

Chairman

R. Aslanly

Regulations for carrying out post-trading system and clearing activities

1. General provisions

- 1.1. These Regulations have been prepared in accordance with Articles 50.8 and 58.7 of the Law of the Republic of Azerbaijan “On Securities Market” (hereinafter - the Law).
- 1.2. These Regulations shall determine the requirements for the post-trading system in the securities market, as well as the procedure for conducting clearing activities, and shall not apply to notarized transactions.

2. Main definitions

- 2.1. The main terms used in these Regulations are as follows:

2.1.1. clearing activity – clearing is the activity comprised of collection, verification, matching of mutual obligations, netting of positions, listing of obligations, setting-off claims with the purpose to determine mutual obligations of the participants in the clearing process.

2.1.2. netting – means conversion of claims and obligations arising from transfer orders sent or received by clearing members to (or from) other clearing members in such way, so that after such conversion only single claim or liability is created;

2.1.3. central counterparty – a central counterparty is the clearing house, which assumes rights and obligations of parties pursuant to an agreement and for each seller acts as a buyer and for each buyer acts as a seller.

2.1.4. settlement – means mutual execution of obligations of parties to the securities transactions or transactions with derivative financial instruments.

2.1.5. settlement period - the period between the trading day when the transaction is concluded and the intended settlement date;

2.1.6. open position - a position that exists from the date of the transaction to the moment of execution of the transaction.

3. Collective agreement

- 3.1. The clearing house shall conclude a collective agreement with a stock exchange, central depository, investment fund depository, banks and investment companies that are members of a clearing house for the purpose of delivery and acceptance of securities, derivative financial instruments and cash, making or accepting payments, fulfillment of obligations (hereinafter - the collective agreement).
- 3.2. The collective agreement shall be approved by the supreme governing body of the clearing house.
- 3.3. The collective agreement shall contain provisions on delivery versus payment.
- 3.4. The collective agreement shall clearly define the settlement period and the duties and obligations of the parties during this period.

4. Clearing activities

- 4.1. The clearing house may not trade in securities or derivative financial instruments, provide advice on trading and investing in them, and form an opinion regarding their advantages.
- 4.2. Members of the clearing house shall carry out the transactions by exchanging securities, derivative financial instruments and cash.
- 4.3. The clearing house shall carry out operations only on securities held in the central depository.
- 4.4. The clearing house shall calculate separate liabilities for each transaction performed by its members on each trading day and determine net positions.
- 4.5. The clearing house shall set daily clearing money limits for trading purposes for its investment companies, taking into account the measures provided for in Article 50.6 of the Law.
- 4.6. The clearing house shall calculate the open positions for each member separately as follows:
 - 4.6.1. on "personal account" for open positions arising from exchange deals and over-the counter deals made on the member's own behalf;
 - 4.6.2. on "client account" for open positions arising from exchange deals and over-the counter deals made on behalf of the member's client.
- 4.7. The final settlement of net cash on open positions shall be carried out through the cash accounts of the members of the clearing house.
- 4.8. A bank that is a member of the clearing house shall guarantee that the funds required for the settlement of open positions in the clearing account are accepted on the settlement day.
- 4.9. A bank that is a member of the clearing house shall ensure that the funds required for members' transactions are transferred to the clearing house's account.
- 4.10. If a bank, which is a member of the clearing house, refuses to accept the payment of the member of the clearing house, or if it is impossible to accept the payment for other reasons, the clearing house shall be notified immediately.
- 4.11. If the funds required for settlement are not provided within the specified time, a bank, which is a member of the clearing house, shall notify the clearing house no later than the time specified in the internal rules of the clearing house.
- 4.12. The internal rules of the clearing house shall specify the time of the following operations on the final settlement:
 - 4.12.1. last transfer date of the settled securities;
 - 4.12.2. last transfer date of the amounts of net open position to the clearing account in a bank that is a member of the clearing house;
 - 4.12.3. last transfer date of the amounts of net open position to the members of the clearing house.

- 4.13. The clearing house shall specify the followings in its internal rules:
- 4.13.1. mechanism of transactions in the regulated market;
 - 4.13.2. mechanism of transactions in the over-the-counter market;
 - 4.13.3. methods of calculation and application of clearing money limits defined by paragraph 4.5 of these Regulations;
 - 4.13.4. trading day in coordination with the central depository and stock exchange.
- 4.14. The clearing house shall have at least three members. It shall set forth the requirements for the members of the clearing house, as well as to its relations with the exchange stock and central depository in its internal rules.
- 4.15. The clearing house shall submit information on its admitted members to the State Securities Committee (hereinafter - the Committee) within 3 (three) working days.
- 4.16. The transfer order entered into the post-trading system of the clearing house cannot be withdrawn.
- 4.17. All clearing orders entered into the post-trading system shall be completed before the clearing house's member is declared bankrupt.
- 4.18. The clearing house's internal rules regarding transfer orders shall contain the following information:
- 4.18.1. procedure for implementation of the orders of the clearing house's members;
 - 4.18.2. conditions of non-execution of transfer orders entered into the post-trading system;
 - 4.18.3. maximum amount of liabilities of the clearing house;
 - 4.18.4. obligations of the parties in case of bankruptcy of the members of the clearing house.
- 4.19. The clearing house shall ensure the execution of transactions in case of non-fulfillment of the obligations of its member.
- 4.20. In the event that during clearing and settlement process a clearing house member does not have sufficient funds in its accounts to pay for its obligations relating to its assets, it is deemed a clearing house member does not fulfill its obligations. In this case, the clearing house shall immediately inform the Committee.
- 4.21. The clearing house member not fulfilling its obligations shall not be allowed to perform new operations until the fulfillment of its obligations.
- 4.22. When the measures like securing assets with guarantees and pledges are applied in order to reduce risks associated with failure to execute transactions relating to clearing in the post trading system, those guarantees and pledges shall meet the following requirements:
- 4.22.1. internal rules of the clearing house on the assessment of that guarantees and pledges shall be complied with;
 - 4.22.2. they shall be unconditional, shall not be withdrawn and shall be used only if the investment company does not fulfill its obligations.
- 4.23. Claims to the debts of the clearing may not be directed to the assets of the members of the clearing house.

5. Requirements to post-trading system

- 5.1. The clearing house shall set up and manage the post-trade system in electronic form to provide effective and efficient services.
- 5.2. The clearing house shall keep documents and information electronically. Information on transactions in the post-trading system shall be backed up at least once a day.
- 5.3. The clearing house shall have a reliable information security system that manages information security risk. This system shall include appropriate mechanisms, rules and procedures to protect the information from unauthorized disclosures, to ensure the accuracy and completeness of the information and to ensure the availability of the clearing house's services.
- 5.4. The following methods shall be applied to ensure the data security system defined in paragraph 5.3 of these Regulations:
 - 5.4.1. system access control tools;
 - 5.4.2. tools against interference and data abuse;
 - 5.4.3. special devices and means to protect the authenticity and completeness of the data, as well as cryptographic methods;
 - 5.4.4. reliable network and procedures for immediate and accurate transmission of data without any malfunctions;
 - 5.4.5. audit logs.
 - 5.4.6. The clearing house's post-trading system and information security system shall be audited at least once a year, and information technology shall be subject to external audit.
- 5.5. The clearing house shall ensure the reliability of the post-trading system, as well as the processing of information necessary for the safe and efficient conduct of its activities and operations.
- 5.6. The clearing house's post-trading system shall be designed to meet the clearing house's operational needs and operational risks, be flexible and, if necessary, expandable to process additional information.
- 5.7. The clearing house shall connect to cash payment systems to ensure settlement.
- 5.8. The functions of the central counterparty shall be carried out only by a clearing house licensed for clearing activities. An organization operating as a central counterparty may not transfer any function to another organization.
- 5.9. When the central depository is engaged in clearing activities, the person (persons) involved in the clearing activity may not perform the functions of the central depository at the same time.
- 5.10. Except as otherwise provided by the laws of the Republic of Azerbaijan, the clearing house shall not disclose to third parties information known to it in connection with the implementation of its activities.

6. Risk management system

- 6.1. The clearing organization shall designate a structural unit or authorized persons to carry out the relevant activities for risk management.
- 6.2. When risk management of a clearing organization is entrusted to a third party, the rights and obligations of the parties shall be confirmed by a written agreement.
- 6.3. The responsibilities of the risk management persons in the clearing organization are as follows:

- 6.3.1 control the observance of internal rules on risk management;
 - 6.3.2 submit an extraordinary report to the company's supervisory board at least once a year on determining the risk profile of the organization's activities, an acceptable risk framework, adequate and effective risk management processes and risk elimination, and if the company is exposed to unforeseen risks;
 - 6.3.3 evaluate risk management systems periodically or before making changes to the investment strategy;
 - 6.3.4 prepare annual and extraordinary reports on risk elimination.
- 6.4. The clearing organization acting as the central counterparty shall calculate the risks on a daily basis.

7. Disclosure

- 7.1 The clearing house shall disclose the following information to the public:
- 7.1.1. internal procedures of the clearing house;
 - 7.1.2. annual reports and external auditor's opinion;
 - 7.1.3. names of the members of the clearing house;
 - 7.1.4. service fees.
- 7.2. In case of changes in the internal rules of the clearing house, information about it shall be published on the website of the clearing house.

8. Clearing fund

- 8.1. When a clearing fund is established to reduce the risk of non-performance of clearing operations in the post-trading system, all investment companies that are members of the clearing house shall participate in the clearing fund.
- 8.2. The clearing house shall manage the clearing fund. The clearing house shall appoint persons responsible for management of the clearing fund, subject to providing notice to the Committee.
- 8.3. The clearing house shall adopt internal rules regarding the management of the clearing fund.
- 8.4. The amount deposited by the clearing fund with the Central Bank of the Republic of Azerbaijan or invested in its securities may not exceed 100 percent, and funds deposited with each commercial bank may not exceed 20 percent.
- 8.5. The clearing fund can invest in highly liquid securities with a maturity of up to one year. The amount invested by the clearing fund in securities and derivative financial instruments of each issuer or foreign countries may not exceed 20 percent.
- 8.6. Compliance of highly liquid securities defined in clause 8.5 of these Regulations with the following characteristics shall be ensured:
- 8.6.1. highly liquid securities shall not be issued by the clearing house itself or its parent or subsidiary or other subsidiary of the parent organization;
 - 8.6.2. the price of highly liquid securities shall be determined by a formula that is easy to calculate based on results open to the public;
 - 8.6.3. highly liquid securities shall be listed on stock exchanges licensed by law or operating in accordance with the laws of foreign countries.
- 8.7. Some liquid securities included in the clearing fund shall be liquidated through sale or resale transactions at least once a year to verify market access for these assets and the effectiveness of the asset liquidation process.