

DECREE OF THE PRESIDENT OF THE REPUBLIC OF AZERBAIJAN
on approval of the 'State Program on development of the securities market in the
Republic of Azerbaijan in 2011-2020'

Guided by Para 3, Article 109 of the Constitution of the Republic of Azerbaijan, to improve the securities market of the Republic of Azerbaijan in line with the best practices, further expand financial services provided to economic agents and the population, I **decide** to:

1. Approve the 'State Program on development of the securities market in the Republic of Azerbaijan in 2011-2020' (attached).
2. Assign the *Financial Markets Supervisory Authority* of the Republic of Azerbaijan to coordinate implementation provided for in the State Program specified in Item 1 of this Decree.
3. The Cabinet of Ministers of the Republic of Azerbaijan resolve the issues arising from this Decree.

Ilham ALIYEV,
President of the Republic of Azerbaijan

Baku city, 16 May 2011
№ 1504

APPROVED
by Decree No 1504
of the President of the Republic
of Azerbaijan dated 16 May 2011

**The State Program
'on development of the securities market in the Republic of Azerbaijan in 2011-2020'**

1. Introduction

Economic reforms carried out in the Republic of Azerbaijan over recent years have ensured establishment of an economic system based on free market relations. Fundamental institutions of the market economy, including the legislative framework establishing new economic relations, state institutions regulating these relations and individual entrepreneurs, main entities of the new economic system, have formed. Over the period, the price and exchange rate policy was liberalized, a large-scale privatization program was implemented, and as a whole, a favorable environment for entrepreneurship, macroeconomic stability and high investment attractiveness of the country were ensured.

As a result, over past 10 years, GDP has increased by about 9 times, exports by more than 15 times, strategic foreign exchange reserves by 31 times, hundreds of thousands of new jobs created, and the relative number of poor people decreased by more than 5 times.

Over the period, comprehensive reforms were also implemented on formation and institutional development of an efficient financial sector; management, supervision and regulation in this sector were improved in accordance with international standards, and as a result, competitiveness of banks increased significantly.

Suffice it to say that over past 10 years, bank assets have increased by 15 times, household deposits by 36 times, and loans to the economy by 19.6 times.

Development of the securities market as an important area of the financial system has always been in the center of attention, aided by relevant progressive legal and organizational measures. Necessary normative legal base and regulatory mechanisms, trading, clearing and settlement systems, financial intermediation institutions were established in the securities market.

Over past 5 years, trade turnover in the organized securities market has increased by 4.3 times, including the volume of trade in government bonds by 6.7 times, transactions with corporate bonds by 54 times. Overall, the securities market posted growth that exceeded overall economic growth, and the ratio of trade turnover of the Baku Stock Exchange to non-oil GDP increased by 41% to 12.1%.

Because of the implemented successful economic policy the country economy and the financial sector, which is more sensitive to external shocks, sustained. Despite the deepest financial and economic crisis of recent decades, the country's economy continued its dynamic development. Stability of the financial sector, high capitalization and liquidity maintained. No coincidence that international financial institutions also recognized the results and for the first time in history, the country obtained an investment rating.

At present, our country is entering a higher stage of socio-economic revival. Transition from a formation based on an administrative rule to a new, socio-economic structure based on free enterprise and market relations has completed. Today, further maturation of the new economic system, established as the main goal, is on the agenda.

World experience shows that for a developed model of market relations, existence of a diversified financial sector and, in particular, a highly efficient securities market is necessary. Raising the securities market to a qualitatively new level expands possibilities of regulating the economy, facilitates attraction of financial resources to the real sector and cross-sectoral investment flows, as well as ensures more efficient functioning of the economic system as a whole by making necessary requirements such as corporate governance and transparency.

The current stage of economic development envisages further expansion of access to financial services for economic entities. To this end, capitalization mechanisms should be further developed and improved, along with sources of funding from the budget and loans, which provide cheaper, non-inflationary funds and transformation of savings into direct investment as a long-term source.

At the same time, ensuring massive investment, allowing small and medium sized economic agents and the population to invest their savings to the economy emphasizes important social significance of the stock market to expand the middle class.

2. Goals and objectives

The main goal of the 'State Program on development of the securities market in 2011-2020' (hereinafter – the State Program) is to shape a modern, up to international standards securities market, that provides an extended capitalization opportunities to the economy and ensures reliable risk management, operating with high effectiveness and efficiency.

To attain these goals the following objectives are envisaged:

- Improve regulation mechanisms of the securities market in accordance with best practices, boost institutional development level of the securities market and ensure its compliance with international standards;
- Achieve high capitalization in the country economy, expand use of non-inflationary investment funds attracted through the securities market in financing of economic projects;
- create appropriate conditions for effective placement of savings of economic entities and the population in the stock market, investment protection and reliable risk management;
- create appropriate conditions for gradual integration of the country's securities market into international capital markets.

Within the framework of the State Program, the tasks set for development of the securities market will be implemented in stages.

Stage 1 provides for modernization of the securities market infrastructure, improvement of the regulatory framework for this purpose, strengthening the logistic base, as well as creation of necessary opportunities for human capital development in the securities market. This stage, aimed at significantly optimizing the securities market, is to be completed during the first 4 years of the State Program, covering 2011-2014.

Stage 2 envisages full automation and consolidation of operations in the securities market, and formation of a necessary base to introduce new tools and services. This stage, to cover following three years of the State Program from 2015–2017, will facilitate to expanding regional coverage of financial services via extended automation.

Stage 3 envisages deepening of the securities market by introducing new and more complex types of tools and services, and creation of mechanisms for effective management of systemic risks. With the completion of this stage, to cover last three years of the State Program (2018–2020) capital markets of Azerbaijan will be ready to integrate to international financial markets.

3. Main directions of the State Program

The goals and objectives established for the development of the securities market will be implemented on the following directions in a coordinated manner.

3.1. Institutional development of the securities market

As part of the State Program the securities market will be improved based on new organizational, technical and capital requirements, and flexible and effective operation of capital market institutions will be ensured.

Trading capacity of the stock exchange will expand, aided by necessary legal and organizational measures to transform it into a single institution allowing trading with various financial tools.

In addition, automation of the trading system will complete.

The depository-accounting system of the securities market, including mechanisms for registration of securities and rights on them will be improved. To that end, a central depository system of government and corporate securities will be created based on the National Depository System, the system for registration of securities and rights on them will be simplified. The mechanism of pledge of securities through the central depository system will be applied

To make securities trading more effective and reduce risks, a centralized clearing system for securities trading will be established and it will integrate into electronic payment systems.

Formation of a single e-platform in the securities market will complete in Stage 2 of the State Program, that will allow full automation and consolidation of trading, clearing-settlement, depository accounting procedures.

It is planned to launch institutions, like a clearing fund, an investors compensation fund, in line with the development path of the securities market, that will contribute to sustainability of trading and settlement systems of the securities market and formation of necessary mechanisms for reliable management of risks.

Geographical coverage of and access to capital market services will significantly expand through radical improvement and automation of the market's operational infrastructure.

3.2. Organization and promotion of financial intermediation and collective investment schemes

As part of the actions, provided for in the Program, necessary legal and organizational mechanisms will be shaped for formation of modern financial intermediaries – investment companies, ~~asset management companies~~ and custodian institutions. Financial intermediaries will be encouraged to provide *basic and ancillary investment services (operations)*, investment analysis, underwriting and other related functions in a comprehensive manner.

Activities of institutional investors play an important role in ensuring professional management of investments and channeling individual savings to effective investments. In this regard, actions will be taken to form effective mechanisms for operation of investment funds and other collective investment schemes

At the same time, prudential requirements that encourage active participation of banks and insurance companies in the securities market will be determined and implemented.

Additional measures will promote activities of capital market mechanisms, including real estate investment funds, as well as increase effectiveness of existing market instruments (housing certificates, mortgage bonds, etc.) to ensure sustainable activity in the real estate sector.

In the medium term, the insurance and pension system will push retirement savings, create savings-based pension funds and expand opportunities for investment of savings in the capital market.

3.3. Supporting supply and demand in the securities market

Effective functioning of the securities market requires high trade in the stock market and creating a favorable environment for it, expanding the use of existing capital market instruments, and promoting issuance of new financial instruments.

Formation of a modern capital market primarily associates with the provision of a liquid and deep market for government bonds. In this regard, it is planned to coordinate activities of relevant public institutions, make optimal use of monetary and fiscal policy tools and instruments, as well as take necessary measures to ensure liquidity of government securities at the initial stage.

To expand trade in the securities market, it is planned to offer securities of a number of state-owned enterprises ready to be financed from the securities markets on the stock exchange and establish appropriate legal and organizational mechanisms for the purpose. In addition, public financial support for the private sector will be provided through stock market instruments, preference will be given to companies listed on the stock exchange in making investments through the state and capital market instruments will determine the cost of investment.

An alternative trading platform will be established on the Baku Stock Exchange to increase opportunities for small and medium enterprises to be financed from capital markets.

At the same time, to increase the range of investment instruments offered on the stock exchange and ensure interest of individual investors in the market, it is planned to offer securities traded in foreign stock markets in the local market, as well as local securities in foreign capital markets.

It is planned to apply the practice of financing infrastructure projects with stock market instruments, establish trade mechanisms for various debt securities and futures contracts to expand supply of highly competitive financial instruments in the securities market, and boost the interest of foreign investors in the Azerbaijani securities market. A favorable tax environment is essential for effective functioning of capital markets, financing of the private sector from capital markets and expansion of investment opportunities as a whole. Considering this, improving best practices based taxation conditions in the securities market, as well as application of tax benefits on investment yield on securities, proceeds from buy and sell of securities will be on the agenda. It is also planned to create a favorable fiscal condition that encourages activities of investment funds and the listing of companies on the stock exchange.

3.4. Expansion of financial transparency principles and corporate governance

Maturation of capital markets and creation of access to affordable and long-term financing are directly linked to wider application of advanced financial reporting and management standards in companies. In this regard, spread of financial transparency and corporate governance principles should be a priority for securities market participants, investment companies acting as financial intermediaries and various types of collective investment funds.

Moreover, international financial reporting standards and corporate governance practices will be gradually and systematically expanded in the corporate sector, including large state-owned enterprises.

To increase financial transparency, audit requirements will be improved. At the same time, regulatory requirements will be established with respect to companies providing auditing in the

securities market. In the medium term, rating agencies will be established, to further increase transparency by ensuring comprehensive disclosure of information in the securities market.

3.5. Improving normative legal base regarding the securities market

Institutional development of the securities market, expansion of trade in stock market instruments and a high level of functioning of capital markets as a whole require improved regulatory framework for the market, taking into account international best practices. Firstly, it is important to develop and adopt a new law on the securities market and stock exchange in accordance with modern requirements.

At the same time, issuance and registration of securities, adequate regulation of deals with securities in the primary and secondary markets will be in the center of attention. A fair market value of securities will be formed, mechanisms of responsibilities and penalties against violations in the capital market will be tailored to the international practice.

Rules and procedures for licensing professional securities market participants will be improved based on advanced international standards, and adequate capital, risk management and reporting requirements for activities of financial intermediaries will be defined.

A single electronic control and reporting system will be established to ensure accurate, complete and timely disclosure of information of financial intermediaries and issuers. Integrated control and reliable systemic risk management mechanisms will be formed.

Deepening of the securities market, expansion of the range of its tools and instruments requires significant development of mechanisms for state regulation of the sector. In this regard, sector's state regulation structure will be strengthened from organizational and functional standpoint, extensive training programs, and seminars will increase human resources.

3.6. Raising awareness and professional training on the securities market

For effective functioning of the securities market, it is important to increase market knowledge of both financial intermediaries and potential issuers and investors, and shape high expertise and awareness in capital markets as a whole. Considering this, it is planned to establish mechanisms for transfer of knowledge and information within the State Program and take measures related to these purposes.

To increase the professional level in the securities market, training and consulting courses on capital markets will be organized, special training and certification programs will be taught for securities market participants, including financial intermediaries and issuers. Such courses and programs will also prepare potential issuers for capital market financing processes.

In the medium term, it is planned to include subjects on the securities market in the curricula of secondary and higher education institutions and adjust economic education programs to the new requirements.

To increase awareness on the securities market, special programs, articles and publications will be broadcast in mass media, aided by regular competitions and surveys.

Conferences, seminars and training programs on opportunities of Azerbaijani capital markets will be organized for local and foreign investors, academic and business circles, special awareness programs will promote the use of securities in activities of companies.

4. Financing of the State Program

The actions specified in the State Program will be financed from the state budget of the Republic of Azerbaijan and other sources not contradicting the legislation.

5. Actions plan on implementation of the State Program

№	Action	Implementation period	Executor
1. Institutional development of the securities market			
1.1	Improve the stock exchange in line with international legal and organizational best practices, expand trading opportunities of underlying and derivative financial instruments with the introduction of a new trading system	2011 - 2020	<i>FIMSA</i>
1.2.	Simplify mechanisms for registration and accounting of securities and rights on them	2011 - 2013	SCS
1.3.	Launch a single central depository system for government and corporate securities	2012 - 2014	SCS
1.4.	Optimize and automate procedures for encumbrance of securities	2012 - 2014	SCS, CBA
1.5.	Integrate OTC organized securities market operating and settlement systems into the clearing system	2013 - 2016	<i>FIMSA</i> , CBA
1.6.	Simplify, optimize and coordinate trading, clearing-settlement with securities, and create an integrated e-trading platform based on a direct processing principle	2013 - 2016	<i>FIMSA</i>
1.7.	Sustain securities' trading and settlement systems and launch a reliable risk management system	2016 - 2020	<i>FIMSA</i>
1.8.	Expand regional coverage of financial intermediation and access to services of the type	regularly	<i>FIMSA</i>
1.9.	Promote launch of professional associations of <i>licensed persons in the market</i> and stakeholders	2014 – 2016	<i>FIMSA</i>
2. Organize and promote financial intermediation and collective investment schemes			

2.1.	Shape a necessary normative legal base regulating operations of investment companies and promote their activities	2012 – 2013	SCS
2.2.	Shape a necessary normative legal base regulating operations of asset management companies and promote their activities	2011 – 2013	SCS
2.3.	Shape a necessary normative legal base regulating custodian activities	2012 – 2014	SCS, CBA
2.4.	Shape a necessary normative legal base regulating operations of investment funds and other collective investment schemes (real estate investment funds etc.) and promote their activities	2011 - 2013	SCS

2.5.	Determine prudential requirements promoting active participation of banks and insurance companies in the securities market	2011 - 2013	CBA, MF, SCS
3. Support supply and demand at the securities market			
3.1.	Shape a stable, forecastable primary and liquid secondary market of government bonds	2011 - 2013	MF,CBA, SCS
3.2.	Issue euro bonds in indicative amount	2012	MF
3.3.	Establish a normative legal base of operations of market making institutions and promote their activities	2013 - 2015	SCS
3.4.	Launch an alternate stock exchange trading platform for SMEs, increase and promote their funding from the stock market	2012 - 2014	SCS, MEI
3.5.	Form a normative legal base regulating trade of securities traded in foreign stock markets in the local market and local securities in foreign stock markets and apply a relevant trading system	2013 - 2017	<i>FIMSA</i>
3.6.	Promote attraction of investment by and listing of large state-owned enterprises and companies through the stock market, ensure trading of their securities on the stock exchange	regularly	<i>ME,</i> <i>SCPI,</i> <i>FIMSA</i>
3.7.	Implement appropriate measures to ensure the use of stock market instruments in financing of infrastructure projects	regularly	<i>ME, MF,</i> <i>FIMSA</i>
3.8.	Use stock market instruments to provide public financial support to the private sector, take measures to shape the value of public investments in private companies through the stock market	regularly	<i>ME,</i> <i>FIMSA</i>
3.9.	Create a normative legal base on securitization and promote issuance and trade of securities with various underlying assets	2016 - 2020	<i>FIMSA</i>
3.10.	Develop and submit proposals to shape a favorable tax environment in the securities market	2012 - 2013	MF, MT, SCS
4. Expand financial transparency principles and application of corporate governance			

4.1.	Develop financial reporting practices in public institutions and the private sector, ensure application of national and international financial reporting standards	2011 - 2014	MF
4.2.	Expand application of corporate governance standards in state enterprises and the private sector	2011 - 2014	MEI,SCS, SCPI
4.3.	Improve auditing in the securities market, determine special regulatory requirements for audit companies	2014	SCS, CA
4.4.	Launch and automate a system of accurate, comprehensive and timely publication of information in the securities market	2012 - 2014	SCS

4.5.	Shape a normative legal base regulating activities of rating agencies, promote their activity	2016 - 2018	FIMSA
5. Improve normative legal base regarding the securities market			
5.1.	Develop and submit a new draft law on the securities market in line with a progressive international practice	2011 - 2012	SCS, MJ, SCPI
5.2.	Create an optimal issuance and registration system of securities, apply international identification numbers (ISIN codes)	2013	SCS
5.3.	Determine and apply legal and regulatory requirements for formation of fair value of securities in primary and secondary markets	2013	SCS
5.4.	Create a system for effective protection of investors' rights	2012 - 2014	SCS
5.5.	Improve mechanisms of enforcement, penalties and sanctions on violations in the securities market on the basis of international standards	2014	SCS, MJ
5.6.	Adjust bankruptcy procedures of securities market participants to international practice	2015	SCS, MJ
5.7.	Adjust licensing of professional activity in the securities market to best practices	2012	SCS, MED
5.8.	Determine and apply adequate capital requirements for financial intermediaries, stock exchanges, depositories and clearing houses	2013	SCS
5.9.	Determine and apply prudential requirements for risk management systems in financial intermediaries, stock exchanges, depositories and clearing houses	2014	SCS
5.10.	Create and automate prudential reporting systems of financial intermediaries, stock exchange, depository and clearing institutions	2014	SCS
5.11.	Launch an e-control and reporting system regarding the securities market	2015	SCS, MCHT
5.12.	Establish systemic risk identification and effective management system at the FIMSA	2016 - 2018	FIMSA
6. Increase awareness and professional training on the securities market			
6.1.	Strengthen the FIMSA from organizational and functional standpoint and develop human resources	regularly	FIMSA
6.2.	Strengthen the capacity of refresher courses under the FIMSA, improve training programs and ensure their effectiveness	regularly	FIMSA
6.3.	Realize specialized training programs for <i>persons licensed in the securities market</i>	regularly	FIMSA

6.4.	Organize certification programs on capital markets	regularly	<i>FIMSA</i>
6.5.	Prepare companies for access to capital markets, provide related consulting services	regularly	<i>FIMSA, ME</i>
6.6.	Encourage the use of securities in motivational mechanisms of companies and assist in their introduction	regularly	<i>FIMSA, ME</i>
6.7.	Ensure education of securities market knowledge in secondary and higher education institutions	regularly	<i>MEdu, FIMSA</i>
6.8.	Ensure dissemination of knowledge on capital markets through various publications, electronic and written media	regularly	<i>FIMSA, MF, MTCHT</i>
6.9.	Conduct regular competitions, contents and surveys on the securities market	regularly	<i>FIMSA</i>
6.10.	Organize domestic and international conferences, seminars and meetings on the capacity of Azerbaijani capital markets	regularly	<i>FIMSA, ME, MF</i>

Acronyms

<i>FIMSA</i>	<i>Financial Markets Supervisory Authority</i>
<i>ME</i>	<i>Ministry of Economy</i>
<i>MF</i>	Ministry of Finance
<i>CBA</i>	Central Bank of Azerbaijan
<i>SCPI</i>	State Committee on Property Issues
<i>MT</i>	Ministry of Taxes
<i>CA</i>	Chamber of Auditors
<i>MJ</i>	Ministry of Justice
<i>MTCHT</i>	<i>Ministry of Transport, Communication and High Technologies</i>
<i>MEdu</i>	Ministry of Education