

Regulations on issuance and circulation of government and municipal securities

1. General provisions

1.1. These Regulations have been developed in accordance with Article 3.6 of the Law of the Republic of Azerbaijan on the Securities Market and regulate issuance, circulation and payment of securities.

1.2. The main definitions used herein bear the following meanings:

1.2.1. Government bond – bonds issued by the Ministry of Finance of the Republic of Azerbaijan to finance budget deficit.

1.2.2. Municipal bond – bonds issued by municipalities.

1.2.3. Issuer – the Ministry of Finance in case of issuance of government bonds and municipalities in case of issuance of municipal bonds.

1.2.4. Short-term bond – bonds with up to one-year maturity.

1.2.5. Medium-term bond – bonds with 1-5 year maturity.

1.2.6. Long-term bond – bonds with over five-year maturity.

1.2.7. Total bond issuance – total face value of bond issuance to be issued within one year and placed in installments.

1.2.8. Trade participant – stock exchange members and the Central Bank of the Republic of Azerbaijan.

1.2.9. Competitive order – an order addressed to the issuer that reflects the price and amount of bonds to be bought.

1.2.10. Non-competitive order – an order addressed to the issuer that reflects the amount of bonds to be bought.

1.2.11. Terms of issuance – a document reflecting information on the issuer and the rights established with investment securities issued.

1.2.12. International securities identification code – a 12-digit alphanumeric code assigned to issuance of securities by the National Depository Center (hereinafter – the Central Depository), the member of the Association of National Numbering Agencies.

1.3. Residents and non-residents of the Republic of Azerbaijan may acquire government and municipal bonds.

2. Issuance of government and municipal bonds

2.1. Total government bond issuance within one calendar year and every issuance of municipal bonds is registered by the Financial Markets Supervisory Authority of the Republic of Azerbaijan (hereinafter – the FIMSA).

2.2. Issuance of government or municipal bonds is accompanied with terms of issuance.

2.3. The issuer applies to the FIMSA to have the issuance of government or municipal bonds state registered. The application can be sent by post or through a special electronic service unit in the official Internet information resource of the FIMSA

2.4. The application is attached with the following documents:

2.4.1. A decision on issuance of government and municipal bonds.

2.4.2. Terms of issuance of government and municipal bonds.

2.4.3. A consent letter from the Ministry of Finance of the Republic of Azerbaijan on issuance of municipal bonds.

2.5. Terms of issuance of government bonds should include the following:

2.5.1. The issuer's full name and legal address.

2.5.2. The type of government bonds (interest bearing or discount bonds), maturity (short-, medium- or long-term).

2.5.3. The calendar year when government bonds will be issued.

2.5.4. The procedure for placement of government bonds, calculation of bond yield and its payment.

2.5.5. The rights of government bond owners established with one security.

2.5.6. The face value and number of government bonds.

2.5.7. Total amount of government bonds to be issued within one calendar year.

2.5.8. In case of placement by public offering, the name and address of the stock exchange government bonds are placed in, the registration number and date of issue of the license issued to the stock exchange (for government bonds placed by public offering).

2.5.9. The name and address of the clearing organization, the registration number and the date of issue of the clearing license.

2.5.10. Location of the Central Depository that maintains safekeeping and accounting of government bonds.

2.6. Terms of issuance of municipal bonds should include:

2.6.1. Full name of the municipality.

2.6.2. The area covered by the municipality and its address, e-mail address, website and contact numbers.

2.6.3. Important events in the history of municipality.

2.6.4. Information on economic programs of municipality.

2.6.5. Information on securities of the municipality in circulation (the registration date, number, quantity and face value of securities) and information on regulated markets those securities are traded in.

2.6.6. Names, addresses and activity directions of legal entities founded by the municipality.

2.6.7. Information on known trends, commitments or events that are likely to affect activities of the municipality during current financial year.

2.6.8. The following information on members of the municipality and every member of its executive body:

2.6.8.1. First, last and middle names.

2.6.8.2. Functions.

2.6.8.3. Related information, if there is another professional activity.

2.6.8.4. A conflict of interests report in cases where there may be a conflict between official duties and personal interests.

2.6.9. Information on permanent and other committees of the municipality.

2.6.10. Brief description of municipality's international cooperation.

2.6.11. Information on civic meetings held during the activity of the municipality.

2.6.12. Information on financial aid provided to the municipality during its activity.

2.6.13. Information on reasons for bond offer and use of proceeds from placement of bonds.

2.6.14. The following information on municipal bonds:

2.6.14.1. The type of bonds (interest bearing or discount bonds), maturity (short-, medium- or long-term).

2.6.14.2. The number and face value of bonds.

2.6.14.3. Currency of bonds.

2.6.14.4. Location of the Central Depository that maintains safekeeping and accounting of bonds.

2.6.14.5. The rights established with bonds, the order of their exercising and restrictions on them.

2.6.14.6. The date and term of repayment of bonds and interest.

2.6.14.7. Interest and principal debt claim period.

2.6.14.8. If the interest rate is not set, on which basis the interest rate of the bond is calculated, information on that basis and sources of its determination.

2.6.14.9. The name of the settlement agent on payments.

2.6.14.10. In case of secured bonds, clear and detailed information on the effect of the value of collateral on payment of bonds and interest thereon (if any).

2.6.14.11. Terms of recovery of bonds (if any).

2.6.14.12. Yield on bonds and the order of its calculation.

2.6.14.13. Information on the organization that represents investors (if any).

2.6.14.14. The date, number and name of the managerial body of the municipality that made the decision on the issuance of bonds.

2.6.14.15. Restrictions on obtaining bonds (if any).

2.6.14.16. Information on withholding tax on bond income.

2.6.14.17. The issuer's obligation to withhold tax on bond income.

2.6.14.18. Start and end dates of placement of bonds.

2.6.14.19. The procedure for placing bonds, including the terms and conditions of repayment of bonds and provision of bonds to investors.

2.6.14.20. Bonds' offer price.

2.6.14.21. Amount of taxes and expenses bond buyer should pay.

2.6.14.22. Information on the underwriter that places bonds with or without commitment (the name, license and address). An indication of total amount of underwriting and placement commissions.

2.6.14.23. Information on market maker(s).

2.7. In case of placement of municipal bonds by public offering, along with the information specified in Item 2.6 herein, the following should be added to the terms of issuance:

2.7.1. Name, address and information on the membership of the municipality's auditors over recent 3 financial years.

2.7.2. Information on replacement or change of auditors over recent three financial years (indicating the reasons).

2.7.3. Financial statements of the municipality for recent two ended financial years and audit report for each year.

2.7.4. If the municipality has been operating for less than one year, audited financial statements covering that period.

2.7.5. Information on legal processes affecting the financial situation or activity of the municipality over recent one year (including pending processes).

2.7.6. Detailed information on interests of the persons involved in the issuance, including the conflict of interest.

2.8. When semi-annual and quarterly financial statements are added to the terms of issuance of municipal bonds, they should be updated during the validity of the issuance.

2.9. Documents submitted for state registration of government and municipal bonds are reviewed within 20 (twenty) working days from the date of their submission, and if there are no grounds for refusal, the issuance of government and municipal bonds are registered by the FIMSA and an extract is given to the issuer from the state register of securities on state registration of their issuance(s).

2.10. The FIMSA refuses to state register the issuance of government and municipal bonds if:

2.10.1. The documents submitted for state registration of the issuance of government and municipal bonds fail to meet the requirements herein.

2.10.2. If it is determined that incorrect or distorted information is included in the terms of issuance of government and municipal bonds or the decision on their issuance.

2.11. In the event of the circumstances specified in Item 2.10 herein, the FIMSA makes a reasoned decision to refuse state registration of government and municipal bonds and notifies the issuer within two working days.

2.12. If investment securities are not traded on the regulated market within one year from the date of state registration of government and municipal bonds, or if their public offering is not made, the terms of issue are considered invalid.

2.13. After the issuance of publicly offered government and municipal bonds is state registered, information on the issuer, the face value, quantity and placement method of the securities issued should be published on a single information resource defined by

Article 1.0.26 of the Law of the Azerbaijan Republic 'on the Securities Market', the website of the stock exchange and the issuer (if any).

2.14. Terms of issuance of publicly offered government and municipal bonds should be available at the address of the issuer, at the point of sale of securities and be provided by the investment company performing the placement without any payment.

3. Placement of government and municipal bonds

3.1. The issuer obtains the right to place bonds after state registration of government and municipal bond issues and disclosure of information on the terms of the bond issue (during public offering).

3.2. Placement of state and municipal bonds by public offering is carried out by auctioning them through the stock exchange.

3.3. Government bonds are placed by issuance. The issuer of government bonds applies to the Central Depository to obtain an international identification code for each issue. The Central Depository issues an international identification code to the issuer within one working day.

3.4. Upon receipt of the international identification code, the issuer submits to the stock exchange information on the number, nominal value, quantity, total nominal value and maximum limit on the volume of non-competitive orders of the international identification code for each issue of government bonds no later than 2 (two) working days prior to the auction.

3.5. Upon receipt of the information specified in Item 3.4 herein, the stock exchange discloses this information to auction participants and places it on the website no later than 1 (one) working day prior to the auction.

3.6. The auction is held on the date fixed by the issuer in accordance with internal rules of the stock exchange.

3.7. Auctions are organized in two stages: acceptance of orders and conclusion of deals (provision of orders)

3.8. At the order acceptance stage, investors submit competitive and/or non-competitive orders through exchange members in accordance with the exchange's trading rules.

3.9. During submission of orders, the auction participant may change the terms of or cancel the order. Orders may not be submitted, changed or canceled after the deadline.

3.10. At the end of the order acceptance period, the stock exchange compiles a register of submitted orders. The authorized representative of the stock exchange signs the register and submits it to the issuer. When the issuer has access to the trading system of the exchange, the issuer receives the register of submitted orders electronically directly from the trading system.

3.11. At the stage of concluding deals (securing orders) the issuer sets the minimum price of bonds (hereinafter - the cut-off price) and the average price for competitive orders to be executed during the auction within 1 (one) working day on the basis of the register of orders submitted in accordance with Item 3.8 herein.

3.12. If the price specified in the competitive order is not less than the cut-off price, the order is executed.

3.13. Non-competitive order is executed by the issuer at an average weighted price. In this case, the number of bonds received by non-competitive orders is calculated by dividing the amount of money specified in the order by the average price (in whole numbers).

3.14. When total volume of competitive and non-competitive orders submitted during the auction exceeds the limit set by the issuer, orders submitted at the same price are executed in proportionate order.

3.15. Upon completion of the auction, the register of deals concluded with the auction participants on bonds is submitted by the stock exchange to the issuer and the Central Depository, and extracts from the register of deals to the auction participants. When the issuer has access to the trading system of the exchange, the issuer obtains the register of submitted transactions electronically directly from the trading system.

3.16. Extract from the register of deals concluded at the stock exchange is a confirmation of conclusion of a purchase and sale agreement on state and municipal bonds between the auction participant and the issuer.

3.17. Closed placement of government and municipal bonds is carried out through an investment company.

3.18. The issuer should submit a report on results of the issue of municipal bonds to the FIMSA within 10 (ten) days from the date of completion of the placement.

3.19. The report on the results of the issuance of municipal bonds should include:

3.19.1. Start and end dates of placement of bonds.

3.19.2. Bonds' placement price.

3.19.3. The number of placed bonds.

4. Circulation of government and municipal bonds

4.1. If purchase and sale deals with government and municipal bonds are not concluded through an investment company, or if there is no counterparty investment company in such deals, such deals should be notarized.

4.2. Purchase and sale of state and municipal bonds on the stock exchange is carried out by traders on their own behalf and at their own expense or on their own behalf at the expense of the investor and on his behalf by submitting orders for purchase or sale.

4.3. Orders are executed in the following sequence:

4.3.1. an order placed at a more favorable price (highest at the time of purchase, lowest at the time of sale) on which the order is submitted.

4.3.2. If the prices are equal, the order submitted earlier.

4.4. The execution sequence of the order does not depend on its volume.

4.5. When a certain part of the order is fulfilled, at the time of concluding the deal, the rest of it acts as a separate order.

4.6. The trade participant may cancel the order until it is executed.

5. Payment of government and municipal bonds

5.1. Repayment of state and municipal bonds and interest on them (for interest-bearing bonds) is carried out by the issuer through a clearing organization.

5.2. The bonds are withdrawn from circulation by the Central Depository after the issuer has paid the value of state and municipal bonds and the interest payable on them (for interest-bearing bonds).