Agency*

##### **Article 108.**

(1) Until the central depository agency is established under the provisions of this Law and begins to regularly perform its activity under this Law, all matters related to nonphysical securities shall be performed by the Bureau for Payment Operations. The central depository agency must have a share structure that conforms to this Law within period of three years after the law takes effect.

(2) All legal entities which are issuers of securities, which themselves keep books or registers of owners of securities which they have issued who have entrusted the keeping of such books to others, or are the owners of securities made out to bearer and which have not been entered in the corresponding books or registers, must within the periods and in the manner prescribed by the central depository agency supply data to the central depository agency pertaining to the securities and their owners, but which are kept in the computer system of the central depository agency and constitute nonphysical securities.

(3) The decision on deadlines and manner of furnishing the data referred to in Paragraph 2 of this article and on the type of data which is to be furnished to the central depository agency shall be published in NARODNE NOVINE and in the daily press accessible on the territory of the Republic of Croatia.

#### *Securities Companies*

##### **Article 109.**

(1) Legal entities engaged in the business activities defined by this Law as the business or activities of securities companies shall be required to enter those activities in the court register in keeping with this Law within three years from the date when it takes effect, and until that date, they may perform the activities for which they were registered before this Law takes effect.

(2) Securities companies shall be required to meet the conditions with respect to the capital necessary for engaging in activities pursuant to this Law no later than January 1, 1999.

(3) Securities companies must by June 30, 1996 apply for a permit from the Commission to engage in the business activities enumerated in Article 26 of this Law.

*Authorized Intermediaries'*

**Article 110.**

(1) The Commission shall, without special additional conditions, enter in the register of authorized intermediaries all persons who, up to the date when this Law takes effect, have passed the examination for authorized intermediaries organized by the Zagreb Exchange and the Croatian Brokers Association.

(2) The Zagreb Exchange and the Croatian Brokers Association shall be required to furnish the Commission an exact list of the persons referred to in Paragraph 1 of this article by a deadline set by the Commission.

*Securities Certificates Manufactured Before This Law Takes Effect*

**Article 111.**

(1) The provisions of the Law on corporations shall apply to shares manufactured before this Law takes effect -- until they are put in nonphysical form.

(2) The shares referred to in Paragraph 1 of this article made out to bearer must be converted to nonphysical form by the issuer after the last coupon on the coupon sheet that exists at the moment when this Law takes effect, but no later than 10 years from the date it takes effect.

(3) The issuer shall be required to convert registered shares of stock as referred to in Paragraph 1 of this article to nonphysical form after the last coupon matures in the coupon sheet that exists at the moment when this Law takes effect, but no later than five years from the date when it takes effect.

(4) Securities physically manufactured before this Law takes effect and not mentioned in Paragraphs 1, 2 and 3 of this article must be put in non-physical form by the issuer within a period of 10 years from the date when this Law takes effect.

(5) The issuer may immobilise the securities referred to in Paragraphs 1 and 4 of this article before their conversion to nonphysical form.

#### *Termination of the Validity of Certain Statutes*

##### **Article 112.**

(1) On the date when this Law is first applied, the Law on Securities (NARODNE NOVINE, No. 53, 1991) shall cease to be valid in its entirety.

(2) The Law on the Money Market and Capital Market (NARODNE NOVINE, No. 53, 1991) shall cease to be valid on the day when this Law is first applied, except the provisions pertaining to the money market.

##### **Article 113.**

On the day when this Law is first applied, the provisions on securities of the Law on Contractual Relations (NARODNE NOVINE, No. 53, 1991) in matters regulated by this Law shall cease to apply to securities whose issuance has been regulated by this Law.

#### *Initial Effect of This Law*

##### **Article 114.**

This Law shall take effect on the eighth day after publication in NARODNE NOVINE but shall be applied commencing on January 1, 1996. Class: 450-08 94-01 08 Zagreb, December 14, 1996

HOUSE OF REPRESENTATIVES

ASSEMBLY OF THE REPUBLIC OF CROATIA

Vlatko Pavleti , Member of the Academy President, House of Representatives  
Croatian Assembly  
Member of the Academy President, House of Representatives Croatian Assembly  
House of Representatives Croatian Assembly  
Croatian Assembly