

“Approved”
Central Bank of the
Republic of Azerbaijan
Resolution № 23/2
31 August 2021

Regulations on margin trading

1. General provisions

1.1. These Regulations have been developed in accordance with Articles 30.6, 34.4, 40.3 and 40.4 of the Law of the Republic of Azerbaijan on the Securities Market (hereinafter – the Law) and determine procedures on margin trading in the securities market, underlying assets that is the basis of margin trading or the types, interest of its indicators and submission of margin trading related information and reports.

1.2. Margin trading is governed with the Law, these Regulations, and the requirements of the regulations on provision of investment services (operations) by investment companies, internal regulations of the stock exchange and an agreement signed between the investment company and the customer.

2. Main definitions

2.1. Main definitions used herein bear the following meanings:

2.1.1. margin trading – an investment service (operation) provided to an investor for the organization of buy and subsequent sell of an underlying asset (securities, currency, interest rates, yield, derivative financial instruments, commodities, financial index, credit risks, etc.) or underlying assets at the price, yield, exchange rate difference, risk rate with its own funds or borrowed funds;

2.1.2. market value – current price of securities or derivative financial instruments at the stock exchange they are traded in, as well as the current price of underlying assets in the market they are traded in on contracts for differences;

2.1.3. contract for differences (CFD) – a contract providing for payment of difference between opening and closing prices of the position on buy/sell of the underlying asset to the contracting party;

2.1.4. professional investor – the person specified in Item 6.6 herein;

2.1.5. initial margin – minimum amount of funds required from the customer by the investment company to trade with the underlying asset;

2.1.6. collateral margin – minimum amount to be kept in the customer's account to ensure continuity of margin trading operations;

2.1.7. margin call – a warning issued by the investment company to the customer about reduction of funds in the customer's account to the minimum level set in the contract in light of the requirements herein;

2.1.8. margin level – a percent ratio of customer's cash (capital) on margin trading with CFDs to initial margins calculated on opened positions. When a customer opens several positions, calculated initial margins are summed up;

2.1.9. liquidity provider – a person that determines buy/sell prices (quotations) on CFDs and provides investment services (operations) that are transferred to an investment company on the basis of a contract;

2.1.10. trading platform – an electronic trading platform presented by an investment company to customers for margin trading;

2.1.11. main currency pairs – a currency pair for buy and sell of the euro, the Japanese yen, the British pound, the Australian Dollar, the Canadian Dollar, the Swiss Franc and the New Zealand Dollar with the USD;

2.1.12. lot size–volume of buy and sell of a CFD per order;

2.1.13. credit limit – the ratio of amount of customer order for margin trading to initial margin;

2.1.14. price shifting – occurrence of difference between the market value of the CFD and the prices the order is executed depending on the market condition as of the order time;

2.1.15. CFD rollover – the process of keeping the position open, opened on the CFD. During the process the investment company calculates appropriate rollover amount (swap) and either debits or credits to/from the customer account depending on the underlying asset and the type of the position opened.

2.2. Other definitions used herein bear the meanings specified in the Law.

3. Requirements for investment companies on margin trading

3.1. The investment company involved in margin trading should:

3.1.1. be licensed to provide services specified in Articles 30.3.1, 30.3.7 and 30.4.1 of the Law;

3.1.2. have employees with qualification certificates in the number specified in Article 43.2 of the Law to carry out investment services (operations);

3.1.3. be an investment company providing margin trading on securities or derivative financial instruments listed on a foreign stock exchange, be a member of that stock exchange or have an agreement with an investment company that is a member of that stock exchange;

3.1.4. have appropriate information systems (software) that allow to control risks on the customer's account, calculate margin collateral and inform customers on risks, taking into account sudden price changes in the market;

3.1.5. have internal regulations on margin trading in place.

3.2. Investment companies' margin trading related internal regulations should include at least:

3.2.1. collateral and margin requirements;

3.2.2. conditions for margin trading;

3.2.3. calculation of service fees and other expenses paid on margin trading;

3.2.4. rights and responsibilities of employees involved in margin trading;

3.2.5. information technologies security and control in the investment company;

3.2.6. rules for creating, changing and canceling the registration of users and system administrators in the system, as well as their access to information systems.

3.3. Prior to trading the investment company familiarizes its customers with the 'Risk notification document on margin trading' (Annex 1). After being signed by customers the 'Risk notification document on margin trading' is stored by the investment company with other documents owned by customers.

3.4. The investment company may not provide investment consulting to the customer for whom it provides a margin trading service.

3.5. The investment company may not provide any loan or incentive bonuses in excess of the credit limit set in the agreement with the customer, subject to the limits specified herein.

3.6. The investment company provides information on service fees and the procedure for their calculation in agreements with customers, and on its official website.

3.7. If the agreement provides for a unilateral change of service fees by the investment company, customers are notified at least 15 (fifteen) calendar days prior to the application of the decision by the investment company on the change.

3.8. The investment company providing margin trading services keeps customer's funds for this service in a separate account only with a bank operating in the Republic of Azerbaijan.

3.9. The investment company may not use the funds received from a customer for margin trading for the purposes of other customers or for own purposes.

3.10. The investment company providing margin trading services should treat its customers fairly and honestly, regardless of the terms of trade, inform them about potential conflict of interest, and not incite them to transactions that could result in financial losses.

3.11. An investment company may not promise absolute profit or loss on margin trading.

3.12. Advertisements on margin trading should include 'Because margin trading is a high-risk investment activity, there is a risk of losing money invested in this area. It is important to be aware of the risks associated with this activity prior to starting margin trading.'

3.13. When the stock exchange operating in the Republic of Azerbaijan organizes margin trading with other underlying assets, it adopts internal rules on organization of margin trading with the assets in question.

4. Organization of margin trading with securities

4.1. Investment securities issued to trading in the stock exchange operating in the Republic of Azerbaijan and meeting the following eligibility requirements are the subject of margin trading:

4.1.1. listing of securities for more than six months;

4.1.2. the number of securities accepted for trading is not less than 10,000 (ten thousand);

4.1.3. trading volume of the security for last six months is equal to or more than average monthly trading volume (breakdown of total trading volume in the market by the number of relevant months);

4.1.4. the security is not considered risky according to internal rules of the stock exchange as the underlying asset of margin trading or is not in the delisting process.

4.2. The stock exchange operating in the Azerbaijan Republic determines internal rules on organization of margin trading in securities and these rules cover at least:

4.2.1. requirements for securities that may be the subject of margin trading;

4.2.2. types of orders and quotations;

4.2.3. conducting trade and concluding deals;

4.2.4. margin requirements, a price step and a lot size;

4.2.5. trade days, trade hours and trade procedures.

4.3. The stock exchange publishes a list of securities that may be the subject of margin trading on its official website.

4.4. The customer may withdraw interest, dividends and other income accrued to his account as long as he does not create margin deficit or increase existing margin deficit.

4.5. Repo operations may not be conducted through margin trading.

4.6. When operations on orders accepted in connection with margin trading in the Republic of Azerbaijan are carried out on stock exchanges of foreign countries, compliance requirements for margin trading of securities are determined by the laws of that country or internal rules of the stock exchange.

5. Limits on margin trading with securities, pledging and unpledging of securities

5.1. The investment company requires minimum 40 (forty) percent of the amount of securities to be bought for margin trading with securities **from the customer as an initial margin**.

5.2. The collateral margin on securities obtained by margin trading should amount to at least 20 (twenty) percent of the current market price of those securities.

5.3. The investment company may set different limits for margin trading with securities, no less than the limits specified in Items 5.1 and 5.2 herein. In this case, the investment company should reflect the set limits in agreements with its customers.

5.4. If, as a result of decrease in the market value of the securities, the amount of money provided by the customer decreases and is equal to or falls below the amount of the collateral margin, an immediate margin call is made by the investment company.

5.5. Margin call limit is calculated as follows:

$$MC = \frac{Q \times (1 - IM)}{1 - TM}$$

MC: margin call limit

Q: transaction amount

IM: initial margin interest rate

TM: collateral margin interest rate

5.6. The customer, on whom the margin call is made, may pay the deficit in his/her account only as cash funds.

5.7. The investment company may not allocate additional funds for the customer on whom the margin call is made to eliminate deficit in the customer account.

5.8. In margin trading with securities the assets acquired at the expense of the credit line (debt funds) provided by the investment company to the customer are considered the subject of collateral as securitization for the debt, the investment company – a pledge holder and the customer – a pledger according to Article 40.2 of the Law.

5.9. If the value of the security falls below the collateral margin agreed by the parties in the agreement, taking into account the minimum requirement specified in Item 5.2 herein and the customer fails to comply with the investment company's margin call within one business day, the subject of collateral may be seized in accordance with Article 1078-23.19 of the Civil Code of the Republic of Azerbaijan.

6. Organization of margin trading with CFDs

6.1. The investment company executes all customer orders on margin trading with CFDs transferring them to liquidity providers with which it has an agreement (Model A) or acting as a counterparty in relation to the customer fulfilling customer orders at its own expense and at prices set by it (Model B).

6.2. The investment company proving its activities on Model A should:

6.2.1. within the terms of the contract concluded with the liquidity provider, provide the customer with the prices received from him in accordance with this Regulation, with appropriate additions;

6.2.2. sign a contract with a liquidity provider with a regime of strict control in the country of establishment equal to or more than the one provided for in the legislation of the Republic of Azerbaijan on margin trading services and at least with 2 (two) year margin trading experience with CFDs;

6.2.3. bear all responsibility for the execution of customer orders.

6.3. To apply a Model B the investment company should:

6.3.1. have at least two-year experience on the margin trading service;

6.3.2. have a customer account management and risk management systems in place.

6.4. The investment company should inform the Central Bank in writing (in hard or soft copies) at list 3 (three) days prior to release of assets specified in Item 7.2 herein to and withdrawal from trading.

6.5. The status of a professional investor is issued by an investment company at a customer's written request. At that the customer in his/her request should announce awareness on risks arising from margin trading.

6.6. To receive a professional investor status the customer should meet at least two of the following criteria:

6.6.1. have a relevant document confirming active trading from the trading account over recent one year on margin trading with CFDs (active trading is defined as conduction of 10 (ten) consecutive quarterly trading operations);

6.6.2. have a statement from a bank account confirming at least AZN20(twenty) thousand or equivalent in a foreign currency in the customer account as of the request date;

6.6.3. have at least one-year investment experience in the financial sector.

6.7. The investment company should ensure storage of the documents verifying the professional investor status of the customer specified in Item 6.6 herein.

6.8. The customer accesses and manages its margin account with the investment company electronically.

6.9. Prior to starting real trading customers (except for professional investors) carry out at least 30 trading operations in total for no less than 5 (five) working days from the training (demo) account provided by the investment company and operating at real market prices.

6.10. Results of the training account are kept by the investment company together with other documents of the customer.

6.11. If an investment company applies a CFD rollover to its customer, all terms and conditions, including the calculation procedure, should be reflected in the contract between the customer and the investment company, and the rollover amount should be debited from (credited to) the customer balance as being debited from (credited to) the customer account.

7. Limits on margin trading with CFDs

7.1. The investment company sets the minimum amount of funds necessary for opening customer accounts.

7.2. The maximum amount of the credit provided by the investment company to its customers (except for institutional and professional investors) under the CFD is determined as follows:

7.2.1. 50:1 on CFDs whose underlying asset is a currency pair;

7.2.2. 20:1 on CFDs whose underlying asset is other currency pairs, gold and indexes;

7.2.3. 10:1 on CFDs whose underlying asset is commodity (except for gold) and shares;

7.2.4. 2:1 on CFDs whose underlying asset is cryptocurrency (digital currency).

7.3. The maximum credit limit provided by the investment company to institutional and professional investors on CFDs is set at 100:1.

7.4. Where the margin level on the CFD is at least 100%, the investment company uses a margin call.

7.5. A customer may credit additional funds to his/her account or manage risks by closing open positions during a margin call.

7.6. When the margin level is at least 20% the investment company closes customer positions in a forced manner.

7.7. If the customer incurs more losses than the amount deposited due to price changes (if the customer balance is below 0), the loss may not be claimed from him/her.

8. Technical requirements on margin trading services with CFDs

8.1. All transactions related to margin trading are registered in the investment company's relevant information resources in real time.

8.2. The investment company keeps a daily record of all transactions related to margin trading by its customers and archives this information by signing it with a strengthened electronic signature no later than 13:00 every working day.

8.3. The investment company applies price gap in the trading platform due to price shifting in the market with equal features as against (in favor of) customers (when the order is executed at the next most favorable price) in their favor (against).

8.4. The investment company immediately informs its clients and the Central Bank about technical failures in the trading platform, stating the reasons for the failure.

8.5. The investment company that operates on Model B should:

8.5.1. take measures to protect all installed computers and servers from cyber-attacks;

8.5.2. test security systems for security intrusion at least once a year or immediately after changes to the network configuration (test findings are documented and measures are taken to eliminate identified gaps);

8.5.3. create back-up copies of margin trading related information systems to prevent information loss and provide recovery test of back-up copies at least once a year;

8.5.4. create a back-up center outside its location to store back-up copies of systems to ensure reliable business continuity of IT systems in emergency situations;

8.5.5. conduct margin trading over the back-up center at least once a year and inform the Central Bank on its findings within 7 (seven) business days to verify reliable business continuity of back-up center's IT systems;

8.5.6. develop and approve a business continuity plan in emergencies and an information systems' recovery plan (the business continuity plan determines communication measures in emergencies, procedures for recovery of operations, transition to the back-up center and following back-up procedures);

8.5.7. transfer copies of the information on margin trading recorded during a day (including the documents signed with strengthened e-signature) and, (if necessary) restore those back-up copies within a day;

8.5.8. supply IT systems and back-up centers with uninterrupted power supply and a generator to ensure business continuity of main and back-up copies of information systems;

8.5.9. make all changes to the database only under the control of the persons with authorized access to the database in question (in this case, information security violations, errors and related corrections in the database infrastructure are recorded);

8.5.10. to prevent unauthorized access to information systems, apply a password management system, the password length is set at a minimum of 8 (eight) characters for users and a minimum of 12 (twelve) characters for privileged users;

8.5.11. prevent reuse of last 12 (twelve) passwords used in the information system and the validity period of passwords should not exceed 90 (ninety) days;

8.5.12. when new modules and support programs are added to the trading platform and software or changed, inform the Central Bank within 3 (three) working days on their description and clear reasons. Those additions and changes should in no way violate the rights of customers or have a negative effect on their earnings.

9. Customer notification

9.1. The investment company allows the customer to control movement of securities and other underlying assets on margin trading, as well as balances.

9.2. The customer who conducts margin trading with CFDs has access to at least the following information in a real time through the trading platform:

- 9.2.1. the type of underlying asset and transaction direction for all positions opened;
- 9.2.2. the transaction date, time and price and the size of the lot;
- 9.2.3. the margin amount required;
- 9.2.4. customer balance and capital amount;
- 9.2.5. net profit and loss on closed positions;
- 9.2.6. potential profit and loss on open positions.
- 9.3. The investment company provides at least the following information to the customer that conducts margin trading with securities on transactions no less than once a month:
 - 9.3.1. the type of the security the transaction is concluded;
 - 9.3.2. the date and time of the transaction;
 - 9.3.3. the price and amount of the transaction;
 - 9.3.4. amount of initial and collateral margins;
 - 9.3.5. current market price of securities;
 - 9.3.6. profit and loss from price changes;
 - 9.3.7. deadline for repayment of borrowed money and accrued interest.
- 9.4. Customers are notified either in hard or soft copy under the agreement signed between the customer and the investment company.
- 9.5. At the request of the customer the investment company provides the customer, it maintains a margin trading service for, with the information on all commissions, spread and swap charges and other surcharges (if any) applied as a result of this service, as well as their calculation procedure in writing within one business day.

10. Reporting

- 10.1. At the end of the day of margin trading with securities, the investment company should submit a report on margin trading to the Central Bank electronically as per Annex 2 herein.
- 10.2. The report on margin trading with securities includes the following:
 - 10.2.1. the 'Day of transaction' column – the transaction date is recorded in a day-month-year format (d/m/y);
 - 10.2.2. the 'Individual's identification number' column – the number issued per customer that allows to differentiate him/her from others;
 - 10.2.3. the 'Type of security' column – the type of the security purchased;
 - 10.2.4. the 'Issuer' column – the issuer (the person issuing the security);
 - 10.2.5. the 'ISIN' column – the identification number of the security purchased;
 - 10.2.6. the 'Price' column – the price of the security purchased;
 - 10.2.7. the 'Number' column – the number of the security purchased;
 - 10.2.8. the 'Amount' column the amount of the security purchased;
 - 10.2.9. the 'Provided amount (AZN and % of the investment funded by the investment company)' column – total buy amount and percentage of the loan amount allocated by the investment company;
 - 10.2.10. the 'Name of the investment company' (A.1) row – the name of the investment company;
 - 10.2.11. the 'Stock exchange' (A.2) row – the stock exchange the security is traded in;

10.2.12. the 'Total outstanding margin trading financing early day' (A.3) row – total amount of debt issued by the investment company early- day for the purpose of margin trading with securities;

10.2.13. "the 'Intra-day new margin trading financing' (A.4) row- total amount of debt allocated intraday for the purpose of margin trading with securities;

10.2.14. the 'Intraday completed margin trading' (A.5) row – total amount of debt repaid intraday on margin trading with securities (with closing of the position);

10.2.15. the 'End-day net amount (A.3 + A.4 - A.5)' (A.6) row – net amount as of the end-day.

10.3. The investment company delivers to the Central Bank a report on margin trading with CFDs in accordance with Annex 3 herein within 7 (seven) working days on a monthly basis.

10.4. The report on margin trading with CFDs include the followings:

10.4.1. the 'Name of the investment company' column – the name of the investment company;

10.4.2. "the 'Customer identification number' column – the number issued per customer that allows to differentiate him/her from others;

10.4.3. the 'number of the order' – the number the investment company sets per order;

10.4.4. the 'Date of opening the position' column – the date of opening the position is indicated in a day-month-year format;

10.4.5. the 'Time of opening the position' column – the time of opening the position is indicated in hour:minute:second format;

10.4.6. the 'Type of order' column – whether the position is buy or sell;

10.4.7. the "Lot size" column – contractual size of the underlying asset on the order;

10.4.8. the 'Symbol of the CFD' column – the bought or sold CFDs;

10.4.9. the 'Opening price of the position' column – the price recorded at the moment of opening the position;

10.4.10. the 'Closing date of the position' column – the closing date is recorded in the day-month-year format;

10.4.11. the 'Closing time of the position' column – the closing time of the position is indicated in hour:minute:second format;

10.4.12. the 'Closing price of the position column' – the price recorded at the moment of closing the position;

10.4.13. the 'Swap' column – the rollover amount calculated in accordance with the underlying asset, the size of the transaction with the said underlying asset and the type of the position opened;

10.4.14. the 'Profit and loss' column – the amount of profit earned or loss incurred by the customer on closed positions;

10.4.15. the 'Amount of transaction (in manat)' column – the amount of opened position (at an exchange rate of the Central Bank as of the opening date).

11. Requirements for disclosure of information on margin trading

11.1. The investment company that maintains margin trading with CFDs should have its official website reflecting its legal and actual addresses, contact facilities and other requisites related to the company and providing access to the platform.

11.2. The information that should go public via the website includes the following:

11.2.1. features of the electronic platform used, alternative means of communication that can be used in case of system errors;

11.2.2. requirements for downloads, supplies and minimum Internet connection speed for facilities providing access to the trading platform;

11.2.3. information on the model of execution of customer orders specified in the business plan and defined in Item 6.1 herein;

11.2.4. margin call limit and credit limit per CFD;

11.2.5. mandatory closing limits of and conditions for open positions;

11.2.6. minimum and maximum lot size to allow transactions;

11.2.7. procedure and conditions for determining quotations;

11.2.8. information on the commission used, as well as the CFD rollover (if any);

11.2.9. the form and content of the sample contract to be concluded with customers on margin trading with CFDs;

11.2.10. information on the risks that may arise on opened and closed positions, including the 'risk notification document';

11.2.11. conditions for storage and use of received information.

11.3. Investment companies publish percentage of customer accounts with profit and loss (both by number and amount) on the first page of the official website as a chart and update quarterly.

Risk notification document on margin trading

Just as you can make a profit from margin trading, you also run the risk of losing. Therefore, before you start trading, it is important to understand fully the risks you may face and make a decision based on them. For this purpose, the 'Risk Notification Document' must be read and signed by all persons willing to engage in margin trading.

Margin trading may be maintained only by investment companies licensed in accordance with the Law of the Republic of Azerbaijan 'On the Securities Market'. For the list of licensed investment companies please go to the official website of the Central Bank of the Republic of Azerbaijan (www.cbar.az).

NOTIFICATION

You are recommended to familiarize with the following information in addition to the contract to be concluded with the investment company for the provision of investment services on margin trading:

1. Margin accounts to be opened by an investment company and all margin operations with these accounts are regulated under the Law of the Republic of Azerbaijan 'On Securities Market', regulations and other legal acts established by the Central Bank of the Republic of Azerbaijan.

2. Margin trading is a risky activity. It should be borne in mind that low collateral transactions can be both in your favor and against you in the market due to the effect of the credit limit, and therefore a high credit limit can bring you as much loss as it can bring you profit. There is a risk of losing the money invested in the investment company because of adverse price movements in the market.

3. When conducting transactions with real accounts, analyzes based on information from various sources may not always yield expected results.

4. Prices and spreads (difference between underlying asset's buy and sell price) offered to you in buy/sell transactions may not reflect the best price difference. For this purpose, it is advisable to compare them with the prices offered by other investment companies.

5. Before starting trading operations, ask the investment company for information on service fees (commissions) to be applied to transactions and the CFD rollover. If the costs are not clearly stated, you have the right to request clear, unambiguous and written information from the investment company.

6. You may request detailed information from the investment company on price shifting caused by sudden price changes in markets during margin trading, as well as depending on market conditions price gaps on CFDs (depending on market conditions gap between price resulting from formation of the next price on a security or CFDs after several price steps) and

the risks they will trigger. These types of risks are among the most common risks faced by customers and can lead to significant losses.

7. Find out what form the margin call will take (via platform, mail or phone). Make sure whether the information provided to you is specified in the contract.

This document is intended to notify you about common risks you may face when starting margin trading operations and does not cover all risks arising from margin trading. Therefore, before directing your investment to such operations, it is recommended that you analyze this area in detail and carefully read the agreement to be concluded with the investment company.

By signing the relevant field below, the customer confirms that he / she is familiar with the Margin Trading Risk Notification Document.

Customer's 1st, middle and last
names: _____

Customer signature: _____

Date _____/_____/_____

Report on margin trading with securities										
#	Transaction date	Customer identification code	Type of security	Issuer	ISIN	Price	Number	Amount	Amount provided (in manat and % of investment financed by the investment)	
									manat	%
1										
2										
3										
4										
5										
A.1	Investment company name									
A.2	Stock exchange									
A.3	Total outstanding margin trading financing early day									
A.4	Intra-day new margin trading financing									
A.5	Intra-day completed margin trading financing									
A.6	End-day net amount (A.3 + A.4 - A.5)									

1st, middle, last names of the person who developed the report _____

Report on margin trading with CFDs														
Investment company name	Customer identification code	Number of the order	Opening date of the position	Opening time of the position	Type of the order	Lot size	Symbol of the CFD	Opening price of the position	Closing date of the position	Closing time of the position	Closing price of the position	Swap	Profit and loss	Transaction amount (in manat)

1st, middle, last names of the person who developed the report _____