

# THE LAW OF THE REPUBLIC OF AZERBAIJAN

## on the Central Bank of the Republic of Azerbaijan

The present law shall determine the legal status of the Central Bank of the Republic of Azerbaijan, its goals, functions, and authorities, as well as its administration and organizational structure and regulate relations with other public authorities and other persons as the central bank of the country.

### Chapter I

#### General provisions

##### Article 1. Central Bank of the Republic of Azerbaijan

1.1. The Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank) is the central bank of the Republic of Azerbaijan.

1.2. In accordance with Item II of Article 19 of the Constitution of the Republic of Azerbaijan, the Central Bank shall be in exclusive ownership of the state.

1.3. Goals, functions, and authorities of the Central Bank shall be determined by the Constitution of the Republic of Azerbaijan and the present Law. The Central Bank shall, during its activities, also be governed by other legislative acts of the Republic of Azerbaijan and international treaties the Republic of Azerbaijan is a party to.

1.4. The headquarters of the Central Bank shall be in the city of Baku.

##### Article 2. Legal status of the Central Bank

2.1. The Central Bank shall be a *legal entity under public law*, shall have a seal with the image of the Coat of Arms of the Republic of Azerbaijan and its name on it.

2.2. The Central Bank shall have an independent balance sheet, a charter fund and other property. The Central Bank shall, in accordance with the Civil Code of the Republic of Azerbaijan, own, use, and dispose of the property on its books. The *fund* and other property of the Central Bank shall not be alienated without its consent except for the cases specified in the legislation.

##### Article 3. Regional offices of the Central Bank and *legal entities it creates*

3.1. The Central Bank may open regional offices in the Republic of Azerbaijan.

3.2. *In connection with the implementation of its goals and functions, the Central Bank shall enjoy the right to create and (or) participate in legal entities to ensure the functioning of the financial market's infrastructure, as well as increase qualifications of employees engaged in financial markets.*

##### Article 4. Goals of the Central Bank

4.1. The primary goal of the Central Bank shall be to ensure price stability within the authorities as defined herein.

4.2. *Without prejudice to its main goal, the Central Bank shall safeguard financial stability within the powers established by the laws regulating financial markets.*

4.3. *The primary goal of the Central Bank shall not be profit making.*

## **Article 5. Functions of the Central Bank**

5.1. *The Central Bank shall:*

5.1.1. *establish and implement the monetary and foreign exchange policy*

5.1.2. *organize cash circulation, issue banknotes into and withdraw from circulation according to Item II of Article 19 of the Constitution and the present Law.*

5.1.3. *regularly set and announce an official exchange rate of manat against foreign currencies.*

5.1.4. *maintain and manage gold and foreign exchange reserves in its charge.*

5.1.5. *develop monetary, financial markets and payment systems statistics, the balance of payments of the country, international investment balance and external debt (public and non-public) statistics in accordance with international standards and methodologies, summarize and disseminate data, as well as participate in forecasting of the balance of payments of the country.*

5.1.6. *ensure stability and sustainability of financial markets, regulate, and supervise financial markets, and maintain macro prudential regulation and supervision.*

5.1.7. *maintain stable, safe, and effective operation of payment systems and support their development.*

5.1.8. *take measures for the protection of the rights of consumers and investors in financial markets and conduct financial literacy efforts.*

5.1.9. *provide currency regulation and control according to the Law of the Republic of Azerbaijan on Currency Regulation.*

5.1.10. *supervise deposit insurance activities.*

5.1.11. *discharge other functions stipulated by the present Law and other laws.*

## **Article 6. Independence of the Central Bank**

6.1. *The Central Bank shall be independent in discharge of its responsibilities and exercise of its authorities prescribed by the Constitution and laws of the Republic of Azerbaijan, and no public authority or self-administration body, individuals or legal entities may directly or indirectly by any reason constrain, monitor its activities except for the cases stipulated in the present Law, illegally influence, or interfere with its activities.*

6.2. *The Central Bank shall enjoy economic independence and funds received from the sale of its assets or their disposal in other ways shall be attributed to its income. Except for the case specified in Article 14 of the present Law, the Central Bank shall not be responsible for liabilities of the state and the state shall not be liable for liabilities of the Central Bank.*

## **Article 7. Accountability of the Central Bank**

7.1. *The Central Bank shall be solely accountable to President of the Republic of Azerbaijan.*

7.2. Accountability of the Central Bank to President of the Republic of Azerbaijan shall consist of the following:

7.2.1. In accordance with Item 10 of Article 109 of the Constitution of the Republic of Azerbaijan, appoint or dismiss members of the Management Board of the Central Bank.

7.2.2. In accordance with Items 10 and 32 of Article 109 of the Constitution of the Republic of Azerbaijan appoint or dismiss *Governor of the Central Bank* and his/her deputies.

7.2.3. In accordance with Article 58 of the present Law, appoint an external auditor to review Central Bank activities and, if necessary, conduct extraordinary audits.

7.2.4. Delivery of the report by the ~~Governor of the Management Board~~ of the Central Bank to President of the Republic of Azerbaijan twice a year on implementation of major goals and functions of the Central Bank, as well as audited *annual* financial statements and reporting operational budget *in accordance with Article 12-1 of the 'Law of the Republic of Azerbaijan on Accounting'*.

7.3. ~~Governor of the Management Board~~ of the Central Bank shall advise the Milli Majlis of the Republic of Azerbaijan on key directions of monetary policy for the upcoming year during draft budget discussions.

## Article 8. Regulations of the Central Bank

8.1. The Central Bank shall independently adopt regulations on the issues under its authority binding for all *supervised entities*.

8.2. Regulations of the Central Bank shall be included in the State Registry of Legal Acts of the Republic of Azerbaijan in the order specified by the Constitutional Law of the Republic of Azerbaijan on Normative Acts of Legal Nature by a relevant executive body.

~~8.3. Financial, prudential and statistic reports established by the Central Bank in connection with discharge of functions and authorities specified in the present Law shall not be state registered.~~

## Article 9. International cooperation

9.1. *The Central Bank, on the issues arising from its goals and functions, may enter into cooperative agreements with foreign central banks, international financial institutions and the bodies specified in Article 53-5 of the present Law, as well as sign clearing and settlement agreements and other agreements with foreign public and private clearing (processing) agencies on its behalf.*

~~9.2. The Central Bank may enter into cooperative agreements with central banks of foreign countries on various areas of its activities, as well as sign clearing and settlement agreements and other agreements with foreign public and private clearing (processing) agencies on its own behalf (taking into consideration the requirements of Para 4 of Article 119 of the Constitution of the Republic of Azerbaijan).~~

9.3. The Central Bank shall participate in the capital and activities of cooperative international and regional organizations on the *monetary and foreign exchange policy* in the order specified by the legislation.

## Chapter II

### Central Bank capital

#### Article 1 0. **Capital of the Central Bank**

- 10.1. The Central Bank capital shall consist of its *charter fund* and capital reserves.
- 10.2. The *charter fund* of the Central Bank equals to *AZN 500 million*.
- 10.3. Central Bank's capital reserves shall be formed up through deductions from the profit of the reporting year if they shall *not fall below its charter fund*.

#### Article 1 1. **Profit of the Central Bank**

- 11.1. Central Bank profit shall be calculated by deducting expenditures from revenues in compliance with the International Financial Reporting Standards.
- 11.2. In accordance with the present Law, revenue of the Central Bank shall be formed from the income generated from its activities and receipts from other sources not confronting the legislation.

#### Article 1 2. **Distribution of Central Bank profit**

- 12.1. Reporting year profit shall, in the first place, be directed to formation of capital reserves of the Central Bank under the norm set in Article 10.3 herein.
- 12.2. *Upon formation of capital reserves and approval of Central Bank's annual financial statements by the auditor's opinion, a free balance of realized gains shall be transferred to the state budget (including to the Guarantee Fund for Liabilities on Government Debt and Guarantee coordinating with the relevant executive authority based upon an appeal by the relevant executive authority).*
- ~~12.3. A clear balance of realized gains shall be transferred to the state budget after approval of the annual financial statements of the Central Bank by the auditor opinion.~~

#### Article 1 3. **Revaluation of assets and liabilities held in foreign currency and gold**

- 13.1. *Gain (unrealized gain) resulting from revaluation of assets and liabilities in foreign currency and gold in the balance sheet of the Central Bank due to the change in the exchange rate of the manat and value of gold shall be attributed to revaluation reserves and shall not be considered in calculation of capital reserves and free balance of realized gains of the Central Bank.*
- 13.2. *Losses, resulting from revaluation of assets and liabilities in foreign currency and gold at the yearend shall be covered at the expense of revaluation reserves of previous years, in case these reserves do not suffice, they shall be covered at the expense of capital reserves of the Central Bank.*

#### Article 1 4. **Financial reliability of the Central Bank**

- 14.1. Central Bank may not be declared bankrupt.

*14.2. Capital shortfall resulting from Central Bank's activity shall be covered at the expense of securities issued by the state, being deferred by one fiscal year.*

### Chapter III Relations of the Central Bank with public authorities

#### Article 15. Grounds of Central Bank's relations with the state

~~15.1. The Central Bank and the state shall not be responsible for each other's liabilities, other than the case specified in Article 14 herein.~~

15.2. The Central Bank shall be the Azerbaijani state bank. The Central Bank may act as a financial agent of the state of Azerbaijan.

15.3. The Central Bank shall assist in pursuing the economic policy of the country according to the goals specified herein ~~within its authorities.~~

#### Article 16. Loans of the Central Bank to the state

16.1. The Central Bank shall not issue loans to the state to fund the state budget deficit directly.

16.2. In the event of short-term funds shortfall in the state budget, the Central Bank may extend a six-month loan to the state under an agreement with the appropriate executive power against pledged income bearing government debt securities and provided to be repaid in the national currency (manat) in the current year. Total amount of repaid and outstanding portion of such loans may not exceed 3 percent of average yield of the state budget for previous three years.

16.3. Purchase of debt securities issued by the Azerbaijani Government by the Central Bank shall be deemed granting of loans to the state. Such transactions shall be only made in the secondary market ~~only except for the cases specified in Article 49 1.2 herein~~ and the provisions of Article 16.2 herein shall apply.

16.4. In cases related to implementation of the monetary policy, the provisions of Article 16.2 herein shall not apply, provided that Government securities shall be traded in the secondary market.

#### Article 17. The Central Bank as the state bank

17.1. The Central Bank shall service the state treasury accounts under an agreement with the appropriate executive power.

17.2. Where it is required to implement the monetary policy, the Central Bank shall receive term deposits from the state under terms and conditions agreed upon with the relevant executive power.

17.3. The Central Bank may service bank accounts of public authorities of the Republic of Azerbaijan, as well as state and off-budget state funds.

#### Article 18. Mutual relations of the Central Bank with public authorities

18.1. The Central Bank may issue proposals to relevant executive powers of the Republic of Azerbaijan on key directions of the country's economic policy, including budget-tax, price-tariff measures, as well as the volume and management of internal and external debt of the government.

18.2. In the event a normative act of legal nature includes normative guidelines and (or) assignments with respect to the Central Bank, *financial markets and entities supervised by the Central Bank*, the draft in question shall be agreed with the Central Bank prior to submitting to the norm-setting authority.

#### **Article 19. Central Bank as a financial agent of the state**

The Central Bank may conduct country's financial agent functions as agreed upon with the relevant executive power. As a financial agent the Central Bank may service the government debt by placement of government debt securities and conduction of other operations thereof, as well as conduct other financial operations in the cases and the order specified by the legislation.

Chapter IV

### **Organizational structure and management of the Central Bank**

#### **Article 20. Organizational structure of the Central Bank**

20.1. The Organizational structure of the Central Bank shall include a Management Board, a central administrative body, and regional offices. The central administrative body of the Central Bank shall consist of an internal audit department, as well as other structural units established by the Management Board.

20.2. All structural units and structures included to the Central Bank's central administrative office shall operate in conformity with relevant statutes approved by the Management Board.

#### **Article 21. Management Board of the Central Bank**

*21.1. The Management Board shall be a collegial highest governing body. The Management Board shall consist of nine persons including Governor of the Central Bank, 6 permanent members and 2 external board members.*

21.2. Citizens of the Republic of Azerbaijan with higher economic and legal education, an expertise in economics, law and finance or banking and not convicted against property, for economic activities, *for corruption crimes and other job abuses*, as well as against grave and particularly grave crimes, with no commitments before foreign states shall be eligible for membership of the Management Board.

21.3. Deputies of the Milli Majlis of the Republic of Azerbaijan, the Parliament of the Nakhchivan AR, the Cabinet of Ministers of the Republic of Azerbaijan, and the Cabinet of Ministers of the Nakhchivan AR, elected members of municipalities, as well as persons employed

with state executive authorities or municipalities shall not be eligible for membership with the Central Bank's Management Board.

21.4. Members of the Central Bank's Management Board shall be appointed and dismissed in accordance with Item 10 of Article 109, Clause 15 of Item 1, and Item 2 of the Article 95 of the Constitution of the Republic of Azerbaijan.

21.5. Members of the Management Board shall be appointed for a five-year term.

21.6. The Chairman of the Central Bank Management Board shall be appointed from among the members of the Central Bank for a period equal to the term of office of its member according to Item 32 of Article 109 of the Constitution of the Republic of Azerbaijan.

21.7. The First Deputy and other deputies of the Governor of the Management Board of the Central Bank and shall be appointed from among the Management Board members for periods equal to respective terms of office of those members according to Item 32 of Article 109 of the Constitution of the Republic of Azerbaijan.

*21.7-1. Considering the requirements of Article 23.5 of this Law, to ensure continuity of activities of the Management Board, members of the Management Board whose term of office have expired shall continue to exercise their powers until appointment of members for a new term, for a period not exceeding 3 months.*

21.8. Members of the Central Bank Management Board during the period of employment with the Central Bank may not be engaged in any other remunerated activity, including entrepreneurship, except for scientific, pedagogical, and creative work. *Members of the Management Board employed full time with the Central Bank may not hold positions in executive bodies of legal entities created or participated in by the Central Bank according to this Law.* Except for the cases stipulated by the legislation, members of the Management Board employed full time with the Central Bank may not hold positions with executive bodies of *other* legal entities.

21.9. *Members of the Management Board of the Central Bank, as well as their close relatives (spouses, parents, in-laws, grandparents, children, grandchildren, adopters, adoptees, siblings) may not directly or indirectly have qualifying holding in entities supervised by the Central Banks and their related parties (direct or indirect ownership of a 10 or more percent share of the authorized capital (share capital), or possibility to exert a significant contractual influence on decision-making of the legal entity they participate in), as well as may not be founders or participants in legal entities created or participated in by the Central Bank.*

21.10. Management Board members may not be members of political parties and hold positions with public unions.

~~21.11. Salaries of the Governor and deputy Governors of the National Bank shall be determined in accordance with Clause 32 of Article 109 of the Constitution of the Republic of Azerbaijan.~~

~~21.12. Salaries of other members of the Management Board employed full time with the National Bank shall be determined by the Management Board, taking into account salaries of the Chairman of the Management Board and his/her deputies.~~

## Article 22. **Authorities of the Central Bank's Management Board**

22.1. The Management Board of the Central Bank shall:

22.1.1. set and approve an annual monetary and *exchange rate* policy of the state.

22.1.2. decide on monetary policy instruments, including setting of a refinancing rate, interest rates on its own operations and terms and conditions of open market transactions.

22.1.3. decide on issuance of new series of banknotes to and withdrawal of banknotes of old series from circulation.

22.1.4. *take decisions on issues attributed to competence of the Central Bank with respect to currency regulation in the Law of the Republic of Azerbaijan on Currency Regulation.*

22.1.5. approve and modify the budget of the Central Bank ~~upon coordination with the relevant executive authority.~~

22.1.6. set procedures for establishing and using capital reserves of the Central Bank.

22.1.7. approve annual financial statements of the Central Bank.

22.1.8. determine rules and the strategy for maintaining and managing gold and foreign exchange reserves ~~upon coordination with the relevant executive authority.~~

22.1.8-1. *according to the laws regulating financial markets take a decision on the issuance and revocation of related licenses.*

22.1.8-2. *in the cases specified in laws regulating financial markets take a decision on appointing and dismissing temporary officers in supervised entities, and on resolution measures.*

22.1.8-3. *according to Article 3.2 of the present Law take a decision on establishment of and/or participation in legal entities.*

~~22.0.9. take a decision on issuance and revocation of banking licenses for credit institutions.~~

~~22.0.10. set economic regulation (prudential) norms for credit institutions.~~

~~22.0.11. take a decision on appointment and dismissal of temporary officers to banks in the cases specified in the Law of the Republic of Azerbaijan on Banks;~~

~~22.0.12. set limit on participation of foreign capital in the banking system of the Republic of Azerbaijan.~~

22.1.13. establish Central Bank's organizational structure and governance procedures ~~upon coordination with the relevant executive authority.~~

22.1.14. approve regulations on recruitment and evaluation of staff for the Central Bank, as well as determine the positions under the jurisdiction of the Management Board of the Central Bank and approve relevant appointments to and dismissals from such positions.

22.1.15. *appoint and dismiss the head of the Nakhchivan Autonomous Republic Office of the Central Bank in agreement with the authorized representative of the relevant executive authority in the Nakhchivan Autonomous Republic.*

22.1.16. establish the form and amount of remuneration at the Central Bank in light of the relevant payment level in the banking system of the Republic of Azerbaijan ~~upon coordination with the relevant executive authority.~~

22.1.17. approve Central Bank's regulations.

22.1.17-1. *take decisions on financing of social projects (events).*

22.1.17-2. *create collegial internal committees and approve their statutes.*

22.1.17-3. *define another trading system where securities and derivative financial instruments are traded outside the stock exchange.*

22.1.18. settle any other issues the Management Board of the Central Bank is charged with hereunder.

### Article 2 3. **Management Board meetings**

23.1. Management Board meetings shall be held not less than once a month.

23.2. Management Board meetings shall be chaired by the Governor ~~of the Management Board~~ of the Central Bank, or the member of the Management Board, authorized to substitute him/her in his/her absence.

23.3. The Governor ~~of the Management Board~~ of the Central Bank shall convene Management Board meetings. Meetings may be convened upon demand of at least 2 other members of the Management Board.

23.4. Management Board members shall be notified of a Management Board meeting, timing, venue, and issues on the agenda at least 3 days prior to the meeting.

23.5. A Management Board meeting shall be deemed valid if more than half of *designated* members are present, of which one must be the Governor or his/her substitute.

23.6. When an issue on the agenda of the meeting shall conflict with interests of a particular member, *or his/her close relative specified in Article 21.9 of the present Law* the member in question should provide in-depth information on the case and not participate in its discussion. That member shall not participate in voting and his/her participation shall not be considered when the quorum is set.

23.7. Decisions of the Management Board shall be adopted by a simple voting majority of the Management Board members. In case of a tie, the chairperson shall cast the final vote. If a Management Board member disagrees with the decision taken by the Management Board, he/she may pronounce his/her relevant substantiated opinion.

23.8. Minutes of Management Board meetings shall be developed and signed by the chairperson of the meeting and the secretary of the Management Board.

23.9. The Secretary of the Management Board shall be appointed by the Governor of the ~~Management Board~~ Central Bank among employees who are not Management Board members.

### Article 2 4. **Governor of the Management Board of the Central Bank**

24.1. The Governor of the ~~Management Board~~ of the Central Bank shall organize work of the Management Board and at the same time head the executive structure of the Central Bank.

24.2. The Governor ~~of the Management Board~~ of the Central Bank shall:

24.2.1. represent the Central Bank in the Republic of Azerbaijan and abroad in the order specified by the legislation without a power of attorney.

24.2.2. sign off regulations approved by the Management Board.

24.2.3. issue decrees and directives binding for all employees of the Central Bank.

24.2.4. appoint and dismiss persons not under the authority of the Management Board.

24.2.5. segregate duties and responsibilities among his/her deputies ~~of the Chairman of the Management Board~~ and other officials of the Central Bank.

24.2.6. address any other issues related to the Central Bank's activities that do not fall under the Management Board authority.

24.2.7. conduct other authorities specified herein.

24.3. In the absence of the Governor of the Management Board of the Central Bank, his/her powers shall be delegated to his/her first deputy. In the absence of the first deputy, his/her powers shall be delegated to another deputy or member of the Management Board as per the procedures set by the Governor of the Management Board of the Central Bank.

#### **Article 25. Premature termination of the Management Board membership**

25.1. The *Governor* of the Central Bank and other members of the *Management Board* shall be released from their offices prior to expiry of their respective terms of office in the order specified by Item 10 of Article 109 of the Constitution of the Republic of Azerbaijan if:

25.1.1. a resignation letter has been submitted to President of the Republic of Azerbaijan.

25.1.2. he/she fails to discharge his/her responsibilities within a period of over 6 months due to an illness, under an appropriate medical confirmation, provided the Management Board of the Central Bank duly submits a petition to President of the Republic of Azerbaijan.

25.1.3. considered unfit for work or with limited work ability by the court decision.

25.1.4. an effective court ruling has been adopted that recognizes the person concerned guilty of crime.

25.1.5. requirements and limitations specified in Article 21 herein have been defaulted.

25.2. A Board member who disagrees with his/her earlier termination from the office may apply to court as determined by the Administrative Procedural Code of the Republic of Azerbaijan.

#### **Article 26. Resignation of Management Board members**

26.1. Decisions on resignation of the Governor of the Management Board of the Central Bank and any other member of the Management Board shall be taken within 2 months upon the date the relevant application was filed. If no decision is made within this period, the person requesting resignation shall be deemed to have resigned upon 3 months from the date the application was filed.

26.2. If a decision is made to reject a resignation request of the Governor of the Management Board of the Central Bank and any other member of the Management Board, the person who filed this application shall be deemed to have resigned after 1 month from the date of the decision to reject his/her original resignation letter, provided that he/she filed another resignation letter within 2 weeks from the date of the decision to reject his/her original resignation letter.

#### **Article 27. Internal audit**

27.1. The internal audit unit of the Central Bank shall:

27.1.1. assess the status of control mechanisms and adequate procedures for risk management in the Central Bank and control their implementation.

27.1.2. audit structural units of the Central Bank in line with the existing legislation.

27.1.3. issue recommendations to the Management Board of the Central Bank and structural units on elimination of drawbacks detected during the audit as well as accounting and reporting, permanent control procedures and mechanisms.

27.1.4. exercise other powers established by the Central Bank's Management Board.

27.2. The internal audit unit shall be directly accountable to the Governor of the Management Board of the Central Bank.

## Chapter V Monetary policy

### Article 28. Monetary policy

28.1. The Central Bank shall report to President of the Republic of Azerbaijan on monetary policy guidelines for the upcoming year no later than by October 1 and make it public by December 31.

28.2. *The monetary policy guidelines shall specify the inflation target for the upcoming year and main monetary policy tools to be used to attain the target, as well as possible risks likely to influence the monetary policy implementation.*

### Article 29. Monetary policy tools

29.1. The monetary policy shall be implemented with the following tools:

29.1.1. open market operations.

29.1.2. setting interest rates.

29.1.3. determining reserve requirements for credit institutions.

29.1.4. refinancing of credit institutions.

29.1.5. maintaining deposit operations.

~~29.1.6. restricting banking operations;~~

29.1.7. other monetary policy tools accepted in international practice.

29.2. The Central Bank shall use its own discretion as to use of any of the instruments specified in Article 29.1 herein, in line with the goals and objectives specified herein.

### Article 30. Open market operations

30.1. The Central Bank shall conduct the following open market operations:

30.1.1. trade in and other transactions with government securities, pursuant to Article 16 herein.

30.1.2. trade in, and other transactions with its own securities.

30.1.3. trade in and other transactions with a foreign currency.

30.2. *The Management Board shall determine terms and conditions for the issuance, placement, circulation, and buyback of securities issued by the Central Bank. The Central Bank may conduct open market operations in another trading system along with the regulated market.*

### Article 3 1. **Setting interest rates**

31.1. The Central Bank shall set the refinancing rate and interest rates on its own operations.

31.2. When setting the refinancing rate, the Central Bank shall consider existing macroeconomic stance in the country and the standing of the financial market.

31.3. The Central Bank shall set interest rates on its own operations taking into account the liquidity position of money markets by specifying its refinancing, deposit, and open market transaction interest rates, or defining them by demand and supply at auctions.

31.4. The Central Bank shall publish the refinancing rate and interest rates on its own operations.

### Article 3 2. **Determining reserve requirements**

32.1. The Central Bank shall compel credit institutions to maintain required reserves. Reserves shall be set in percentage proportion to *liabilities* and maintained at the Central Bank. The Management Board of the Central Bank shall set norms of procedures for calculating and maintaining required reserves ~~by coordinating with the financial markets supervisory authority~~. To *safeguard macroeconomic stability, sustainability, and stability of financial markets in the country the Central Bank shall be entitled to pay interest to credit institutions on required reserves maintained. In this case the Management Board of the Central Bank shall take a decision on payment of interest. Interests shall be paid within the time specified in the decision of the Management Board and shall apply to all credit institutions that maintain required reserves.*

32.2. *In the event a credit institution violates the rules of calculation or maintenance of required reserves over the maintenance period, the Central Bank shall impose a financial sanction on shortage of required reserves over the maintenance period in the amount of 2 times the average daily refinancing rate of the central bank which is the issuer of the currency to be maintained over the maintenance period with the below formula. In the event the violation is committed 3 or more times over one calendar year a financial sanction shall be imposed in the amount of 3 times the average daily refinancing rate (in all cases, where the refinancing rate is less than one percent, the refinancing rate shall be considered as one percent when calculating the financial sanction):*

$$G_t = \frac{P_t * n_t * SD * b}{100 * 360}$$

where:

$G_t$  – amount of the financial sanction to be paid on shortage of required reserves over the  $t$  maintenance period

$P_t$  – average daily shortage of required reserves over the  $t$  maintenance period

$n_t$  – the number of calendar days over the  $t$  maintenance period

$SD$  – average daily refinancing (policy) rate of the central bank which is the issuer of the currency over the  $t$  maintenance period  $b$  – coefficient applied depending on the frequency of violation.

32.3. The amount of the financial sanction shall be calculated in manat equivalent according to the official exchange rate set by the Central Bank as of the day within 5 (five) working days when violation of

*rules of the required reserve is found out and shall be debited from the credit institution's correspondent account in the national currency with the Central Bank, or if there are insufficient funds in this account, from correspondent accounts in foreign currency with the Central Bank (in accordance with the official exchange rate of the Central Bank for the day when violation of rules of the required reserve detected).*

*32.4. The Management Board of the Central Bank shall be entitled to restrict the participation of the credit institution in open market operations or the conduction of banking operations along with imposing financial sanctions with respect to violation of rules of the reserve requirement norm.*

*32.5. In the event of sharp deviation from liquidity ratios applied by the Central Bank, the credit institution may be temporarily exempted from the maintenance of required reserves at the decision of the Management Board of the Central Bank.*

### **Article 3 3. Refinancing of credit institutions**

33.1. The Central Bank shall refinance credit institutions for the implementation of the monetary policy. In this context, loans shall be collateralized by government securities, guarantees and warranties issued by the Government and other reliable issuers, foreign currency, gold, various types of precious metals and other eligible assets. ~~Such loans shall be granted for up to 6 months and may be prolonged for the same.~~

33.2. The Management Board of the Central Bank shall establish the type, procedures, and provisions of refinancing.

33.3. Loans shall be extended to head offices of credit institutions ~~only in the national currency (manat).~~

### **Article 3 4. Deposit operations**

The Central Bank shall receive deposits from and place deposits with credit institutions under its own terms and conditions and built upon the mutual agreement.

### ~~Article 3 5. Restriction of banking operations~~

~~The Central Bank may temporarily contain individual operations conducted by credit institutions, including setting the interest rate corridor floor and ceiling under the legislation in exceptional cases to implement the monetary policy.~~

## **Chapter VI**

### **Organization of cash circulation**

### **Article 3 6. Currency**

36.1. The currency of the Republic of Azerbaijan shall be the manat in line with Item 1 of Article 19 of the Constitution of the Republic of Azerbaijan. One manat shall consist of 100 (hundred) gapiks.

Currency shall be issued to circulation in the form of banknotes and coins.

36.2. In accordance with Item 3 of Article 19 of the Constitution of the Republic of Azerbaijan, use of any currency other than the manat in the territory of the Republic of Azerbaijan shall be prohibited.

36.3. Banknotes issued by the Central Bank, including *bullion* and commemorative coins should be accepted without fail for any payment, deposition, and money transfers in the Republic of Azerbaijan at their face values.

36.4. No official correlation shall be defined between the manat and gold or other precious metals. Banknotes issued to circulation shall be Central Bank's debt liabilities and be secured with all its assets.

36.5. Persons engaged in counterfeiting and sale of counterfeit banknotes and coins shall be taken responsible in accordance with the Criminal Code of the Republic of Azerbaijan.

36.6. The Central Bank shall make an expert opinion whether banknotes or coins are counterfeit.

36.7. Counterfeit banknotes and coins shall be surrendered to the Central Bank upon completion of a trial on currency counterfeiting.

#### Article 37. **Organization of cash circulation**

37.1. To provide cash circulation in the Republic of Azerbaijan the Central Bank shall:

37.1.1. determine demand for currency in cash.

37.1.2. arrange production or order and provide transportation and storage of cash.

37.1.3. create and dispose of cash reserves.

37.1.4. establish procedures for storage and physical transportation of cash by the Central Bank and credit institutions.

37.1.5. establish procedures to conduct cash transactions at the Central Bank ~~and credit institutions~~.

37.1.5-1. *determine regulations on cash operations in credit institutions and in persons that provide payment services under the legislation, as well as minimum requirements regarding cash equipment used by those institutions (cash counting and processing machines and other cash-in and/or cash-out systems and equipment).*

37.1.6. define signs of banknotes unfit for circulation and determine procedures for their replacement.

#### Article 38. **Issuance of currency into circulation**

38.1. The Management Board of the Central Bank shall decide on issuing banknotes and coins of new series into circulation. The Central Bank shall determine denominations, dimensions, design, security features, as well as other graphical and technical features of currency issued to circulation. *The design of currency shall be agreed with the institution (body) designated by the relevant executive authority.*

38.2. The Management Board of the Central Bank shall decide to issue *bullion* and commemorative coins to circulation. The Central Bank shall arrange sale of *bullion* and commemorative coins in the order and at values it determines.

38.3. The Central Bank shall decide on issuance of new series of banknotes to circulation due to changes in price scales (denomination) upon coordination with the relevant executive authority.

#### **Article 39. Withdrawal of currency from circulation**

39.1. Except for cases of denomination, the Central Bank shall decide to replace banknotes and coins in circulation with banknotes and coins of new series.

39.2. The Central Bank shall publicize its decision on replacement of banknotes and coins in circulation, as well as description of new banknotes and coins and procedures for replacement thereof *in media*.

39.3. No limitation may be imposed on the amounts or subjects of replacement when cash currency is replaced due to issuance of new cash currency. Banknotes and coins subject to replacement shall be deemed legal tender for payments within the period to be determined by the Central Bank, provided that this period is no less than 1 year. Banknotes and coins shall be changed by the Central Bank upon this period on an on-going basis.

39.4. The Management Board of the Central Bank shall decide on withdrawal, destruction of counterfeit currency and procedures for taking appropriate actions thereof.

~~39.5. The value of counterfeit notes shall not be repaid, and they are not subject to refund. This provision shall also apply to counterfeit foreign currency notes.~~

#### **Article 40. Exchange of currency**

40.1. *The Central Bank shall exchange banknotes and coins, fit for circulation without any limitation.*

40.2. *The face value of a banknote consisting of a whole part or consecutive parts belonging to the same banknote, with not less than 60% of its surface and at least one of the two serial numbers on it intact, shall be paid by the Central Bank.*

40.3. *The face value of a banknote consisting of non-consecutive parts belonging to the same banknote, with not less than 60 percent of its surface and both serial numbers intact, shall be paid by the Central Bank.*

40.4. *The face value of circulation coins with images and inscriptions on its entire surface in the volume that allows determining its denomination and not subjected to deformation shall be paid by the Central Bank.*

40.5. *Where the submitted currency is found to be counterfeit, it shall not be exchanged, and its face value shall not be paid. Counterfeit currency shall not be returned and shall be sent to the relevant public authority (institution) for taking measures determined by the legislation.*

40.6. *Foreign currency shall not be changed by the Central Bank. Counterfeit foreign currency shall not be subject to Article 40.5 of the present Law.*

#### **Article 41. Destruction of banknotes**

41.1. Except for counterfeit currency, currency withdrawn from circulation shall be destroyed in accordance with the procedures specified by relevant executive authority.

41.2. The Central Bank shall ensure destruction of printing tools and plates used for production of banknotes and coins withdrawn from circulation.

***Article 41-1. Reproduction of currency***

*41-1.1. Reproduction of currency shall be conducted in the manner determined by the Central Bank.*

*41-1.2. Currency developed in violation of reproduction rules shall be deemed counterfeit.*

Chapter VII

**Management of gold and foreign exchange reserves**

**Article 4 2. Gold and foreign exchange reserves**

42.1. The Central Bank shall, within the framework of the strategy set by the Management Board, maintain and manage gold and foreign exchange reserves with the purpose of implementation of the country's monetary policy and timely execution of settlements on international liabilities.

42.2. The Central Bank shall, within the framework of the strategy and regulations set by the Management Board, maintain and manage gold and foreign exchange reserves composed of:

42.2.1. gold, other precious metals and precious stones.

42.2.2. freely convertible currencies in the form of banknotes or coins.

42.2.3. foreign exchange reserves of the Central Bank held with accounts of central banks of foreign countries or other financial institutions in freely convertible currencies.

42.2.4. special drawing rights of the International Monetary Fund and the reserve position with the International Monetary Fund.

42.2.5. *debt* securities issued or pledged by foreign countries, central banks or international financial institutions.

42.2.6. other reserve assets internationally accepted.

42.3. The Central Bank may use services of financial institutions specialized in management of gold and foreign exchange reserves within the strategy set by the Management Board.

42.4. In case of decrease of gold and foreign exchange reserves to the level which by the judgment of the Central Bank is threatening to implement the monetary policy, timely execute settlements on country's international liabilities or in case of such a possibility, the Central Bank shall submit a report on the position of gold-foreign exchange reserves and justified proposals to the relevant executive authority previously indicating reasons for such a decrease or a possible decrease of reserves.

**Article 4 3. Information on gold and foreign exchange reserves**

The Central Bank shall periodically, but no less than once a quarter, publicize in *media* total amount of gold and foreign exchange reserves.

## Chapter VIII Organization of payment systems

### Article 44. Authorities in payment systems

~~44.1. To maintain a stable operation of centralized interbank and other unlicensed payment systems it has created, including clearing (processing) systems, the Central Bank shall organize, coordinate, regulate and oversee their activities.~~

~~44.2. The Central Bank shall issue permits for and oversee activities of clearing (processing) institutions pursuant to applicable regulations.~~

~~44.3. The Central Bank shall establish rules and terms and conditions for non-cash settlements in centralized interbank and other unlicensed payment systems it has created as well as the form and content of used payment documents.~~

~~44.4. The Central Bank shall determine types of bank accounts, procedures on opening, maintenance, and closing of bank accounts in accordance with the Civil Code and other regulations of the Republic of Azerbaijan.~~

~~44.5. The Central Bank may set minimum requirements for electronic settlements and remittances used by credit institutions, reliability, and security of clearing (processing) systems as well as ensuring protection of banking information.~~

~~44.6. The Central Bank shall exercise other powers on organization of payment systems in accordance with applicable laws.~~

### Article 45. Organization of settlements among credit institutions

~~The Central Bank shall organize settlements among credit institutions by means of correspondent accounts in the national currency (Manat), opened by credit organizations with the Central Bank or by any other methods adopted by the Central Bank in accordance with international practices.~~

## Chapter IX Regulation and supervision of financial markets

### Article 46. Relations with supervised entities

*46.1. To ensure stability and sustainability of financial markets, the Central Bank shall license, regulate and supervise banks, non-bank credit institutions, professional participants of the insurance market, investment companies and other licensed persons in the securities market, investment funds, investment fund managers, persons engaged in clearing (processing), credit bureaus and other persons identified as the entities supervised by the Central Bank (supervised entities) under the laws regulating financial markets.*

*46.2. When taking regulatory and supervisory measures the Central Bank shall be guided by the present Law, the Civil Code of the Republic of Azerbaijan, the Laws of the Republic of Azerbaijan 'on Banks', 'on non-bank credit institutions', 'on Credit Unions', 'on Insurance activity', 'on the Securities Market',*

*'on Investment Funds', 'on Currency regulation,' 'on Deposit Insurance,' 'on Postal communication', 'on Prevention of Legalization of Criminally obtained property and the financing of terrorism', 'on Targeted financial sanctions', 'on Credit bureaus', as well as other laws regulating financial markets (hereinafter – laws regulating financial markets) and related best practices and standards.*

*46.3. The Central Bank shall not interfere into current activities of supervised entities, except for the areas covered by the laws regulating financial markets and the cases arising from the protection of the rights of consumers and investors.*

*46.4. Supervised entities shall not be kept responsible for liabilities of the Central Bank and the Central Bank shall not be taken responsible for liabilities of supervised entities.*

#### **Article 47. Organization of payment systems**

*47.1. The Central Bank shall organize settlements in the national currency between banks, local branches of foreign banks and the national operator of postal communication through correspondent accounts of those institutions with the Central Bank.*

*47.2. The Central Bank shall determine regulations on conduction of payment operations by payment service providers and settlements between them, as well as requirements on payment instruments.*

*47.3. According to the Civil Code and other normative acts of legal nature of the Republic of Azerbaijan the Central Bank shall determine types of bank accounts, procedures for their opening, maintaining, and closing, as well as the structure of banks accounts.*

*47.4. To support the development of payment systems the Central Bank shall enjoy the right to establish a cap on service fees (interchange) charged between payment systems participants.*

#### **Article 48. Regulation and supervision**

*48.1. In the event specified in the laws regulating financial markets on the regulation of activities of supervised entities the Central Bank shall:*

*48.1.1. adopt regulations governing activities, including prudential activities and market behavior of supervised entities.*

*48.1.2. determine regulations on the development and submission of individual and consolidated reports by supervised entities.*

*48.1.3. determine criteria for systemic importance of supervised entities.*

*48.1.4. exercise other authorities on regulation of supervised entities.*

*48.2. In the event specified in the laws regulating financial markets on the supervision of activities of supervised entities the Central Bank shall:*

*48.2.1. issue licenses and permits for supervised entities, restrict, cancel, and revoke them.*

*48.2.2. receive and analyze prudential, statistic, financial and other reports from supervised entities.*

*48.2.3. provide onsite inspections at supervised entities.*

*48.2.4. impose corrective, enforcement measures and sanctions on supervised entities and their managers, as well as issue other mandatory instructions to eliminate violations revealed in activities of supervised entities or prevent the cases likely to lead to violations.*

48.2.5. *maintain sectorial risk assessment with respect to supervised entities on the prevention of legalization of criminally obtained property and the financing of terrorism and analyze findings of the risk assessment.*

48.2.6. *appoint a temporary officer to the supervised entity, take resolution measures.*

48.2.7. *appeal to court on forced liquidation of the supervised entity and appointment of the liquidator.*

48.2.8. *exercise other authorities regarding supervision of supervised entities.*

48.3. *With respect to regulation and supervision of supervised entities the Central Bank shall also be entitled to:*

48.3.1. *within the framework of supervisory measures request convening meetings, including extraordinary meetings of authorized managerial bodies of supervisory entities, in the event the request is not fulfilled, call meetings of authorized managerial bodies and internal committees and (or) participate in those meetings as an observer.*

48.3.2. *send an authorized representative to the supervised entity to monitor its activities as per Article 53-2 of the present Law.*

48.3.3. *use a substantiated judgement as per Article 53-3 of the present Law.*

48.3.4. *determine minimum information security requirements for supervised entities and coordinate activities of supervised entities on cybersecurity.*

48.3.5. *apply with a request to and receive necessary information from relevant public authorities (institutions) in connection with the regulation and supervision of financial markets, and when handling appeals during the issue of licenses and permits.*

48.3.6. *to protect the rights of consumers and investors, conduct test purchase of financial services (products) in accordance with the procedure determined by the Central Bank.*

48.3.7. *adopt non-regulatory guidelines related to activities of supervised entities.*

48.3.8. *issue obligatory instructions for supervised entities on elimination of violations or the cases that create conditions for violations of legal interests of consumers and investors in financial markets.*

48.3.9. *obtain necessary information and documents from other institutions on persons with qualifying holding, as well as on current activities of those persons and if legal entities, on their management to identify supervised entities' related parties.*

48.4. *The Central Bank shall maintain confidentiality of the information obtained as part of supervisory measures to safeguard stability and sustainability of financial markets.*

48.5. *Disputes regarding decisions of the Central Bank in connection with the implementation of regulatory and supervision functions shall be reviewed at court. Filing appeals against decisions shall not stop their execution.*

#### ***Article 48-1. Prevention of the legalization of criminally obtained property and the financing of terrorism***

48-1.1. *In relation to financial institutions, the Central Bank shall discharge the functions of a supervisory authority in the manner and in the instances outlined in the Laws of the Republic of Azerbaijan 'on Prevention of the legalization of criminally obtained property and the financing of terrorism' and 'on Targeted financial sanctions.'*

48-1.2. Financial institutions shall comply with the requirements arising from the Laws of the Republic of Azerbaijan 'on Prevention of the legalization of criminally obtained property and the financing of terrorism' and 'on Targeted financial sanctions.'

#### **Article 49. Risk-based regulation and supervision**

49.1. To ensure effective regulation and supervision, financial markets shall be regulated and supervised on a risks-based approach and risk profiles of supervised entities shall be established taking into account their business models, risk assessment, internal control and risk management systems, capital, profitability, and other risk factors for this purpose.

49.2. The Central Bank shall be entitled to establish different norms and requirements for supervised entities taking into account their systemic importance and/or risk profile in the cases specified in the laws regulating financial markets.

#### **Article 50. Regulatory Sandbox**

50.1. The Central Bank may apply a Regulatory Sandbox regime to assess innovative services and products (hereinafter – innovative products). Regulatory Sandbox shall be a set of procedures regulating the testing of innovative products by legal entities within a limited framework (territory, duration, number of transactions, volume, number of participants or other restrictions) and under supervision of the Central Bank.

50.2. Regulatory Sandbox shall:

50.2.1. ensure equal participation under the Regulatory Sandbox regime.

50.2.2. ensure the protection of the rights and legal interests of consumers by the participant of the Regulatory Sandbox regime (the person introducing innovative products under Regulatory Sandbox regime).

50.3. Regulations on application of the Regulatory Sandbox regime, including requirements for legal entities applying for participation in Regulatory Sandbox, as well as for the product to be tested, circumstances terminating the right to participate in Regulatory Sandbox, conditions and procedure for applying the legislation governing the financial markets in force to the participants of the regime, supervision of activities of the regime participants and the maximum period for application of the regime, but not more than 5 (five) years, shall be determined by the Central Bank.

50.4. Regulatory Sandbox participant shall assess innovative products in accordance with the agreement signed with the Central Bank. The agreement shall provide for at least conditions for testing, rights and responsibilities of parties, the period of testing, the circumstances leading to and the procedure for the termination of the agreement.

50.5. Regulatory Sandbox participant should notify the relevant product user on the case.

50.6. The Central Bank may present its proposals in accordance with the need to eliminate gaps found in the legislation or determine different procedures within the framework of Regulatory Sandbox.

50.7. Termination of participation in Regulatory Sandbox shall not release the regime participant from its obligations before the product user and other persons.

50.8. The Central Bank shall publish a register of regime participants on its official website. The register shall include the participant's name, website (if any), contact information (phone, e-mail, etc.), the

*innovative product introduced, the testing period, test results and relevant information in the event of premature termination of the test.*

### **Article 51. License and permit**

*51.1. The Central Bank shall issue licenses (permits) in financial markets, suspend, restrict, and revoke licenses (permits) issued according to the laws regulating financial markets.*

*51.2. Regulations of the Central Bank shall determine the form and content of documents presented for licenses and permits.*

*51.3. When the Central Bank discovers that an activity that requires a license (permit) is performed in financial markets without an appropriate license (permit), it shall send a notification to the persons engaged in such an activity requesting to immediately stop advertising or broadcasting in any other form this activity and the provided service (product), publish related information on its official website and in media, as well as apply to relevant public authorities (institution) to take measures determined by the legislation.*

*51.4. The Central Bank shall develop a public register of licenses and permits it has issued to supervised entities. The Register shall include names and addresses of supervised entities and their branches, divisions and representative offices, names of their managers, registration numbers and dates of licenses and permits, information on restricted, suspended, and revoked licenses and permits, as well as other information in the cases specified in the laws regulating financial markets.*

### **Article 52. Inspections**

*52.1. The Central Bank shall conduct inspections to assess financial resilience and risk profile of the supervised entity, verify compliance of activities of the supervised entity with the laws and regulations regulating financial markets, and the status of implementation of imposed enforcement, corrective measures and sanctions, other obligatory instructions.*

*52.2. Inspections shall be planned and extraordinary in terms of periodicity and comprehensive or thematic in terms of coverage and conduction as per the present Law and regulations of the Central Bank. The period of inspections shall be fixed not more than 45 (forty-five) workdays. In the event the deadline set for the inspection does not suffice for the completion of the inspection, the inspection may be extended for up to 45 (forty-five) workdays at most at the relevant decision of the Governor of the Central Bank or his/her authorized person.*

*52.3. Planned inspections shall be conducted in line with the supervised entity's risk profile under the inspections plan established by the Central Bank. Planned inspections shall be comprehensive or thematic and may be conducted more than once a year with respect to the same supervised entity.*

*52.4. Planned inspections shall be comprehensive or thematic and conducted in the following cases:*

*52.4.1. if, based upon the analysis of reports submitted to the Central Bank and other information the source of which is known:*

*52.4.1.1. capital adequacy, liquidity or solvency indicators are observed to deteriorate in the supervised entity, including there is a threat of loss of assets.*

*52.4.1.2. indicators inherent to the quality of assets and financial stance deteriorate dramatically or on an ongoing basis or change.*

52.4.1.3. *there is a suspicion with respect to physical availability of assets.*

52.4.1.4. *liquid assets, necessary for execution of liabilities or payments, decrease considerably or on an ongoing basis.*

52.4.1.5. *it is revealed that there are cases in the management system threatening supervised entity's prudential management.*

52.4.2. *it is required to inspect onsite violation of the legislation or circumstances leading to it.*

52.4.3. *mismatches are revealed between the indicators in submitted reports and the real nature or current stance of relevant operations, and other information obtained.*

52.4.4. *requests are received from foreign financial markets regulatory and supervisory authorities as part of cooperation in financial markets supervision.*

52.4.5. *there is a legally binding court decision on inspection of the relevant supervised entity.*

52.4.6. *there are reasonable suspicions regarding risks and cases of the legalization of criminally obtained funds and the financing of terrorism.*

52.4.7. *investigation of complaints on violation of consumer and investor rights requires on-site verification of issues.*

52.4.8. *the status of implementation of corrective, enforcement measures and sanctions imposed on the supervised entity and other obligatory instructions is verified, as well as information is not provided to the Central Bank within the deadline specified on the implementation of those instructions, or it is revealed that the information provided is erroneous.*

52.4.9. *in other cases, specified in the laws regulating financial markets.*

52.5. *The inspection plan and a decision on inspection shall be approved by the Governor of the Central Bank or the person authorized by him/her. The decision on inspection shall specify the name and address of the supervised entity, the commencement date and duration of the inspection, inspection type and coverage; if extraordinary, the reason for it, 1st, middle and last names and position of the inspector(s) and the period of the inspection.*

52.6. *Inspections shall be conducted by employees of the Central Bank and/or external auditors (inspectors) appointed by the Central Bank. Employees of the foreign supervisory authority with which the Central Bank has concluded a cooperation agreement on inspections based on the principle of cooperation and other persons (experts, specialists) may be included to the inspection team.*

### **Article 53. Preparation for and conduction of inspections and documentation of findings**

53.1. *A written notification shall be provided to the supervised entity at least 7 (seven) working days before the start of the planned inspection, and at least 2 (two) working days before the start of the extraordinary inspection. In accordance with the inspection decision, the notification shall specify the date, type, scope, as well as the period and duration of the inspection.*

53.2. *Inspections shall be conducted in supervised entities without prior notification as per Articles 52.4.1.1 – 52.4.1.3, 52.4.2, 52.4.3, 52.4.5, 52.4.6 and 52.4.8 of the present Law.*

53.3. *The inspection shall be conducted by submitting a related decision. The supervised entity shall create conditions for ensuring the work of the inspector, allocate a separate space and provide him/her with necessary technical equipment (communication facilities, photocopiers, printing equipment, etc.).*

53.4. *Findings of the inspection shall be formalized with an inspection report drawn up in two copies (if the inspection is conducted based on a court decision, in three copies) within 30 (thirty) calendar days*

after completion of the inspection. The Central Bank shall determine a procedure for drawing up the inspection report. A copy of the inspection report shall be submitted to the supervised entity within 3 (three) working days from the day of its preparation or sent to the supervised entity electronically or by mail with confirmation of receipt.

53.5. Within 7 (seven) working days from the day of receipt of the inspection report, the authorized person of the supervised entity shall sign and submit it to the Central Bank. If the inspection report is not submitted within this period, the Central Bank shall add a corresponding note to the inspection report it has. If the supervised entity has an explanation (objection) to the inspection report, the authorized person of the supervised entity shall sign the inspection report and add his/her explanation (objection) to the report. If the explanation (objection) provided by the supervised entity is considered reasonable, the inspection team shall make appropriate changes in the inspection report.

53.6. The Central Bank shall make its final decision on inspection findings within 30 (thirty) calendar days after the expiration of the period stipulated in Article 53.5 of this Law and send written information about it to the supervised entity.

53.7. The form and content of the inspection report shall be determined by regulations of the Central Bank.

53.8. The supervised entity may not disclose the inspection report without consent of the Central Bank, except for the cases where it is disclosed to the court in connection with the filing of a complaint on inspection findings.

53.9. The supervised entity may appeal to court about the decision taken by the Central Bank on inspection findings. Filing an appeal against the decision shall not stop its execution.

### **Article 53-1. Rights and responsibilities of inspectors**

53-1.1. Inspectors shall be entitled to:

53-1.1.1. enter the supervised entity, its branches, divisions and representative offices, as well as its subsidiaries and request any documents related to their activities, including documents related to customer transactions, deals concluded, internal regulations (statutes, regulations, procedures etc.), reports, accounting procedures and other documents, copy and verify them, receive explanations from managers and staff of the supervised entity and its subsidiaries;

53-1.1.2. obtain information and documents regarding supervised entity's related parties, including necessary information on their management and current activities, as well as documents, information, opinions, explanations and references from supervised entity's related parties, including persons that exercise significant control over the supervised entity under the legislation or persons the supervised entity exercises significant control over, persons or auditors auditing the supervised entity, the appraiser and the depository of the investment company, and activities of the supervised entity with respect to third parties necessary for the inspection;

53-1.1.3. obtain access to and take information from supervised entity's automated operational and management information systems, databases.

53-1.1.4. use photocopying and other technical means during the inspection.

53-1.1.5. in the event of suspicions regarding violation of legal acts regulating financial markets, seal the location of relevant documents and assets during the time required for the inspection, but not more than

3 (three) working days, provided that this situation shall not cause suspension of the current activity of the supervised entity.

53-1.1.6. discuss the issues regarding activities of the supervised entity under inspection with managers and staff of the supervised entity.

53-1.2. During inspections inspectors shall:

53-1.2.1. submit a decision on inspection and his/her ID card to the supervised entity when starting the inspection.

53-1.2.2. conduct the inspection as per the decision on inspection.

53-1.2.3. return original documents taken during the inspection to the supervised entity during or immediately after the inspection.

53-1.2.4. ensure protection of documents, confidential information, banking secrecy and other confidential information determined by law obtained during the inspection.

53-1.3. Inspectors may not be employed by the supervised entity they inspected for managerial (executive officer) positions established by law within 1 (one) year from the date of termination of employment relations with the Central Bank during the last 1 (one) year.

#### **Article 53-2. Monitoring at the supervised entity**

53-2.1. The Central Bank shall have the right to appoint an authorized representative(s) from among its employees to monitor the supervised entity to determine accuracy and reliability of the information contained in reports received from the supervised entity regarding the maintenance of supervisory functions in the field of financial markets.

53-2.2. The letter signed by Governor of the Central Bank, or the person authorized by him/her shall specify areas, documents, systems to be monitored and the monitoring period. Authorized representative(s) shall enjoy the rights as per Article 53-1.1 of this Law in the process of monitoring, while the supervised entity shall create all necessary conditions as per Article 53.3 herein for the monitoring.

53-2.3. The period for monitoring shall not exceed 5 (five) working days.

53-2.4. Authorized representative(s) shall develop a reference on monitoring findings and submit to the Central Bank.

53-2.5. Authorized representative(s) may not be employed with the supervised entity monitored during the last 1 (one) year for managerial (executive officer) positions defined by law within 1 (one) year from the date of termination of labor relations with the Central Bank.

#### **Article 53-3. Substantiated judgement**

53-3.1. A substantiated judgement shall be an opinion arrived at professionally and objectively by the Central Bank based on the investigation and assessment of the facts revealed during the exercise of supervisory powers in accordance with the laws regulating financial markets and information of known sources. A substantiated judgement may serve as a basis for decisions on issuing of licenses and permits, imposing enforcement and other supervisory measures.

53-3.2. The Central Bank shall use the substantiated judgement as per Articles 53-3.3–53-3.6 herein when:

53-3.2.1. *assessing whether members of control and executive bodies of supervised entities, as well as other persons in the cases provided for by the laws regulating the financial markets are fit and proper persons, including their business reputation.*

53-3.2.2. *identifying supervised entities' related parties and/or conducting transactions with them on preferential terms.*

53-3.2.3. *attributing persons to related group of borrowers.*

53-3.3. *The substantiated judgement shall be formulated by the collegial body established by the Management*

*Board of the Central Bank. Experts and specialists may be involved in the formulation of the substantiated judgement.*

53-3.4. *The supervised entity shall be provided with a written notice on the substantiated judgement and the notice shall disclose the cases that give rise to the judgement. The information shall be submitted to the supervised entity or sent electronically, or by the mail confirming the receipt.*

53-3.5. *In the event the supervised entity that receives the information on the substantiated judgement fails to issue an opinion on the judgment within 7 (seven) workdays, it shall be deemed agreed with the substantiated judgement. In the event of disagreement with the substantiated judgement the supervised entity shall submit a substantiated explanation on the case to the Central Bank within that period.*

53-3.6. *The explanation of the supervised entity that does not agree with the substantiated judgement shall be reviewed and, in the event the collegial body finds the explanation not substantiated, the issue shall be brought to the discussion of the Management Board of the Central Bank.*

53-3.7. *The decision taken by the Central Bank may be appealed to the court in accordance with the legislation based on the substantiated judgement. Filing an appeal against the decision shall not stop its execution*

#### **Article 53-4. Lender of Last Resort**

53-4.1. *The Central Bank shall issue loans to the banks facing short-term liquidity shortfall with up to six-month maturity and extend them only once for the same period as the lender of last resort. Other conditions of such loans shall be determined by the Management Board of the Central Bank.*

53-4.2. *In the event of threats to financial markets stability the Management Board of the Central Bank may extend lender of last resort loans for longer maturity.*

#### **Article 53-5. Cooperation and information sharing**

53-5.1. *To interact with supervised entities, the Central Bank may, by involving representatives of supervised entities and their public unions (associations), conduct consultations on important issues of financial markets and establish councils and groups that operate on a public basis to develop proposals.*

53-5.2. *The Central Bank shall cooperate independently, both on its own initiative and on request, with financial markets supervisory authorities of foreign countries, resolution bodies, crisis management authorities, macroprudential supervisory authorities, including international organizations signing bilateral and multilateral agreements (contracts, memorandum of understanding etc.) without any*

*undertaking on behalf of the state and the government, on effective implementation regulatory and supervisory functions over supervised entities, as well as on other issues related to its powers.*

*53-5.3. The Central Bank may share confidential information, including banking, commercial and insurance secrets, in accordance with agreements on cooperation in the field of supervision, provided that the other party shall ensure confidentiality of the relevant information and use it only for supervisory purposes.*

*53-5.4. International cooperation, document and information sharing on the prevention of the legalization of criminally obtained property and the financing of terrorism shall be regulated with the Law of the Republic of Azerbaijan 'on Prevention of the Legalization of Criminally Obtained Property and the Financing of Terrorism.'*

## **Chapter X**

### **Transactions and operations**

#### **Article 54. Transactions and operations of the Central Bank**

54.1. To accomplish its goals, the Central Bank shall be entitled to conduct the following operations with domestic and foreign credit institutions:

54.1.1. purchase, sell and store checks, notes, precious metals and precious stones, including items made thereof.

54.1.2. purchase and sell foreign currency, as well as payment orders and obligations denominated in foreign currency.

54.1.3. issue guarantees and warranties.

54.1.4. open accounts with banks, including deposit accounts.

54.1.5. maintain settlements, cash and deposit transactions, and receive securities and other valuables for safe keeping and management.

54.1.6. submit checks and notes in any currency for payment.

*54.1.6-1. conduct operations with derivative financial instruments.*

54.1.7. implement other banking transactions and operations accepted in the international practice, not contradicting the legislation of the Republic of Azerbaijan.

54.2. The Central Bank shall be entitled to charge fees for banking services.

54.3. The Central Bank may render banking services to its staff, as well as funds in accordance with applicable laws.

*54.3-1. The Central Bank may issue government backed loans to the Azerbaijan Deposit Insurance Fund under Article 17.2 of the Law of the Republic of Azerbaijan on Deposit Insurance.*

54.4. The Central Bank may, to support settlement and clearing (processing) operations, open bank accounts for the institutions, which conduct these operations.

54.5. The Central Bank may render banking services to governments, central banks, and monetary authorities of foreign states, as well as international organizations the Central Bank or the Republic of Azerbaijan is the member of.

54.6. The Central Bank shall be entitled to purchase liquid debt securities issued by reliable issuers.

54.7. The Central Bank may conclude civil - legal contracts not prohibited by the Civil Code of the Republic of Azerbaijan.

#### **Article 5 5. Prohibited activities**

55.1. The Central Bank may not:

55.1.1. engage in banking transactions with legal entities and individuals other than persons specified herein.

55.1.2. engage in manufacturing, trade, insurance and other commercial activities, except for the cases specified in this Law.

55.1.3. purchase, sell or otherwise acquire full or partial ownership over real estate for purposes other than to sustain activities of the Central Bank itself, implement commitments before the Central Bank, as well as meet social needs of the Central Bank staff.

### **Chapter XI**

#### ***Accounting, financial statements and audit at the Central Bank***

#### **Article 5 6. Reporting year of the Central Bank**

A reporting year of the Central Bank shall last from January 1 to December 31.

#### ***Article 5 7. Accounting and financial statements***

57.1. *Financial statements of the Central Bank shall conform to the International Financial Reporting Standards.*

57.2. *Other issues related to development of financial statements of the Central Bank, as well as maintenance of Central Bank accounting shall be regulated in line with Article 12-1 of the Law of the Republic of Azerbaijan on Accounting.*

57.3. *Regulations on maintaining accounting at the Central Bank shall be determined by the Management Board of the Central Bank of the Republic of Azerbaijan according to the International Financial Reporting Standards.*

#### **Article 5 8. Audit of the Central Bank**

58.1. Activities of the Central Bank shall be audited, in accordance with Item 32 of Article 109 of the Constitution of the Republic of Azerbaijan, once a year only by the auditor appointed for a period of one or more years.

58.2. An extraordinary audit review may be appointed, if necessary, in accordance with Item 32 of Article 109 of the Constitution of the Republic of Azerbaijan.

58.3. The Central Bank shall be audited in accordance with the International Auditing Standards. Audit related expenses shall be covered by the Central Bank.

~~58.4. Audited annual financial statements as well as reporting operational budget shall be submitted to President of the Republic of Azerbaijan.~~

58.5. Annual financial statements approved by the audit opinion shall be published on the official website of the Central Bank in media no later than one month upon the audit of financial statements is completed.

58.6. External public financial control at the Central Bank shall be maintained by the Chamber of Accounts of the Republic of Azerbaijan according to the Law of the Republic of Azerbaijan' on Chamber of Accounts' by coordinating with the authority (institution) determined by the relevant executive power. External public financial control shall cover only administrative and logistic activities of the Central Bank.

## Chapter XII

### Final provisions

#### Article 59. Central Bank staff

59.1. Labor relations between the Central Bank and its staff shall be governed by the Labor Code of the Republic of Azerbaijan, with due consideration of the provisions herein.

59.2. Central Bank's employees may not engage in any other remunerated activities, except for scientific, tutorial, and creative work.

59.3. Members of the Central Bank's Management Board and officers holding positions determined by the Management Board shall submit information on loans to be taken from credit institutions and supervised entities to the Central Bank in the order determined by the Management Board.

59.4. Employees of the Central Bank should avoid conflicts of interest between their official duties and personal interests. Employees of the Central Bank may not be members of managerial bodies of supervised entities and their subsidiaries, except for the cases provided by law. Where an employee of the Central Bank or his/her close relative (spouses, parents, in-laws, grandparents, children, grandchildren, adoptees, the adopted, siblings) is a founder or a participant at supervised entities and their related parties, or his/her close relative holds a position in control and executive bodies in those persons, the employee of the Central Bank should inform the Central Bank accordingly in writing. In these cases, the employee of the Central Bank may not conduct inspections in those supervised entities or participate in another supervisory measure, as well as in decision-making regarding the supervised entity in question. Requirements for prevention of the conflict of interests between official duties and personal interests of members of the Management Board of the Central Bank shall be regulated with Articles 21 and 23 of the present Law.

59.5. Central Bank employees shall be provided with the pension system according to the Law of the Republic of Azerbaijan on Labor Pensions.

59.6. The Central Bank may take ~~additional~~ measures to ensure social security, as well as further education and professional development of its staff.

#### Article 60. Privacy (confidentiality)

60.1. Members of the Management Board of the Central Bank and other employees shall protect the privacy (confidentiality) of the information obtained during the exercise of their powers and shall not use such information for personal or third-party interests.

60.2. *Members of the Management Board and other employees of the Central Bank may disclose the service information that became known to them in connection with the performance of their duties, including the information related to state, banking, insurance and commercial secrets during and after their employment with the Central Bank only as per the Law of the Republic of Azerbaijan 'on State Secret' and other relevant laws. Privacy (confidentiality) requirements shall also apply to other persons involved in the work of committees, commissions, advisory councils and working groups established at the Central Bank.*

#### **Article 6 1. Immunity from claims**

No person shall be liable for damages, for anything done or omitted while a member of the Management Board or an employee of the Central Bank in the discharge or purported discharge of the functions of the Central Bank under the present Law unless it is shown that the act or omission was in bad faith.

#### **Article 62. Security**

The Central Bank shall take appropriate actions to secure its activities. Central Bank's structural units engaged in safe transportation of cash and other valuables in the Republic of Azerbaijan shall be equipped with armored vehicles, and relevant staff members shall be equipped with special clothing, as well as weapons (firearms) and munitions in the order specified in the Law of the Republic of Azerbaijan on Service and Civilian Weapons.

#### **Article 63. Data collection**

To implement its functions, the Central Bank shall obtain statistical information from government bodies, local self-executive bodies, ~~the financial markets supervisory authority~~, legal entities and private entrepreneurs.

#### **Article 64. Publication of reports**

64.1. *An annual report related to activities of the Central Bank shall be published on the official website of the Central Bank. The annual report of the Central Bank shall address the macroeconomic and financial markets stability stance, outcome with respect to attaining targets and fulfilling objectives on the monetary policy adopted, as well as financial standing of the Central Bank.*

64.2. *The Central Bank shall place external sector statistics, summarized statistics on financial markets and payment systems, as well as monetary statistics on its official website at least once a month.*

#### **Article 6 5. Exemptions**

Pursuant to the Tax Code of the Republic of Azerbaijan, the Central Bank shall be eligible for tax exemptions and shall be exempt from all kinds of state duties and levies.

#### **Article 65-1. Central Bank procurements**

65-1.1. *Provisions of the Law of the Republic of Azerbaijan 'on Public Procurements' shall not apply to the following procurements of the Central Bank in connection with the implementation of the goals and functions provided for in this Law:*

*65-1.1.1. procurements related to the development of the concept, design, security elements and other technical specifications of banknotes and coins, including commemorative coins, their production, transportation, storage, insurance, auditing of the manufacturing process and maintaining quality expertise.*

*65-1.1.2. procurements related to maintenance and management of gold and foreign exchange reserves.*

*65-1.1.3. purchase and transportation of cash foreign currency.*

*65-1.1.4. procurements related to supervision, including resolution measures in relation to supervisory entities.*

#### **Article 6 6. Effect of the Law**

66.1. The present Law shall take effect as of the publication date.

66.2. Immediately after entry into force of this Law, the Central Bank shall increase its authorized capital at the expense of its profit, and if its profit is insufficient, at the expense of capital reserves, to the limit stipulated in Article 10.2 of this Law.

66.3. From the date the present Law takes effect, the Law of the Republic of Azerbaijan on the National Bank of the Republic of Azerbaijan (Collection of Legislation of the Republic of Azerbaijan, 1997, № 3, Article 172) and all amendments thereto and additions therein shall become void.

**Ilham ALIYEV**

**President of the Republic of Azerbaijan**

Baku city, 10 December 2004

№ 802-IIQ