

THE LAW OF THE REPUBLIC OF AZERBAIJAN

on the Securities Market

This Law shall determine principles and procedures for issuance, state registration, public offering of investment securities, depository and post trading systems, public trading of securities and derivative financial instruments, organization, management, and liquidation of persons holding licenses in the securities market and the central depository, legal and economic grounds for relations related to ~~state and public~~ protection of investors' rights, as well as *regulation and supervision* in the securities market in accordance with Para 11 and 15, Part I of Article 94 of the Constitution of the Republic of Azerbaijan.

Chapter 1 General provisions

Article 1. Main definitions

1.0. The definitions used in this Law shall have the following meaning:

1.0.1. **related party** – a person defined so in the Civil Code of the Republic of Azerbaijan.

1.0.2. **underwriting** – investment service on public offering and placement of securities on behalf an issuer or third parties.

1.0.3. **beneficial owner** – *an individual(s) who ultimately exercises control over the customer and/or is the real owner of the client that is a legal entity or a foreign legal arrangement, and/or on whose behalf a transaction is conducted and/or agreements are concluded, as well as the individual(s) who ultimately exercises effective control over the legal entity or foreign legal arrangement.*

1.0.4. **depo account** – an account opened with the central depository for the client of a depository member based on that member's request that contains records of the client's rights for securities.

1.0.5. **issuer** – *a legal entity, including an international organization, state (acting through a relevant government agency duly authorized) or municipality, which issues investment securities pursuant to Chapter 2 of this Law. An issuer shall not be the owner of securities it issues. The issuer acts as the owner of the securities it has repurchased, taking into account the restrictions provided by law.*

1.0.6. **listing of stock exchange** – a list of securities admitted to trading in the stock exchange pursuant to internal rules of the stock exchange.

1.0.7. **institutional investor** – investment companies, investment funds and their managers, persons whose principal business is to organize investments in securities, credit institutions, insurance companies, pension funds and their managers, other regulated financial institutions, dealers in commodities and derivatives relating to such commodities, international financial institutions, states, central banks.

1.0.8. **investment advice** – any advice to clients related to purchase, sale, subscription, exchange of, redemption, holding of securities or derivative financial instruments and whether rights in connection with the securities or derivative financial instruments should be executed. The advice, which was disclosed *on media* or provided on no-fee basis and in the context of a professional activity other than investment activity or provided solely in connection with legal aspects of such matters, shall not be considered investment advice.

1.0.9. **investment research** – a research for public use, which, either directly or indirectly, offers or recommends an investment strategy, including a strategy related to one or more securities or derivative financial instruments or their issuers, current and future prices for such securities and derivative instruments.

1.0.10. **investor** – a person purchasing or making an offer to purchase securities or derivative financial instruments.

1.0.11. **securities market** – a combination of legal and economic relations between persons, who issue, place, trade in, pay for, own, hold, compensate, encumber, ~~state~~ regulate and perform other actions relating to securities.

1.0.12. ~~**cash account for securities transactions**~~ – the account, which reflects cash balance resulting from *transactions with securities and derivative financial instruments*.

1.0.13. **management of securities accounts** – the auxiliary service provided by an investment company, whose service consists of protection and holding of client's assets.

1.0.14. **investment company branch** – a separate division of an investment company, which, while not a legal entity, is located outside the place of the investment company and which may provide all or some of the services the investment company is authorized to provide.

1.0.15. **representative office of investment company** – a separate division of an investment company located outside the place of the investment company which is not a legal entity and is not authorized to provide investment services, but which represents and protects interests of the investment company.

~~1.0.16. **financial monitoring authority** – an authority designated so with the Law of the Republic of Azerbaijan on Prevention of Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism.~~

1.0.17. **financial analyst** – a person, who prepares investment research.

1.0.18. **market maker** – a legal entity that regularly conducts the buy and sell of securities or derivative financial instruments in the securities market on its own account and at prices determined by itself within the price corridor agreed with the stock exchange (or, in cases provided for in Article 30.5-2 of this Law, with the authority (institution) designated by the relevant executive authority).

1.0.19. **qualifying holding** – holding, either directly or indirectly, 10 or more percent of shares in the charter capital of a joint stock company or option to significantly influence decisions of the legal entity, in which it participates on a contractual basis.

1.0.20. **client** – an individual or a legal entity, who enters into an agreement on purchase of services related to securities and derivative financial instruments.

1.0.21. **netting** – conversion of claims and liabilities resulting from transfer orders sent by clearing members to or received from other members into a net claim or liability.

~~1.0.22. **financial markets supervisory authority** – an authority established by the relevant executive authority, to regulate and supervise financial markets.~~

1.0.23. **portfolio management** – basic investment service on investment company's management of a portfolio consisting of one or more securities or derivative financial instruments, as well as cash, according to directions provided by individual investors.

1.0.24. **repo agreement** – sale or purchase of investment securities under predetermined conditions to redeem or resale such securities.

1.0.25. **regulated market** – a system organized and managed by a stock exchange which reflects *trading* interests of third parties with securities and derivative financial instruments admitted to trading in accordance with internal rules of the stock exchange.

1.0.26. **single data resource** – an automated system created by the *Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank)*, open to the public that publishes data to be disclosed under Chapter 9 of this Law.

1.0.27. **civil impeccability requirement** – *for the qualifying holding owner, if it is a legal entity, the head of its executive body, and beneficial owners – no conviction for an intentional crime, and no court-imposed prohibition on holding the relevant position or engaging in professional activity. For members of the management board and executive body, liquidator of the investment company, stock exchange, clearing organization, and central depository, as well as for other persons for whom this Law requires impeccable reputation – no criminal record, no fact of being prosecuted for serious or especially serious crimes against property or in the field of economic activity, no court-imposed prohibition on holding the relevant position or engaging in professional activity, and no involvement in any criminal collusion with persons with whom they share a common interest and who do not meet the requirements set out in this Article.*

1.0.28. **delivery versus payment** – a principle whereby a seller of securities delivers securities to a buyer or its authorized representative only at the time a buyer makes full payment for securities.

1.0.29. **settlement** – mutual execution of liabilities of parties on transactions with securities or derivative financial instruments.

1.0.30. **other trading system** – *a system defined by the Central Bank in which trading of securities and derivative financial instruments is organized outside the stock exchange.*

1.0.31. **fit and proper qualities** – *civil impeccability, being honest and trustworthy based on one's public standing, as well as possessing the professionalism, experience, and business reputation required to acquire the rights provided for by this Law.*

Article 2. Legislation on the securities market

2.1. The securities market in the Republic of Azerbaijan shall be governed by the Constitution of the Republic of Azerbaijan, the Civil Code of the Republic of Azerbaijan, this Law and other normative acts of the Republic of Azerbaijan, *regulations of the Central Bank* and international treaties seconded by the Republic of Azerbaijan.

2.2. In the event international treaties, seconded by the Republic of Azerbaijan, determine rules different from those in this Law, norms of international treaties shall apply.

2.3. *Relations in the securities market in the Alat free economic zone shall be governed by the requirements of the Law of the Republic of Azerbaijan 'on the Alat Free Economic Zone.'*

2.4. *This Law shall not apply to securities specified in Article 1078-2.2-1 of the Civil Code of the Republic of Azerbaijan.*

Chapter 2

Issuance and public offering of investment securities

Article 3. Issuance of investment securities

3.1. Issuance of investment securities shall be a set of actions specified in Article 3.5 of this Law.

3.2. Investment securities shall be placed in issuances and the rights confirmed by the securities of the same issuance shall be the same. Issuance of investment securities shall be a

combination of investment securities of the same type, same state registration number and same nominal value.

3.3. Shares issued by a joint stock company shall have the same nominal value.

3.4. Nominal value of shares shall be expressed only in the national currency. Nominal value of bonds may be expressed in national or foreign currencies.

3.5. Issuance of investment securities shall include the following stages:

3.5.1. the issuer shall decide to issue investment securities.

3.5.2. the issuer shall develop prospectus or, in the cases specified in Article 5.5 of this Law, information memorandum related to investment securities (for publicly offered investment securities).

3.5.3. the *Central Bank* shall state register the issuance of investment securities and approve prospectus or the information memorandum.

3.5.4. disclosure of information in the prospectus or information memorandum related to investment securities (for publicly offered investment securities).

3.5.5. placement of investment securities or their admission to trading in a regulated market.

3.5.6. approval of the report on results of the issuance of investment securities (*except for publicly offered bonds*) by the *Central Bank*.

3.5.7. disclosure of information in the report on results of the issuance of investment securities (for publicly offered *shares*).

3.6. Government and municipality investment securities shall be issued and circulated in line with the procedure determined by the relevant executive authority.

3.6-1. *The issuance, public offering, and public trading of investment securities of international organizations to which the Republic of Azerbaijan is a member shall be carried out in accordance with the rules established by the Central Bank, without applying the provisions of Chapter 2 of this Law.*

3.7. The *Central Bank* shall determine a procedure for issuance and conversion of investment securities during reorganization of legal entities.

3.8. The *Central Bank* shall determine requirements for maximum limits on the volume of an issuer's bond issuance.

Article 4. **Decision on issuance of investment securities**

4.1. A general meeting of shareholders of the joint-stock company shall take a decision on the issuance of shares.

4.2. The authority, specified by the charter of the issuer, shall take a decision on the issue of bonds.

4.3. The decision on issuance of investment securities shall include *at least*:

4.3.1. the issuer's full name and location.

4.3.2. the venue and date of the decision.

4.3.3. the type, form, and nominal value of issued investment securities.

4.3.4. the number and total amount of issued investment securities.

4.3.5. particulars of the rights confirmed by the investment securities of that issue.

4.3.6. underwriters (in case of public offering of securities) and terms (~~except for circumstances indicated in article 8.17 of this Law~~) of the issue.

4.3.7. procedure for placement of investment securities.

4.3.8. start and end dates of subscription or a method of fixing such dates (*if subscription is envisaged*).

4.3.8-1. *start and end dates of the placement of investment securities.*

4.3.8-2. *procedure for the payment of the value of investment securities.*

4.3.9. the name of the issuer's body that took the decision.

4.3.10. 1st and last names of the issuer's body that took the decision and his/her signature confirmed with a seal.

4.4. *In addition to the information specified in Article 4.3 of this Law, the bond issuance decision should also include the following details:*

4.4.1. *the interest rate of the bonds (if applicable).*

4.4.2. *a description and terms of the collateral for secured bonds.*

4.4.3. *the date and period for the payment of the bonds and interest.*

Article 5. Prospectus and information memorandum of investment securities

5.1. Public offering of investment securities shall be accompanied by a prospectus *or information memorandum*. To have investment securities admitted to trading in a regulated market, the issuer or any other person offering investment securities should prepare a prospectus *or information memorandum*.

5.2. The prospectus *and information memorandum* shall contain information on financial standing of the issuer and rights conferred by investment securities. The content of the prospectus *and information memorandum* should be unambiguous and clearly expressed.

5.3. The *Central Bank* shall determine requirements for the prospectus *and information memorandum*.

5.4. Persons involved in preparing a prospectus *and information memorandum*, shall, along with their names and places of residence, include into a prospectus *and information memorandum* a statement, whereby they have prepared the prospectus *and information memorandum* based on true facts.

5.5. An information memorandum shall be prepared instead of a prospectus when:

5.5.1. investment securities, including the rights attached to them, are offered to or placed among shareholders or participants of a legal entity, being merged into the issuing legal entity.

5.5.2. investment securities, including the rights attached to them, are offered to or placed among shareholders or participants of separating legal entity.

5.5.3. total amount of investment securities at issuance is less than the threshold set by the *Central Bank*.

5.5.4. total nominal value of issuer's investment securities issued during one calendar year is less than the threshold set by the *Central Bank*.

5.5.5. investment securities are offered to institutional investors.

5.6. An issuer shall be free from preparation of the prospectus *and information memorandum* when:

5.6.1. the state or municipality, international organizations seconded by the Republic of Azerbaijan or the *Central Bank* issues investment securities.

5.6.2. investment securities are issued with government guarantee.

5.6.3. value of investment securities offered to each investor *exceeds* the threshold set by the *Central Bank*.

5.6.4. shares for which no payment is required from shareholders, and which are issued instead of dividend payments in the same type as existing shares are issued.

5.6.5. shares issued on the regulated market during one calendar year are publicly offered in a fraction less than ten percent of the authorized capital of the issuer.

5.6.6. investment securities are converted.

5.6.7. investment securities are not intended for public offering.

5.7. The following persons shall be kept responsible for information in a prospectus *and information memorandum*:

5.7.1. the issuer and members of its bodies that approve and sign the issue prospectus – for all information in the prospectus.

5.7.2. the person publicly offering investment securities – for itself and investment securities, publicly offered.

5.7.3. guarantor (if any) – for itself and for the guarantee it has provided.

5.7.4. underwriter – for its obligations and for investment securities being offered.

5.8. *The prospectus and the information memorandum* shall be approved by the *Central Bank* in accordance with the procedure established by Article 6 of this Law and disclosed in accordance with the procedure established by Article 7 of this Law.

5.9. The *Central Bank* shall set requirements for information memorandum.

5.10. In the event an issuer makes a decision on several issueancs of securities during one calendar year (except for shares), a base prospectus can be prepared.

5.11. The *Central Bank* shall set requirements for the base prospectus and its attachments.

5.12. *The base prospectus shall be approved by the Central Bank in accordance with the procedure established by Article 6 of this Law and disclosed in accordance with the procedure established by Article 7 of this Law.*

5.13. Changes made by the issuer to the base prospectus for each issuance shall be submitted to the *Central Bank* pursuant to Article 10 and shall be state registered pursuant to Article 6 of this Law.

5.14. Provisions of this Law related to prospectus shall apply to base prospectus.

5.15. In case investment securities are not admitted to trading in a regulated market or they are not publicly offered within 1 year from the date the relevant prospectus or information memorandum is approved, the prospectus or information memorandum shall be deemed invalid. In case a prospectus or information memorandum is changed or revised pursuant to Article 10 of this Law with the purpose of updating information on the prospectus or information memorandum, such prospectus or information memorandum shall take effect again.

5.16. In case half-yearly and yearly financial statements are attached with a prospectus or information memorandum, they shall be updated during the term of the prospectus or information memorandum.

Article 6. State registration of issuance of investment securities and approval of prospectus *and information memorandum*

6.1. The *Central Bank* shall state register the issuance of investment securities.

6.2. The *Central Bank* shall approve a prospectus *or information memorandum* related to investment securities during their public offering.

6.3. For state registration of issuance of investment securities an issuer should provide the *Central Bank* with the following documents:

6.3.1. application to state register the issue of investment securities.

6.3.2. a decision on the issuance of investment securities.

6.3.3. copies of the issuer's certificate of state registration, *an excerpt from the state register of legal entities* and the charter either notarized or approved as per Article 9 of the Law of the Republic of Azerbaijan 'on Administrative Proceedings'

6.3.4. prospectus or *information memorandum* of investment securities (if investment securities are *envisaged to be publicly offered*).

6.3.5. a document confirming payment of the state duty for approval of the prospectus on investment securities (if the issuance of investment securities is accompanied by prospectus).

6.3.6. *In the case of a bond issuance, the issuer shall provide audited financial statements (except for micro and small business entities) for the last three completed financial years, or for relevant financial years or year if the issuer has been established for less than three years; if the issuer has been operating for less than a year, financial statements covering that period.*

6.3-1. *In case of possibility to obtain documents specified in this Article through the Electronic Government Information System from the relevant public authority (institution), those documents shall not be required from the issuer. In the cases of impossibility to obtain such documents through the Electronic Government Information System, their submission shall be required upon request at the consent of the issuer from the relevant public authority (institution) or shall be provided by the issuer.*

6.3-2. *If the documents specified in Articles 6.3.3 and 6.3.6 of this Law have been previously submitted to the Central Bank and have not undergone any changes, their resubmission shall not be required, provided that the Central Bank is notified in writing thereof.*

6.4. The *Central Bank* shall review documents submitted for state registration of investment securities, as well as *prospectus or information memorandum* for approval of such securities within ten business days from the date of their submission. Unless there are grounds for refusal of registration as per Article 6.6 of the Law, the issuance of investment securities shall be state registered, and the *prospectus or information memorandum* is approved. At that, the *Central Bank* shall provide to the issuer an extract from the state register and a written notice on approval of the *prospectus or information memorandum*.

6.5. Registration of the issuance of investment securities shall consist of approval of the *prospectus or information memorandum* (if investment securities are *envisaged to be publicly offered*) and entry of information into the state register.

6.6. The *Central Bank* shall refuse registration of the issuance of investment securities or approval of the *prospectus or the information memorandum* (if investment securities are *envisaged to be publicly offered*) if:

6.6.1. documents submitted for state registration of investment securities fail to comply with the requirements of this Law.

6.6.2. the *Central Bank* has not approved the report on results of the previous share issuance of the issuer.

6.6.3. it is discovered that the *prospectus, information memorandum* of investment securities or the decision on the issuance of investment securities (any other documents serving as the basis for state registration of investment securities issue) contains inaccurate or distorted information.

6.7. In case the circumstances listed in Article 6.6 of this Law are present, the *Central Bank* shall make a substantiated decision on refusal to state register investment securities and approve the *prospectus or information memorandum* (if investment securities are *envisaged to be publicly offered*) and send the decision to the issuer within 2 business days.

6.8. Approval of the *prospectus or the information memorandum* during admission of investment securities, state registered, but not publicly offered to trading in regulated markets shall be done according to Article 6 of this Law by submission of the following documents to the *Central Bank*:

6.8.1. an application to approve the *prospectus or information memorandum* of investment securities.

6.8.2. the *prospectus or information memorandum* of investment securities

Article 7. Publication of the prospectus or information memorandum of investment securities

7.1. After approval by the *Central Bank*, the prospectus or the information memorandum of investment securities should be published on a single information resource as stipulated in Article 1.0.26 of this Law, websites of the stock exchange and the issuer (if any).

7.2. The prospectus or information memorandum of investment securities should be available at the issuer's address, points of sale of investment securities and be provided by the issuer or an investment company placing the securities free of charge for perusal.

7.3. A prospectus or information memorandum not approved by the *Central Bank* may not be published or advertised.

7.4. Advertising of the prospectus or the information memorandum should indicate the places where the prospectus or the information memorandum is published and the information necessary for investors to make a decision. *The nature of investment securities advertising shall be determined by the Law of the Republic of Azerbaijan 'on Advertising'.*

7.5. Information provided as part of advertisement and by other means should not be uncertain or misleading and should conform to the information in the prospectus or information memorandum.

7.6. If preparing a prospectus or information memorandum is not required pursuant to Article 5.6 of this Law and informative materials are intended for investors by the issuer, that information should be disclosed to them.

Article 8. Placement of investment securities

8.1. Placement of investment securities shall mean the acquisition of issuer's investment securities by their original holders. *The placement of investment securities shall be deemed completed when securities are transferred to deposit accounts of their initial owners.*

8.2. Investment securities shall be placed either by public offering or private placement.

8.3. Public offering of investment securities shall mean offering of such securities to indefinite number of persons, or through *media* or to more than 50 persons.

8.4. Private placement of investment securities shall mean offering of securities to less than 50 persons or specifying the investors who will acquire investment securities in the decision on the issuance of securities.

8.5. An issuer shall acquire the right to place investment securities from the date the issuance of investment securities is state registered.

8.6. The public offering of investment securities (excluding shares of joint-stock companies established during the privatization of state enterprises, *as well as securities issued by the Central Bank or government securities placed by the Central Bank when acting as the state's financial agent*) shall be carried out *exclusively* through the stock exchange.

8.7. The period for subscription to investment securities shall not exceed 3 months.

8.8. Within five business days from the date the subscription period ends the issuer, or the offering person should begin the placement. The placement period shall not be longer than seven business days from the date the placement begins.

8.9. *The number of placed investment securities should not exceed the number specified in the decision on the issuance of investment securities, the prospectus, or the information memorandum. If a minimum quantity is specified in the prospectus, the information memorandum, or the decision on the issuance of investment securities for the issuance to be deemed successful, and fewer securities are placed*

than that amount, the issuance is deemed unsuccessful. Bonds included in a public offering that are not placed are deemed withdrawn from public trading after the placement period specified in the issuance decision has ended.

8.10. Except as provided for in Article 8.11 of this Law, granting any privilege to one buyer over others during purchase of investment securities shall be prohibited.

8.11. Shareholders shall have a preferential right to purchase additional shares issued by the joint-stock company in proportion to their shares in authorized capital of the company. This right may be limited pursuant to the decision of the general meeting of shareholders.

8.12. The joint stock company should send a notice on exercising the rights for first refusal provided for in Article 8.11 of this Law by a registered post to each of its existing shareholders within 5 business days from the date the issue of additional shares shall be state registered. A shareholder may submit its written claim to exercise its right of first refusal to the executive corporate body of the joint stock company within 10 business days of receiving the company's notice. At that, the price for additional shares offered to existing shareholders willing to exercise their right of first refusal shall not be less than the price at which those shares are offered to third parties during their placement.

8.13. The value of publicly offered investment securities shall be paid only in cash, and the cash shall be kept in a temporary current account opened by the issuer with banks that are members of the clearing organization. The transfer of cash funds from the temporary current account to the issuer's account is carried out as follows:

8.13.1. for publicly offered shares, as per Article 11.4 of this Law.

8.13.2. for publicly offered bonds, immediately after the placement is completed, in accordance with Article 8.1 of this Law.

8.14. A subscription price for investment securities shall be the sale price of securities during their placement or public offering. The subscription price or the method of determining that price or the price corridor of securities offered publicly should be included to the decision on the issue of investment securities, the prospectus, or the information memorandum. If the subscription price is not set in the prospectus or the information memorandum, such a price shall be disclosed within five business days prior to commencing the placement. Public offering of investment securities at prices outside the price pool shall not be permitted.

8.15. The *Central Bank* shall determine procedures for subscription and placement of investment securities.

8.16. The *Central Bank* shall determine procedures for the issuance and placement of investment securities of issuers of the Republic of Azerbaijan or investment securities secured by their assets by another person outside the territory of the Republic of Azerbaijan.

8.17. When joint-stock companies wholly owned by the state are established, the Central Bank shall register the issuance of shares of those joint-stock companies without applying the provisions of Chapter 2 of this Law (except for the submission of documents specified in Articles 6.3.1 and 6.3.3 of this Law), and they shall be deemed placed. This Article shall not apply to subsequent issuances of shares by such joint-stock companies (except in cases where those shares are to be acquired by public authorities (institutions) or by joint-stock companies whose entire share capital is owned by the state). In cases where the shares are to be acquired by public authorities (institutions) or by joint-stock companies wholly owned by the state, the share issuance shall be registered by the state through the submission of the documents specified in Articles 6.3.1, 6.3.2 (excluding the information indicated in Articles 4.3.6, 4.3.7, and 4.3.8-1 of this Law), and 6.3.3 of this Law, and such shares shall be deemed placed.

Article 9. Suspension of issuance of investment securities

9.1. Suspension of the issuance of investment securities shall be the suspension of actions relating to advertisement, placement or subscription to securities based on the decision of the *Central Bank*.

9.2. In the event it is discovered that after state registration of securities terms of the issue or provisions of Chapter 2 of this Law have been violated, the *Central Bank* shall take one of the following decisions indicating the issuer's name, registration number and date of investment securities, the date of and reasons for the decision:

9.2.1. on elimination of violation by the persons, who have committed them within a specified deadline.

9.2.2. if it is not possible to remedy violations without suspending the issue, on suspension of the issue of investment securities and elimination of violations.

9.3. Within one working day from making any of the decisions provided for in Article 9.2 of this Law, the *Central Bank* shall provide the decision to the issuer, the person implementing public offering or placement of investment securities and publish on *media*.

9.4. The issuer, the person implementing offering and placement of issuer's investment securities shall, immediately after receipt of the decision provided for in Article 9.2 of this Law, publish on *media*, and the issuer, whose securities are publicly offered and persons implementing public offering of issuer's investment securities in the means provided for in Article 7.1 of this Law the information on the decision, eliminate violations within the timeframe specified by the *Central Bank* and provide a related report to the *Central Bank*.

9.5. In case the decision specified in Article 9.2.1 herein is taken, the *Central Bank* determines from the report to be provided under Article 9.4 of this Law that the violations have not been remedied or does not receive the report within a specified timeframe, it shall, within five business days from the date of receiving the report or the date when it was supposed to receive the report, take a decision specified in Article 9.2.2 of this Law.

9.6. In case the decision specified in Article 9.2.2 of this Law is taken, within 5 business days from the date the *Central Bank* receives the report provided for in Article 9.4 or from the date it was supposed to receive the report, shall take one of the following decisions specifying the grounds:

9.6.1. if it is determined from the report that the violations have been remedied – a decision on continuing the issuance.

9.6.2. if it is determined from the report that violations have not been remedied or the report was not provided within the deadline – a decision on deeming the issuance failed.

9.7. In the event the decision specified in Article 9.6.1 of this Law is taken, the *Central Bank* shall send information on the decision to the persons indicated in Article 9.3 and in a manner provided for in that Article 9.3 and publish it. At that, the time limit for offering and placement of investment securities shall be prolonged for a period equal to the suspension period.

Article 10. **Changes to the prospectus**

10.1. An issuer's corporate body, which took a decision on the issue of investment securities, shall be authorized to take a decision on changes to the prospectus.

10.2. The application (together with the decision on changes, a text of and reasons for changes) to state register changes to the prospectus shall be submitted to the *Central Bank* within five business days from the date of the relevant decision.

10.3. Changes to the prospectus shall be state registered within ten business days from the date of the receipt of the relevant application.

10.4. In case of circumstances listed in Article 6.6 of this Law, the *Central Bank* shall refuse to state register changes to the prospectus as provided for in Article 6.7 of this Law.

10.5. Changes to the prospectus shall be published within five business days from their state registration using the means specified in Article 7.1 of this Law and shall take effect after fifteen business days from their publication.

10.6. Investors, who have submitted their subscription order to purchase securities before changes to the prospectus take effect, shall enjoy the right to withdraw their orders within seven business days from the date the changes are published.

10.7. Changes to the information memorandum shall be made as per Article 10 of this Law.

Article 11. Report on results of issue or public offering of investment securities

11.1. Within ten business days from the date the placement or public offering of investment securities is completed the issuer or the person offering investment securities shall submit to the *Central Bank* a report on results of the issuance or public offering of investment securities.

11.2. The *Central Bank* shall determine requirements for the report on results of the issue or public offering of investment securities.

11.3. The *Central Bank* shall review the report on results of the issue or public offering of investment securities and approve the report unless the grounds specified in Article 11.5 of this Law are present.

11.4. *After the Central Bank approves the report on publicly offered shares provided for in Article 11.3 of this Law, the temporary current account specified in Article 8.13 of this Law shall be closed and the funds in the account shall be transferred to the issuer's account.*

11.5. If during the review of the report on results of the issue or public offering of investment securities the *Central Bank* shall discover violation of terms of the issue or public offering of securities, or violation of provisions of Chapter 2 of this Law, it shall issue any of the following decisions:

11.5.1. on elimination of violations by the persons, who have committed them within a specified timeframe.

11.5.2. in case violations cannot be remedied, the decision on refusal to approve the report on results of the issue or public offering of investment securities.

11.6. In case a decision specified in Article 11.5.1 of this Law is taken, the person committing the violation shall, within the timeframe specified by the *Central Bank*, submit the report on remedying the violation together with relevant supporting documents to the *Central Bank*. If the *Central Bank* determines from their report that violations have been remedied, it shall approve the report on results of the issue or public offering of investment securities, and if violations are not remedied or the report on such violations is not submitted, the *Central Bank* shall take a decision as per Article 11.5.2 of this Law.

11.7. In the event the decision pursuant to Article 11.5.2 of this Law is taken, the issuer shall ensure that the funds generated from placement and sale of investment securities are returned to investors within ten business days and the issuer shall submit the related report to the *Central Bank*.

11.8. From the moment the *Central Bank* approves the report on results of the issue or public offering of investment securities, securities included to that issue, but not placed shall be deemed withdrawn from circulation.

11.9. *The requirements of this Article regarding the report on the results of the issuance or public offering of investment securities shall not apply to publicly offered bonds.*

Article 12. Stabilization of prices for investment securities

If a prospectus or information memorandum related to investment securities issued provides for possibility of entering by the issuer or underwriter into transactions aimed at stabilizing prices of investment securities, the issuer or underwriter shall enter into transactions aimed at stabilizing prices for investment securities after trading in publicly offered investment securities commences. The *Central Bank* shall determine procedures for stabilization of prices for investment securities.

Article 13. Circumstances when issuance of investment securities is deemed failed

13.1. The *Central Bank* shall deem the issue failed if:

13.1.1. a minimum quantity is specified in the prospectus, information memorandum, or the decision on the issuance of investment securities for the issuance to be deemed successful, and the investment securities are placed in a quantity less than that number.

13.1.2. the prospectus or information memorandum becomes invalid pursuant to Article 5.15 of this Law.

13.1.3. the decision provided for in Article 11.5.2 of this Law is taken.

13.1.4. the decision provided for in Article 9.6.2 of this Law is taken.

13.2. In the event the *Central Bank* decides to deem the issuance of investment securities failed, it shall, within one day from the date of the decision, provide a written notice to the issuer, persons implementing the offering and placement of investment securities and shall publish the decision on *media*.

13.3. The issuer shall publish the information on the issue deemed failed in mass media, while the issuer, whose securities have been publicly offered and admitted to trading in a regulated market, shall publish such information through the means provided for in Article 7.1 of this Law, and shall, within ten business days from completion of placement, ensure investors' funds to be repaid and shall provide the *Central Bank* with related information.

Article 14. Invalidation of the issuance of investment securities

In the event the provisions of this Law are breached during the issue of investment securities, a court may hold the issue invalid. At that, all securities in that issue shall be withdrawn from circulation and funds generated from placement of such securities shall be repaid to investors.

Chapter 3 Securities depository system

Article 15. Structure of the depository system

15.1. A depository system shall be comprised of the system of relations between the central depository and its members, related to dematerialization, storing, registration of securities, confirmation of the rights on securities, encumbrance with obligations, maintenance of the registry of owners of securities, opening of cash accounts pursuant to the Law of the Republic of Azerbaijan on Investment Funds, execution of transactions and transfer of funds on such accounts.

15.2. The Central Depository, together with its members—*investment companies, banks engaged in investment services (transactions), and local branches of foreign banks (hereinafter – banks*

engaged in investment services (transactions)), and depositories *and managers of investment funds* shall form the depository system. The Central Depository shall be the central institution of this system

15.3. The central depository shall manage the securities depository system.

15.4. The central depository shall ensure protection of interests of investors.

15.5. The central depository shall not be kept responsible for obligations of its members, and members shall not be kept responsible for obligations of the central depository.

15.6. Members of the central depository shall execute orders of their clients in the central depository system via electronic means of communication.

15.7. The central depository should:

15.7.1. have sufficient resources for detecting in a timely manner violations and conflicts of interest during execution of transactions.

15.7.2. maintain the risk management system.

15.7.3. have adequate software and technical resources for its operations.

15.7.4. have internal rules governing its activities.

15.7.5. have financial resources sufficient to prevent risks.

Article 16. Legal status and management of Central Depository

16.1. The National Depository Center shall manage the central depository system. The central depository shall be a non-commercial legal entity established by the *Central Bank*. The main purpose of the central depository shall not be to generate profit and the profit generated shall be used for development of the depository system, ~~as well as the purposes specified in Article 89.2 of this Law.~~

16.2. Only the National Depository Center shall use the words 'central depository' as part of its name.

16.3. Information on fees for central depository services shall be publicly available.

16.4. The head office of the central depository shall locate in the Republic of Azerbaijan.

16.5. The supervisory board of the central depository shall be its supreme governing body, while the management board shall be its executive body.

16.6. The supervisory board of the central depository shall have five members. It shall include two representatives of the *Central Bank*, two representatives of the central depository specified in Article 19.1 of this Law and one independent member. Other members of the supervisory board shall appoint the independent member. The independent member should not be an employee of the *Central Bank*, the central depository, the investment company, *the investment fund manager, the bank engaged in investment services (transactions)*, the stock exchange or a clearing house and its income should not be related to the securities markets. Members of the supervisory board shall be appointed for 5 years and may be reelected only for one additional term.

16.7. Representatives of central depository's members in the supervisory board specified in Article 19.1 of this Law shall be elected during a meeting of such members by simple majority of votes of members in a secret poll during the meeting of members organized at an initiative of the *Central Bank*. Participants shall be notified in writing on convening the meeting at least ten business days in advance.

16.8. Authorities of the member of the supervisory board of the central depository shall be terminated under the following circumstances:

16.8.1. at his/her request.

16.8.2. upon expiry of his/her term.

16.8.3. premature termination, subject to the procedure by which he/she was elected or appointed.

16.8.4. subject to the effective decision of the court.

16.9. In the event of premature termination of a member of the supervisory board, the term of office of the member appointed to replace him/her shall expire when the term of office of the member he/she replaces expires.

16.10. A chairperson shall head the supervisory board. Members of the supervisory board shall elect chairperson of the supervisory board and his/her deputy based on nominations by the *Central Bank*. In the absence of the chairperson, his/her deputy shall perform authorities of the chairperson.

16.11. The supervisory board shall hold ordinary and extraordinary meetings. The supervisory board shall hold ordinary meetings no less than once every quarter, while extraordinary meetings may be convened by the *Central Bank*, a chairperson of the supervisory board, at least two members of the supervisory board or the management board. A notice on the meeting of the supervisory board shall be sent to its members no less than 3 days prior to the planned date of the meeting.

16.12. Quorum for meetings of the supervisory board shall be at least 3 (including the chairperson and his/her deputy) members.

16.13. The supervisory board shall take decisions by a simple majority of votes of members present at the meeting. In the event votes are equal, the chairperson shall have the casting vote. No member of the supervisory board may abstain.

16.14. Decisions of the supervisory board shall be formalized in meeting minutes. The chairperson and the secretary of the meeting shall sign the meeting minutes.

16.15. A procedure for convening and holding supervisory board meetings shall be determined by the supervisory board.

16.16. The supervisory board of the central depository shall:

16.16.1. approve the operations strategy of the central depository.

16.16.2. approve the organizational structure and maximum staff number of the central depository.

16.16.3. approve annual budget and changes to such an annual budget and financial statements of the central depository.

16.16.4. issue proposals on setting service fees of the central depository *by the Central Bank*.

16.16.5. approve forms and amounts of remuneration of central depository staff.

16.16.6. approve internal rules of the central depository, including statutes of the management board and structural units.

16.16.7. determine forms, purposes, and rules of placement of funds of the central depository.

16.16.8. approve a procedure for preparing reports on activities of the central depository.

16.16.9. appoint and terminate members of the management board of the central depository, including the chairperson of the management board.

16.16.10. appoint and dismiss employees of the central depository's audit department.

16.16.11. approve reports of the central depository's management board.

16.16.12. issue a decision on foundation and liquidation of branch or representative offices of the central depository, approve their regulations.

16.16.13. resolve other matters within its competence under this Law or matters related to its activities.

Article 17. Activities of the central depository

17.1. The central depository shall:

17.1.1. hold and register securities.

17.1.2. maintain register of accounts of owners of securities.

17.1.3. organize and ensure operation of the electronic system for securities accounts and accounts of securities owners.

17.1.4. maintain a register of owners of securities.

17.1.5. maintain a register of accounts of nominal holder.

17.1.6. register encumbrance over securities.

17.1.7. provide services to its members, issuers, stock exchanges, clearing houses in connection with the duties provided for in Article 17 of this Law.

17.1.8. provide statements from accounts and information on executed transactions based on request from clients.

17.1.9. execute duties envisaged in the Law of the Republic of Azerbaijan 'on Investment Funds'.

17.2. The central depository may engage in clearing services *and/or investment fund depository activities* without obtaining the relevant license.

17.2-1. *The Central Depository may engage in the following financial services related to transactions with securities and derivative financial instruments without obtaining a license:*

17.2-1.1. *opening and maintaining cash accounts for investment companies, banks engaged in investment services, issuers of investment securities offered publicly, investment fund depositories, investment funds managers, and nominal custodians.*

17.2-1.2. *providing clearing and settlement services on cash accounts.*

17.3. *When opening accounts for or rendering financial services to customers the central depository shall comply with requirements of normative legal acts of the Republic of Azerbaijan, as well as international treaties seconded by the Republic of Azerbaijan that provide for tax and financial information sharing and in accordance with the said international treaties, submit information on financial operations of legal entities and individuals of foreign states in the Republic of Azerbaijan to authorities of those foreign states based on the requirements of Article 76-1 of the Tax Code of the Republic of Azerbaijan.*

Article 17-1. General requirements and supervision regarding activities of the Central Depository in financial services

17-1.1. *All requirements set forth in the Law of the Republic of Azerbaijan 'on Prevention of the Legalization of Criminally Obtained Property and the Financing of Terrorism,' as well as other relevant normative legal acts and regulations for reporting entities, shall apply to the Central Depository.*

17-1.2. *To verify the legality of operations conducted in the field of financial services, the Central Bank may request documents related to the management and current activities of the Central Depository, including transaction documents and accounting records, as well as related explanations, and conduct on-site inspections.*

17-1.3. *Service fees for financial services provided by the Central Depository shall be determined by the Central Bank in accordance with Article 16.16.4 of this Law.*

17-1.4. *Funds in cash accounts opened by the Central Depository for persons specified in Article 17.2-1.1 of this Law shall be used only for settlements related to transactions with securities and derivative financial instruments according to the instructions of those persons.*

17-1.5. *Interest or any other form of income may not be paid on the funds in cash accounts opened by the Central Depository.*

Article 18. Internal rules of the central depository

18.1. The supervisory board of the central depository shall adopt at least the following:

18.1.1. procedures for determining requirements regarding central depository members (becoming a member, termination of membership, activities, and responsibilities).

18.1.2. procedures for opening, closing, and *maintaining* depo and cash accounts in the central depository.

18.1.3. procedures for formation and maintenance of register of securities owners.

18.1.4. procedures for holding securities.

18.1.5. procedures for encumbering securities.

18.1.6. procedures for registration and transfer of securities.

18.1.7. risk management rules.

18.1.8. procedures for payment of service fees.

18.1.9. procedures for protection and transfer of information.

18.2. The central depository shall publish its internal rules within five business days from the date of their approval.

Article 19. Members of the central depository

19.1. Members of the central depository shall be *depositories and managers* of investment companies, *banks engaged in investment services (transactions)* and investment funds.

19.2. The central depository should admit as its member an investment company, *the bank engaged in investment services (transactions)*, or the investment fund depository or *manager* that complies with membership requirements set forth in internal rules of the central depository.

19.3. Members of the central depository shall:

19.3.1. manage accounts of securities owners.

19.3.2. ensure transfer of securities in the depository system.

19.3.3. provide to the central depository information on clients and securities owned by clients necessary to confirm and protect the rights of clients.

19.3.4. provide a client with statements of their accounts and transactions on those accounts based on the client's request.

19.3.5. provide clients with related information in case of liquidation or reorganization or failure to perform its obligations before clients.

19.3.6. in the event the agreement with the client is terminated, provide information to the central depository on such termination together with the reasons for termination.

19.3.7. investment fund depositories shall also comply with their obligations specified in the Law of the Republic of Azerbaijan 'on Investment Funds'.

19.4. Members of the central depository should monitor compliance with the requirements set in article 18.1 of this Law.

19.5. The central depository shall immediately inform the *Central Bank* on the following:

19.5.1. when members fail to fulfill their liabilities due to the central depository.

19.5.2. it is found out that indicators of member's financial sustainability have fallen below the levels set by the *Central Bank*.

19.5.3. any changes to the list of members.

19.6. The central depository and its members may not:

19.6.1. take a decision on disposing of client's securities except for actions performed pursuant to orders of clients under terms of the agreement with the client.

19.6.2. use client's securities to secure its own- or third-party liabilities.

19.6.3. represent a client without having an agreement with the client.

19.6.4. transfer information on the status of the account of a client, except for a court decision, as well as the cases envisaged based upon the request of the *Central Bank or the financial monitoring authority*.

19.7. *The requirement established by Article 41.2 of this Law shall also apply to the information regarding transactions related to the activities of investment fund managers.*

Article 20. Relations between the central depository and its members

20.1. A collective agreement shall govern relations between the central depository and its members.

20.2. The central depository shall not be liable for any material damage resulting from its members' breach of their obligations before their clients or from any other circumstances.

Article 21. Client's rights

21.0. A client shall enjoy the right to apply directly to the central depository under the following circumstances:

21.0.1. suspend any transactions with securities.

21.0.2. receive information about securities owned by the client.

Article 22. Accounts and assets of clients with the central depository

22.1. Cash held in accounts of members of the central depository may only be used for payments for transactions executed pursuant to client's orders.

22.2. Assets held in the depo account of a client may not be used to pay for liabilities of the central depository or its members, as well as, except for the cases provided for in a court decision, to pay for liabilities of the client contrary to client's will.

22.3. Encumbrance of securities held in clients' depo accounts with liabilities shall be registered by the central depository only with their written consent (except for the cases specified in court decisions).

22.4. Depo accounts shall be used for determining ownership rights over securities, restrictions on exercising rights and other rights confirmed by securities.

22.5. Execution of orders on transfer of securities or other tasks on exercising other rights in the depository system shall be implemented in the order of their submission.

22.6. Submitted orders may be executed if there are no limitations in the depository system. Limitations on transfer of securities may be imposed by virtue of a pledge or pursuant to a court order or by the *Central Bank* pursuant to Article 1078-20.4 of the Civil Code of the Republic of Azerbaijan.

22.7. To validate the rights of a person disposing of securities to allow a notary to obtain information on securities registered in the depository system and any encumbrance over those securities in a real time and immediately transfer notarized agreements to the depository system and electronically and obtain from the depository system documents confirming the purchaser's, rights information sharing shall be provided through electronic information systems. The *Central*

Bank shall determine requirements for payments for liabilities under notarized agreements and their registration in the depository system and security of information sharing using electronic information systems.

Article 23. **Registration of securities**

23.1. *Investment securities shall be issued as registered securities, in a certified or ~~dematerialized~~ form. Investment securities should be kept in a central depository.*

23.2. After the *Central Bank* state registers dematerialized securities, the central depository should enter them into depo accounts and register.

23.3. When entering dematerialized securities into the register the central depository should include the following important information:

23.3.1. the type and form of the securities.

23.3.2. the state registration number of securities.

23.3.3. the name, legal address, and the state registration number of an issuer.

23.3.4. nominal value of securities.

23.3.5. the place and date of issue of securities.

23.3.6. limitations and encumbrance over securities.

23.3.7. obligations of an issuer and rights and responsibilities of the owner (nominal holder) of securities.

23.3.8. names of authorized representatives of the issuer.

Article 24. **Depo account of dematerialized securities**

24.1. Owners of dematerialized securities should have depo accounts in the depository system.

24.2. An extract from the depo account for dematerialized securities shall be the only legal document evidencing title to the securities.

24.3. If an investment company manages a client's dematerialized securities account, it shall hold them in a special account opened for the purpose in the depository system and inform the central depository that it holds securities on behalf of a third party.

Article 25. **Register of securities owners**

25.1. The register of securities owners shall be a set of information on the issuer, its securities, securities owners, and nominal custodians.

25.2. An issuer shall enter into agreement for maintaining register of securities owners directly with the central depository.

25.3. The register of securities owners should include the following information:

25.3.1. for legal entity owners – full name, address, the individual identification number provided for in Article 26 of this Law.

25.3.2. for individual owners – first, middle and last names, address, the individual identification number provided for in Article 26 of this Law.

25.3.3. for nominal holders – full name, address, individual identification number provided for in Article 26 of this Law.

25.3.4. information specified in Article 23.3 of this Law on owners or nominal holders of securities.

25.4. The central depository should regularly update the following information on legal entities – based on the register of legal entities and on individuals – based on information provided by them:

25.4.1. when a state registration number changes.

25.4.2. when an ID card changes.

25.4.3. when legal entity's name, individual's 1st, last and middle names change.

25.4.4. when an address changes.

Article 26. Security owner's individual identification number

26.1. Each securities owner and member of the central depository should have an individual identification number in the depository system. An individual identification number shall be assigned to a client when acquiring title to securities and to members, when they are admitted to membership.

26.2. Individual identification numbers shall be set based on the number of citizens' ID cards and for legal entities based on the state registration number of legal entities.

26.3. The central depository should, within ten business days, provide information on revised individual identification number to securities owners or to its members.

Article 27. Nominal custodian

27.1. A nominal custodian shall be a foreign depository or a foreign investment company that exercises rights confirmed by securities based on an agreement or power of attorney and instructions for the benefit of an investor, registered in the register of securities owners, but not the holder of title to the securities.

27.2. In case of transactions between several clients of one nominal holder, results of those transactions shall not be reflected in the register of securities owners.

27.3. A nominal holder should provide information to clients on execution of orders.

27.4. Except for the cases specified in Article 27.6 of this Law, a nominal holder should not disclose the name of its client without the client's consent.

27.5. A nominal holder should have all information to be able to identify its clients and securities owned by them.

27.6. A nominal holder should, within five business days, provide to the *Central Bank* or the central depository information on identification of clients whose securities it holds as a nominee based on their request.

27.7. Based on orders from its clients a nominal holder:

27.7.1. collects payment claims relating to the client's securities.

27.7.2. enters into transaction relating to securities.

27.7.3. maintains accounting of securities.

27.7.4. encumbers securities with obligations.

27.7.5. protects its client's interests.

27.7.6. represents its clients based on clients' or their authorized representative's instructions and perform other acts for the benefit of its clients.

27.8. The client's name shall appear instead of nominal holder's name if a client so instructs in the securities owner's register.

27.9. Any claims against a nominal holder may not be directed against securities held by the nominal holder as the nominee. Any claims against securities owners, whose securities the nominal holder holds, may not be directed against the nominal holder.

27.10. A nominal holder should return securities upon a request from a client.

Article 28. Publication and protection of information on securities

28.1. The central depository should publish summary information on securities, except for information on securities owners.

28.2. Information on identification of owners of securities, stored at the depository system, shall be deemed confidential. Such information shall be provided to the *Central Bank, the financial monitoring authority* or a court based on their request. *When the owner of a security passes away, such information is provided to notaries handling the probate cases in progress, as well as to consular offices performing relevant notarial acts, upon their request.*

28.3. *The information provided for in Article 28.2 of this Law shall be provided to reporting entities as determined by the relevant executive authority in accordance with the Law of the Republic of Azerbaijan 'on Prevention of Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism' at their request*

28.4. *Information on investment securities of foreigners or stateless persons who have received temporary or permanent residence permit in the territory of the Republic of Azerbaijan, having government securities or investment securities of legal entities with 51 or more percent of their shares (stocks) owned by the state, including government securities shall be provided to the relevant executive authority in the cases specified by the Migration Code of the Republic of Azerbaijan.*

Article 29. Liability for damages to securities owners

29.1. A member of the central depository shall be liable before its clients for any damages resulting from its failure to enter orders or for entering incorrect or distorted information in the depository system.

29.2. The central depository shall be liable before securities owners (nominal holders) for any damages resulting from its failure to execute order or for executing orders incorrectly or misleadingly in the depository system.

Chapter 4 Investment companies

Article 30. Investment company and its services

30.1. An investment company shall be a legal entity established as a joint-stock company, licensed for engaging in investment company activities, the sole business of which consists of investment services provided for in Articles 30.3 and 30.4 of this Law. *The investment services specified in Articles 30.3 and 30.4 of this Law shall be carried out by banks operating in the Republic of Azerbaijan and local branches of foreign banks, with a license obtained in accordance with Chapter 8-1 of this Law, and in the volume and manner determined by the Central Bank.*

30.2. Investment companies shall provide core and ancillary investment services.

30.3. Core investment services (transactions) are the following:

30.3.1. accept and execute orders of clients related to transactions with securities and derivative financial instruments.

30.3.2. manage portfolio of individual investors.
30.3.3. provide investment advice.
30.3.4. place and underwrite securities without undertaking obligations.
30.3.5. place and underwrite securities by undertaking obligations.
30.3.6. execute transactions with securities or derivative financial instruments at its own expense as a member of the central depository and stock exchange.

30.3.7. margin trading.

30.4. Ancillary investment services (transactions) are the following:

30.4.1. *management of securities accounts, including the execution of transactions related to encumbrance of securities and derivative financial instruments, and the storage of client's securities as a member of the central depository.*

30.4.2. grant loans or provide other form of lending to investors to allow them to conclude transactions with securities or derivative financial instruments.

30.4.3. conduct investment research and financial analysis with respect to securities or derivative financial instruments.

30.4.4. act as collateral manager in case of secured bonds.

30.4.5. foreign currency exchange related to provision of its core investment services (transactions).

30.5. *The Central Bank shall be entitled to conduct transactions with securities, including government securities and derivative financial instruments, without a license for investment company activities, both on the regulated market and on other trading systems in the public interest. Information about transactions carried out on other trading systems shall be immediately transmitted to the central depository by the Central Bank.*

30.5-1. *When transactions with government securities, securities issued by the Central Bank, and derivative financial instruments are conducted in another trading system, the transactions shall be concluded in accordance with the rules of that trading system.*

30.5-2. *When banks engaged in investment services (transactions) and investment companies act as market makers for government securities, the price corridor for trading transactions shall be agreed upon with the authority (institution) designated by the relevant executive body.*

30.6. The Central Bank shall determine procedures for investment services (transactions) by investment companies as provided in Articles 30.3 and 30.4 of this Law.

30.7. *When opening accounts for or rendering financial services to customers the investment company or the bank engaged in investment services (transactions) shall comply with requirements of normative legal acts of the Republic of Azerbaijan, as well as international treaties seconded by the Republic of Azerbaijan that provide for tax and financial information sharing and in accordance with the said international treaties, submit information on financial operations of legal entities and individuals of foreign states in the Republic of Azerbaijan to authorities of those foreign states based on the requirements of Article 76-1 of the Tax Code of the Republic of Azerbaijan.*

30.8. *In accordance with the procedure stipulated in the second sentence of Article 30.1 of this Law, Chapter 4 of this Law (except for Articles 31, 32, and 42 of this Law) shall also apply to banks engaged in investment services (transactions).*

Article 31. Prudential supervision requirements for investment companies

31.1. An investment company shall comply with prudential requirements related to share capital, internal control systems and risk management.

31.2. Capital requirements for investment companies shall encompass requirements regarding company's charter capital and sustainable capital requirements throughout the lifetime of an investment company.

31.3. The *Central Bank* shall determine minimum amount of charter capital of an investment company for engaging in core and ancillary investment services (transactions) specified in Articles 30.3 and 30.4 of this Law.

31.4. To allow an investment company providing the services (transactions) specified in Articles 30.3.5-30.3.7 of this Law the minimum amount of the charter capital should be set at a higher amount.

31.5. The *Central Bank* shall set capital requirements for investment companies considering assets under their management and their trading books.

31.6. If investment company's charter or sustainable capital falls below minimum amounts, it should inform the *Central Bank* accordingly within three business days.

31.7. An investment company's internal control system should:

31.7.1. identify and assess the risks likely to affect compliance with sustainable capital requirements.

31.7.2. assess accounting and reporting systems.

31.8. An investment company should assess on a regular basis effectiveness of its internal control system and, if needed, update its internal control system.

31.9. The risk management system of an investment company should:

31.9.1. adopt internal rules for management of investment company related risks.

31.9.2. determine acceptable levels of risks encountered during business activities and consistently monitor risk levels

31.9.3. assess risk management systems.

31.9.4. determine the risk profile of the investment company.

31.10. The capital requirements provided for in Articles 31.3 and 31.4 of this Law shall take effect no earlier than six months from the date of their official announcement to investment companies.

31.11. Prudential requirements to investment companies shall be applied on a consolidated basis if:

31.11.1. they have any subsidiaries.

31.11.2. an investment company itself is a subsidiary.

31.12. If an investment company's parent company is subject to prudential supervision on a consolidated basis as provided for in the legislation, the investment company shall be exempt from the obligations set forth in Article 31.1 of this Law.

31.13. *Investment companies should follow corporate governance standards established by the Central Bank.*

Article 32. **Organizational requirements for investment companies**

32.1. To engage in its business an investment company should:

32.1.1. formulate and apply an organizational structure, that clearly defines internal rule systems and duties.

32.1.2. ensure that related parties are informed about fulfillment of their duties.

32.1.3. employ staff with adequate professional qualifications.

32.1.4. apply an internal reporting and information sharing system.

32.1.5. record its activities electronically.

32.1.6. take measures to prevent conflict of interests.

32.1.7. take security measures related to maintenance and restoring of database interruptions that may occur with respect to the services provided and possess related technical resources and procedures.

32.1.8. in case of outsourcing any of its services take measures to reduce its operational risks.

32.1.9. determine procedures on review of and record client complaints.

32.2. An investment company should apply an internal audit system complying with the following requirements:

32.2.1. assess its operations and internal control mechanisms pursuant to the audit plan approved by the audit committee of the investment company.

32.2.2. issue recommendations on audits carried out according to the audit plan.

32.2.3. ensure monitoring of implementation of recommendations.

32.2.4. prepare reports on audit findings.

32.3. Reports on internal audits and risk management should be submitted to the investment company's supervisory board at least once a year.

Article 33. Assets of investment company clients

33.1. An investment company should protect its client's rights on their assets. Except for the cases provided by the court order, an investment company may not use its client's assets for its own benefit or for the benefit of third parties without the client's consent, and especially, it may not use those assets to meet liabilities.

33.2. An investment company may not encumber client's assets without the client's written consent.

33.3. To protect client's rights investment companies should:

33.3.1. record clients separately from its own clients and from assets of other clients.

33.3.2. ensure correct operation of clients' accounts and the system of recording and crosscheck their accuracy.

33.3.3. ensure that clients' assets kept with a bank are kept in separate accounts.

33.3.4. ensure that clients' funds are not damaged as a result of abuse, inefficient management, inaccurate accounting, or the risk of rights related to them is reduced.

Article 34. Reports and information submitted to the *Central Bank* on investment company activities and services

34.1. An investment company should submit to the *Central Bank* the following reports:

34.1.1. periodic reports.

34.1.2. reports on transactions executed in connection with its activities.

34.1.3. reports on services (transactions) provided under the provisions of this Law.

34.2. All investment companies should submit to the *Central Bank* half-yearly reports, investment companies specified in Article 31.4 of this Law additionally monthly reports, and investment companies specified in Article 31.3 of this Law additionally quarterly reports related to capital requirements.

34.3. In the event an investment company fails to fulfill its obligations related to repo transactions, lending securities or derivative financial instruments, it should immediately inform the *Central Bank* accordingly.

34.4. The *Central Bank* shall set procedures for preparation and submission of reports by investment companies pursuant to Article 34.1 of this Law.

34.5. *Procedures for the preparation and submission of reports on activities and services provided by banks engaged in investment services (transactions) shall be determined by the Central Bank.*

Article 35. Reports by investment companies to their clients

35.1. An investment company should submit to its client a report on investment services (transactions) and client's assets at least once a year.

35.2. An investment company should provide a report on the status of execution of client's orders subject to the client's request.

35.3. If an investment company provides portfolio management services, it shall provide to its client half-yearly reports on executed transactions. Subject to a client's request, the report shall be provided quarterly. If an investment company provides services of managing portfolio consisting of securities or derivative financial instruments purchased with debt, it should provide the report specified in Article 35.3 of this Law monthly.

35.4. If an investment company provides services of portfolio management and administration of a client's account and if the use of unsecured transactions resulted in a loss that is higher than a preset level, the investment company should inform the client no later than the next working day.

35.5. An agreement between an investment company and its client may require providing the reports specified in Article 35 of this Law in more frequent intervals.

Article 36. Prevention by an investment company of conflict of interest

36.1. An investment company should have technical and organizational measures, including internal procedures to identify, manage and prevent any conflict of interest that may arise between investment company's related parties and the investment company, an investment company and its clients, and clients of an investment company in connection with provision of core and ancillary services (transactions) of an investment company.

36.2. An investment company should check presence of at least the below risks to identify any conflicts interest that may endanger its client's interests:

36.2.1. possibility of an investment company or its related party to generate profit to the detriment of a client or avoiding a damage.

36.2.2. difference between interest of a client and that of the investment company or its related parties resulting from services provided to the client or execution of transactions on behalf of the client.

36.2.3. interest of an investment company or its related party to prefer interests of one client to interests of any other clients.

36.2.4. the investment company or its related party is engaged in the same type of business activity as the client.

36.2.5. providing any income or service, except for service fees to the investment company with respect to that service as a result of services provided to the client.

36.3. If it is found out that the discovered conflict of interest situation is endangering client's interests, before commencing services to the client the investment company should notify the client of such a situation.

36.4. Internal rules of an investment company on prevention of conflicts of interest should set forth the following:

36.4.1. investments services (transactions) that create a risk of a conflict of interests that may endanger interests of one or more clients.

36.4.2. measures aimed at identifying and managing a conflict-of-interest situation.

Article 37. Limitations to investment research and requirements for persons who prepare such research

37.1. The following shall be prohibited during investment research:

37.1.1. concluding transactions with securities or derivative financial instruments, that are the subject of the investment research, until the investment research is applied and its results are disclosed to the public or to a client, except for transactions by financial researchers and investment company's other related parties, by the market maker, aimed at safeguarding stability in the market or transactions aimed at completion of execution of client orders.

37.1.2. accepting anything of value from persons, who have an interest in the investment research by investment company, financial analyst or other related parties of the investment company involved in preparing investment research.

37.1.3. promising favorable results to issuers, who have an interest in the investment research by investment company, financial analyst or other related parties of the investment company involved in preparing investment research.

37.1.4. if a draft investment research contains recommendation or forecast of prices for securities or derivative financial instruments, review by issuers, related parties of an investment company not involved in the research or other persons (except for verification whether investment company objectives are implemented) prior to publication of the investment research.

37.1.5. disclosure of false and biased information by persons conducting research on securities and their issuers, disclosing results of the research, and recommending or suggesting an investment strategy.

37.2. If persons conducting research on securities and their issuers, disclosing research results, and recommending or suggesting an investment strategy disseminate information on securities or derivative financial instruments, they should disclose their interest in the securities or derivative financial instruments and conflict of interest, if any.

37.3. The *Central Bank* shall determine procedures for disclosure of information by persons conducting research on securities and their issuers, disclosing research results, and recommending or suggesting an investment strategy.

Article 38. Requirements for execution of orders on investment services

38.1. Information provided by an investment company to its clients should not be false or distorted.

38.2. The investment company should provide the following information to its clients:

38.2.1. information on the investment company and its services (transactions).

38.2.2. information on offered securities or derivative financial instruments and investment strategies, including information on existing and future risks.

38.2.3. places of execution of orders.

38.2.4. costs related to execution of orders.

38.3. An investment company should adopt *internal rules on execution* of orders. These rules should specify the execution of clients' orders based on best price principle.

38.4. An investment company shall disclose the order execution rules to its clients.

38.5. An investment company should monitor efficiency of its order executions and rules on order executions. Upon request from a client, the investment company shall provide information on execution of client's orders pursuant to order execution rules.

38.6. If an investment company accepts orders for investment services (transactions) and the services are not appropriate for the client, it should warn the client accordingly.

38.7. The investment company shall formalize provision of services (transactions) in an agreement with the client, which sets forth the rights and responsibilities of the parties.

38.8. When executing client orders, an investment company should:

38.8.1. record client orders.

38.8.2. execute orders in the order of their submission with the exception of the nature of orders and market conditions that are of priority.

38.8.3. when encountering any difficulties in executing client order, inform the client about these difficulties.

38.9. An investment company and its related parties may not use information on client orders, not fully executed.

38.10. An investment company should record, and store client orders transmitted by telephones or electronic means of communication.

38.11. Except for providing portfolio management services, an investment company shall provide a report on execution of the client order to the client, no later than the next working day following the day it executes a client order or the next working day following the date the investment company receives the order execution confirmation from a third party.

38.12. If a client order is executed in several installments, amount of each installment and average price for each installment shall be shown separately in the report on execution of orders. If an investment company shows average price for each installment, at the client's request it shall provide information on the amount of each installment to the client.

38.13. The *Central Bank* shall determine procedures for client orders, their execution or suspension of execution and provision of reports to clients.

Article 39. Trading book of an investment company

39.1. An investment company should maintain its trading book.

39.2. The investment company's trading book should include the following:

39.2.1. positions on transactions with securities and derivative financial instruments with the purpose of making profit.

39.2.2. obligations related to assets or positions related to transactions in acquired financial instruments.

39.2.3. service fees, losses and gains related to positions in the trading book.

39.3. The trading book should not include any obligation that may limit investment company activities and all risks related to the trading book should be covered.

39.4. An investment company should mark all positions in the trading book to market daily.

39.5. The *Central Bank* shall determine additional requirements for the trading book.

Article 40. Margin trading

40.1. Margin trading shall be an investment service (transaction) comprised of providing an investor with a possibility to purchase and later sell the underlying asset (securities, currency, interest rates, profitability, derivative financial instruments, commodities, financial indexes, credit risks etc.) or prices, profitability, currency exchange differences, risk rates of such underlying assets with the investor's own funds or with the help of a loan.

40.2. If margin trading is executed with the help of a loan from an investment company to the investor, assets purchased with the loan shall be deemed loan securitization. the investment company shall be deemed the pledge holder and the investor a pledgor.

40.3. In case of margin trading if the price of the underlying asset or its indicator falls below the level set by the *Central Bank*, the investor should sell them or pledge additional collateral.

40.4. The *Central Bank* shall determine procedures for underlying assets for margin trading or types of their indicators, their interest rates and provision of information related to margin trading.

Article 41. Accounting of investment company transactions

41.1. An investment company should retain records of transactions related to its activities for at least five years.

41.2. In the event an investment company's license is revoked, the central depository should retain records of transactions related to activities of the investment company for at least five years.

41.3. An investment company should provide summary information on records of transactions related to activities of the investment company to the *Central Bank* within one day from the date of receiving the request.

41.4. The *Central Bank* shall determine procedures for recording transactions related to activities by investment companies.

Article 42. Investment company's external auditing

42.1. The *Central Bank* shall appoint an external auditor if:

42.1.1. an investment company fails to appoint an external auditor within one year.

42.1.2. an investment company fails to provide auditor's opinion within one year.

42.1.3. capital requirements for investment companies are violated.

42.2. In case of appointment of an external auditor pursuant to Article 42.1 of this Law, the investment company shall pay fees of the external auditor.

Article 43. Qualification certificates related to providing investment services (transactions)

43.1. A qualification certificate is a formal document for investment services (transactions) issued to individuals who score satisfactory or higher results in examinations organized by the *Central Bank*.

43.2. All employees of the investment company and the branch of the foreign investment company which carry out the main investment services (transactions) referred to in Article 30.3 of this Law, as well as the auxiliary investment service (transaction) referred to in Article 30.4.1, should possess a qualification certificate.

~~43.3. To enable an investment company or a branch of a foreign investment company to provide core investment services (transactions) specified in Articles 30.3.2, 30.3.3 or 30.3.6 of this Law they should have at least five persons holding a qualification certificate in their staff.~~

43.3-1. The Central Bank shall determine the requirements regarding the number of qualified employees involved in investment services (transactions) in banks with qualification certificates.

43.4. Qualification certificates provided for in Article 43 of this Law shall be issued pursuant to results of the examination organized by *the Central Bank*. The examination shall be conducted with automated tests.

43.5. The *Central Bank* shall adopt procedures for organization of examination for qualification certificates on provision of investment services (transactions).

Chapter 5

The Stock Exchange

Article 44. Organization of public trading

44.1. Public trading is the transaction resulting from initial or secondary offering of securities or derivatives to indefinite number of buyers.

44.2. A stock exchange shall organize public trading of securities and derivatives.

44.3. A stock exchange is a legal entity established as a joint stock company with a stock exchange license, engaged exclusively in organizing and managing a regulated market.

44.4. Public trading in securities and derivative financial instruments may be conducted only after admission of securities and derivative financial instruments to public trading according to internal rules of a stock exchange.

44.5. Securities and derivative financial instruments admitted to public trading in a regulated market may ~~only~~ be traded by intermediation of investment companies *and banks engaged in investment services (transactions)*.

44.6. The provisions of this Article shall not apply to cases stipulated in Articles 30.5 and 30.5-1 of this Law regarding the execution of bulk trading of securities and derivative financial instruments in other trading systems.

Article 45. Duties and responsibilities of the stock exchange

45.1. The stock exchange shall:

45.1.1. ensure that the trading it organizes is fair and transparent.

45.1.2. ensure participation of its members in trading directly and (or) remotely according to its internal rules.

45.1.3. organize and execute trading in securities and derivatives.

45.1.4. use and maintain the trading system.

45.1.5. organize public offering and placement of securities.

45.1.6. determine requirements for derivative financial instruments, securities admitted to trading in the stock exchange and their issuers.

45.1.7. provide its members with access to trading systems so they could trade in the stock exchange.

45.1.8. monitor transactions executed in its trading system.

45.1.9. monitor financial standing of its members in connection with members' activities in the stock exchange.

45.1.10. other duties set forth in Chapter 5 of this Law and internal rules of the stock exchange.

45.2. A stock exchange shall organize trading in the following markets:

45.2.1. the government securities market.

45.2.2. the corporate securities market.

45.2.3. the derivative financial instruments market.

45.3. In the event a stock exchange discovers any serious violation of its internal rules or trading terms or circumstances of abuse of markets organized by it, it should inform the *Central Bank* on these circumstances.

45.4. Except for long-term trading transactions (where the period between sale and purchase exceeds six months), a stock exchange may not trade in or provide advice related to securities or derivative financial instruments.

45.5. A stock exchange may engage in education and marketing with the aim of developing the securities market and organize the sale of market information.

45.6. Employees of a stock exchange and their relatives who are related parties pursuant to Article 10.1 of this Law with direct or indirect access to trading may not participate in trading in that stock exchange.

Article 46. **Internal rules of stock exchange**

46.1. A stock exchange shall adopt at least the following internal rules on:

46.1.1. trading with securities and derivatives in the stock exchange.

46.1.2. terms of and procedures for admission of securities and derivative financial instruments to trading, suspension of and withdrawal from trading.

46.1.3. listing, keeping in listing and withdrawal from listing (delisting) of securities and derivative financial instruments.

46.1.4. entering into and termination of transactions in the stock exchange.

46.1.5. methods of determining prices for securities and derivative financial instruments in the stock exchange.

46.1.6. requirements for trading days and trading hours in the stock exchange.

46.1.7. calculation of applied exchange indexes.

46.1.8. determining requirements for members of the stock exchange (admission to, termination of membership and activities of members).

46.1.9. storing, disclosure, protection, and security of information in the stock exchange.

46.1.10. prevention of abuses.

46.1.11. ethical rules of stock exchange staff and their use of information related to their work.

46.1.12. and procedures for dispute resolution in the stock exchange.

46.1.13. actions procedures for protection of markets organized in the stock exchange.

46.1.14. setting forth responsibilities for failure by the stock exchange members to comply with rules of the stock exchange.

46.2. The stock exchange shall provide to the *Central Bank* its internal rules and any changes therein within five business days from their adoption. If the *Central Bank* discovers any provision in internal rules that contradicts to the provisions of this Law it shall request from the stock exchange to make relevant changes within twenty business days from receiving the rules or changes therein, indicating reasons.

46.3. After the request specified in Article 46.2 of this Law is delivered to the stock exchange relevant changes should be made to internal rules no later than fifteen business days and the *Central Bank* should be informed accordingly. Within no later than five business days of approval of internal rules or changes therein, they should be published by the stock exchange.

Article 47. **Members of the stock exchange**

47.1. Members of the stock exchange are investment companies, *investment fund managers and banks engaged in investment services (transactions)* entitled to directly participate in exchange transactions under internal rules of the stock exchange. A stock exchange should have at least three members.

47.2. Members of the stock exchange should hold a license for the type of activity related to the investment company's operations, *investment fund management*, or a license *obtained in accordance with Chapter 8-1 of this Law*, and meet the requirements set by internal rules of the stock exchange regarding their solvency, relevant organizational mechanisms, and the organization of their activities.

47.3. The stock exchange accepts the investment company, *the investment fund manager, and the bank engaged in investment services (transactions)* as members within one month from the date of their application, provided they meet the membership requirements established by the stock exchange's internal rules.

47.4. A stock exchange should inform the *Central Bank* on the following:

47.4.1. when members are not able to fulfill their liabilities due to the stock exchange.

47.4.2. if it discovers that indicators of members' creditability have fallen below the levels set by the *Central Bank*.

47.5. A stock exchange should provide equal trading opportunities to all members.

47.6. A stock exchange should monitor compliance of its members with its internal rules and prevention of the circumstances of abuse.

47.7. A stock exchange should provide a list of its members and any changes to the list to the *Central Bank* within one working day.

47.8. Membership in a stock exchange may be terminated if:

47.8.1. based on a member's request.

47.8.2. the license of an investment company that is a member of the stock exchange, *the license of the investment fund manager, or the license of the bank obtained in accordance with Chapter 8-1 of this Law* is revoked.

47.8.3. it is determined by the decision of the relevant corporate body of the stock exchange that a member has violated exchange rules or does not comply with requirements of the exchange.

47.8.4. stock exchange member fails to perform liabilities due to the stock exchange.

47.8.5. activities of the stock exchange are terminated.

Article 48. **Publication of information by stock exchange**

48.1. Prior to trading a stock exchange shall disclose information related to the bid and ask prices for securities and derivative financial instruments and their volume.

48.2. A stock exchange shall disclose daily to public summary information on bid and ask prices, volume, and trading time of transactions with securities and derivative financial instruments admitted to trading.

48.3. The *Central Bank* shall determine procedures for disclosure of information by stock exchange.

48.4. A stock exchange shall ensure equal access of its members to information necessary for forming trading prices of securities and derivative financial instruments.

48.5. If publication of any information provided for in Article 48 of this Law may disturb financial stability in the market or have negative effect on the economy of the country, the *Central Bank* shall postpone disclosure of such information. Publication of the said information shall be postponed based on a written notice provided to the stock exchange by the *Central Bank*.

Article 49. Admission to and withdrawal from trading of securities and derivative financial instruments

49.1. Fair, transparent, and consistent trading of securities and derivative financial instruments admitted to trading should be ensured.

49.2. A stock exchange shall withdraw from trading securities and derivative financial instruments admitted to trading if:

49.2.1. securities or derivatives are paid or withdrawn from the market.

49.2.2. a stock exchange is liquidated.

49.2.3. other circumstances provided for in internal rules of the stock exchange.

49.3. The stock exchange shall suspend trading in securities and derivative financial instruments admitted to trading in markets organized by the stock exchange if:

49.3.1. payments are not made on securities or derivatives issued by an issuer.

49.3.2. a decision is taken on insolvency or liquidation of the issuer of securities.

49.3.3. other cases provided for in internal rules of the stock exchange.

49.4. The *Central Bank* shall suspend trading of relevant securities or derivative financial instruments traded in a stock exchange if:

49.4.1. trading in securities or derivatives disturbs the trading order set in internal rules of the stock exchange or threatens interests of investors.

49.4.2. a financial crisis occurs.

49.4.3. normal trading in the stock exchange is disturbed due to emergency cases.

49.5. In the event of the cases specified in Article 49.4 of this Law the *Central Bank* shall send a written notice to the stock exchange on suspension of trading. Upon receipt of the notice, the stock exchange shall suspend trading in securities or derivative financial instruments specified in such a notice.

49.6. A stock exchange may suspend trading according to Article 49.3 of this Law in each of securities or derivatives separately or suspend trading in the market where securities or derivatives are traded or may suspend trading in the entire market.

49.7. If a stock exchange suspends trading in or withdraws securities or derivative financial instruments from the market, it should inform the *Central Bank* and publish this information.

49.8. If the *Central Bank* suspends trading in a stock exchange, it shall publish this information.

Chapter 6 Post-trading system

Article 50. Organization of the post-trading system

50.1. A post-trading system is a system of clearing-related relations between clearing houses and their members.

50.2. Clearing is the activity comprised of collection, verification, reconciliation of mutual liabilities, netting of positions, listing of obligations, setting-off claims to determine mutual obligations arising from transactions with securities or derivatives.

50.3. A clearing house is a legal entity organized as a joint stock company, whose exclusive field of activity is clearing, which holds a clearing license.

50.4. Clearing houses together with investment companies, *investment fund managers* and banks, which are their members shall organize a post trading system.

50.5. Any transactions related to clearing as set forth in Article 50.2 of this Law, shall be executed only after gaining access to the post trading system.

50.6. To reduce risks associated to failure to execute transactions related to clearing in the post trading system at least one of the below methods should be applied:

50.6.1. prior entry of assets into depo accounts.

50.6.2. creation of a clearing fund.

50.6.3. insurance of assets.

50.6.4. securing assets with guarantees.

50.6.5. securitization of assets.

50.7. Clearing house members shall execute transfer of money and securities between their accounts pursuant to the principle of delivery versus payment principle as defined in Article 1.0.28 of this Law.

50.8. The *Central Bank* shall determine requirements for the post trading system and a clearing procedure.

Article 51. Requirements for clearing houses

51.0. A clearing house should have:

51.0.1. sufficient resources to identify in a timely manner negative issues arising from transactions executed by the clearing house and its members.

51.0.2. a risk management system.

51.0.3. software and hardware for its activities.

51.0.4. internal rules provided for in Article 54 of this Law.

51.0.5. financial resources sufficient to prevent risks.

Article 52. Clearing house activities

52.1. A clearing house may not trade in securities or derivative financial instruments, or provide advice related to securities or derivative financial instruments or investments or formulate an opinion regarding their advantages.

52.2. A clearing house should maintain a register of all entries to the post trading system in a chronological order.

52.3. Entries registered by a clearing house should contain information on the type of securities or derivatives, the type of entry and information about the person, who requested the entry.

52.4. A clearing house should keep funds of its members separate from its own funds and from the funds of its other members.

52.5. Relations between a clearing house and its members shall be governed by the Civil Code of the Republic of Azerbaijan, this Law, and agreements between the parties.

Article 53. Clearing house members

53.1. The clearing organization should accept as members the investment company or *the investment fund manager* that meet its specified membership requirements *based on their application, as well as the bank designated by them or the relevant bank engaged in investment services (transactions) based on the bank's application, within one month.* The clearing organization should have at least three members.

53.2. A clearing house should provide information to the *Central Bank* if:

53.2.1. members fail to fulfill liabilities due to a clearing house or a clearing fund.

53.2.2. it is discovered that indicators of member's financial sustainability have fallen below the levels set by the *Central Bank*.

53.2.3. there is any change to the list of members.

53.3. A clearing house should monitor compliance of members with internal rules.

Article 54. Internal rules of the clearing house

54.1. To organize its activities a clearing house should adopt at least:

54.1.1. rules that set forth requirements for organization and operation of a post trading system.

54.1.2. rules that set forth requirements for clearing house members (admission to membership, termination of or withdrawal from membership and activities and etc.).

54.1.3. rules on transactions related to clearing.

54.1.4. rules on management of credit, market, operational and liquidity risks and their control, including clearing fund management (if applicable).

54.1.5. requirements for security and efficiency (indications on regular audit of systems for business continuity and post-disaster recovery).

54.1.6. rules on information sharing to ensure clearing activities.

54.1.7. rules on publication of information and reporting.

54.1.8. rules setting out liabilities of clearing house members, who fail to comply with internal rules of the clearing house.

54.2. Internal rules of the clearing house shall be changed upon request of the *Central Bank* pursuant to Articles 46.2 and 46.3 of this Law.

Article 55. Failure by clearing house members to fulfil their obligations

55.1. If a clearing house member does not have sufficient funds in its accounts to pay for its liabilities related to its assets during clearing and settlement, it is deemed a clearing house member failed to meet its liabilities.

55.2. A clearing house should immediately inform the *Central Bank* on failure of the clearing house member to meet its liabilities. If a clearing house member fails to meet its liabilities, a clearing house shall:

55.2.1. immediately request information on clearing house member's failure to perform liabilities.

55.2.2. use funds in accounts of members failing to perform their liabilities to close transactions, which have not been closed, and use assets of the member entered into depo accounts and pledged assets or guarantees.

55.2.3. ensure that transactions are closed, including receiving and providing loans, execute repo transactions with securities and apply netting limitations to the member, who fails to perform its liabilities.

55.2.4. receive insurance payments under insurance agreements.

55.2.5. use funds in a clearing fund pursuant to Article 58.9 of this Law.

55.3. A member, who fails to perform its liabilities, shall not be allowed to execute any transactions until it performs them.

Article 56. Transfer orders

56.1. Transfer orders during settlement shall be defined as instructions given to the clearing organization for the transfer of funds in the accounts of the investment company, *the investment fund manager, banks engaged in investment services (transactions)*, or their clients.

56.2. Transfer orders, entered to post trading systems may not be withdrawn.

56.3. Transfer orders, entered to the post trading system prior to bankruptcy proceedings of a clearing house member, should be executed. A transfer order entered into the trading system after or on the day of commencement of bankruptcy proceedings in relation to a clearing house member may be executed, if the clearing house or the central counterparty could prove that it was not aware, or it was not in a position to know about these circumstances.

56.4. Suspension of transactions executed before commencement of bankruptcy proceedings in relation to a clearing house member may not invalidate results of netting.

56.5. The time of entry of a transfer order to the post trading system shall be determined in internal rules of a clearing house.

56.6. Funds, securities, derivative financial instruments, and pledge asset in the account of a clearing house member, shall be used to execute orders entered to the post trading system during the day of commencement of bankruptcy proceedings in relation to that member and to pay for liabilities arising from the use of credit lines on that day.

Article 57. Central counterparty

57.1. A central counterparty is the clearing house, which assumes rights and responsibilities of parties pursuant to an agreement and for each seller shall act as a buyer and for each buyer shall act as a seller.

57.2. A central counterparty shall act as a special authorized person in the post trading system in relation to mutual performance by a seller and a buyer of their respective liabilities.

57.3. In relations involving the central counterparty, parties to the contract perform their mutual obligations towards the central counterparty. The counterparty's insolvency risk shall be replaced by the central counterparty's insolvency risk.

57.4. In relations involving the central counterparty, parties to the contract shall not know each other and each shall perform its respective liabilities before the central counterparty.

Article 58. A clearing fund

58.1. A clearing house shall establish a clearing fund when selecting the method specified in Article 50.6.2 of this Law.

58.2. The investment company, *the investment fund manager and the bank engaged in investment services (transactions)* which are members of the clearing house that establishes a clearing fund, should participate in the clearing fund.

58.3. 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 *Central Bank*.

58.4. A clearing house shall hold, manage, and use the funds collected in the clearing fund pursuant to articles 58.6-58.9 of this Law.

58.5. The following are sources of clearing fund's funds:

58.5.1. membership fees paid by members of the clearing house.

58.5.2. profits derived from investments of clearing fund's assets.

58.5.3. where a clearing house acts as a liquidator, fees for such services.

58.6. A clearing house may invest assets of the clearing fund in the following:

58.6.1. deposit with the Central Bank of the Republic of Azerbaijan or invest in its securities.

58.6.2. place deposits with banks.

58.6.3. invest in *government securities, the securities issued by international organizations, the Republic of Azerbaijan is the member of and* highly liquid securities with up to one year maturity.

58.7. The *Central Bank* shall set ratios of investments pursuant to Article 58 of this Law.

58.8. A clearing house may insure the clearing fund.

58.9. The clearing fund shall make payments on the following:

58.9.1. payments for closing of clearing and settlement in the post trading system related to failure to perform mutual liabilities arising from transactions concluded by members of the clearing house.

58.9.2. insurance premiums under insurance agreements concluded for purposes of the clearing fund.

58.9.3. payment of costs related to clearing fund management.

Article 59. Payments to the clearing fund

59.1. A member of the clearing fund should pay to the clearing fund a membership fee set by the clearing house for each year.

59.2. In determining annual membership fees, the clearing house should take into account that the amount should be sufficient to cover the credit risk arising from the transaction, which is not executed.

59.3. The clearing house shall transfer membership fees remaining from a previous year to pay for credit risks and administrative expenses of the following year and shall take this into account when determining a membership fee for that year and provide members with related information.

Article 60. Enforcements against clearing fund members

60.1. In the event a clearing fund member fails to perform its liabilities and payments it makes to the clearing fund are not sufficient to pay for these liabilities, the clearing house shall apply withholdings towards other clearing fund members pursuant to internal rules of the

clearing fund to pay for expenses of the clearing house. in this case the clearing house should ensure that these withholdings do not significantly affect financial standing of such members.

60.2. If the clearing house determines that there is a need to collect additional payments in accordance with internal rules, these payments should be equal to difference between payments collected from clearing fund members and clearing fund expenses.

60.3. If payments withheld by the clearing house exceed expenses of the clearing fund, excess amount shall be returned to members in proportion to their payments.

60.4. In the event the clearing house applies withholding, it should send a notice showing date of the withholding (this date should not be earlier than fourteen business days before the notice date), amount of the withholding and the method of its calculation.

Chapter 7

Organization and management, acquisition of qualifying holding in the investment company, the stock exchange, the clearing house, and the investment fund depository

Article 61. Organization, management, auditing and financing of the investment company, the stock exchange, the clearing house, and the investment fund depository

61.1. An investment company, a stock exchange, a clearing house, and an investment fund depository (hereinafter – licensed persons) shall be organized as a joint stock company.

61.2. The name of licensed persons should contain the words ‘investment company’, ‘stock exchange’, ‘clearing house’ or ‘investment fund depository’ respectively. In the Republic of Azerbaijan only legal entities established under Article 61 of this Law and with a relevant license may use the words ‘investment company’, ‘stock exchange’, ‘clearing house’ or ‘investment fund depository’ in their names.

61.3. Licensed persons shall operate based upon licenses issued by the *Central Bank*.

61.4. Head offices of licensed persons should be located in the Republic of Azerbaijan.

61.5. Licensed entities shall be managed by a supervisory board established by the decision of the general meeting of shareholders and an executive body *created in accordance with Article 107.1.3 of the Civil Code of the Republic of Azerbaijan*.

61.6. Information on members of licensed persons (if any) shall be published on *media*.

61.7. Employees or related parties of investment companies, *investment fund managers and banks*, who are members of a stock exchange or a clearing house, and their *external* auditors may not be members of the executive body of the stock exchange or the clearing house.

61.8. Licensed persons may only issue ordinary registered shares.

61.9. The *Central Bank* shall set minimum amount of licensed persons’ charter capital.

61.10. Information on service fees of stock exchange and clearing house shall be publicly available.

61.10-1. *Licensed entities should ensure that information about the investment services they provide, and the terms of those services is accessible to clients and presented in an understandable form prior to the conclusion of an agreement.*

61.11. Licensed persons should prepare their financial statements based on International Financial Reporting Standards.

61.12. *Licensed persons shall maintain accounting and develop financial statements in accordance with the requirements of the Law of the Republic of Azerbaijan on Accounting. Licensed persons should submit their annual financial statements audited by an external auditor no later than five months after the end of the financial year and combined (consolidated) financial statements audited by an external auditor*

no later than six months, together with the auditor's opinion to the Central Bank, publish on their official websites ~~and on print media~~ and submit related information to the Central Bank. Annual financial statements may be published on print media. Licensed persons shall provide a copy of annual financial statements and consolidated financial statements together with an auditor's opinion to any person upon his/her/its request free of charge.

61.13. Licensed persons should retain financial statements and relevant documents for assessment of their financial standing any time.

61.14. The supervisory board of licensed persons shall appoint an external auditor. The *Central Bank* shall determine requirements for external auditors of licensed persons.

61.15. Licensed persons should provide the *Central Bank* with information on appointment of the external auditor (including name and address of the auditor) within seven business day from the date of appointment.

61.16. *Members of supervisory boards and executive bodies of licensed persons, as well as heads of structural units (branches, representative offices, etc.) of licensed persons should deliver information on their acting as related persons in relation to transactions concluded by persons specified in Articles 49-1.1.3 and 49-1.1.5 of the Civil Code of the Republic of Azerbaijan, as well as information on the nature of their interests in relation to that transaction (its origin, scope, etc.) as per Articles 49-1.5, 49-1.6 and 49-1.7 of the Civil Code of the Republic of Azerbaijan.*

61.17. *Providing information in cases that may lead to conflicts between personal interests of members of executive bodies of licensed persons and interests of licensed persons and concluding agreements that conflict with interests of licensed persons, shall be carried out in accordance with the requirements of Article 107-10.5 of the Civil Code of the Republic of Azerbaijan.*

61.18. *The Central Bank shall be entitled to establish regulatory norms and requirements different from those set for other entities, taking into account the systemic importance and/or risk profile of licensed entities operating in the securities market.*

Article 62. Acquisition of qualifying holding in licensed persons and requirements for those shareholders

62.1. The same person may not, directly, or indirectly, hold controlling shares (50 percent or more) in more than one person in the Republic of Azerbaijan holding an investment company license.

62.2. No shareholder shall be allowed to hold more than 20 percent of shares in a person holding a stock exchange license in the Republic of Azerbaijan.

62.3. Persons registered in offshore zones, a list of which is determined by the relevant executive authority, or persons whose founders, qualifying holding and *beneficial owners* are registered in such zones may not be shareholders of licensed persons.

62.4. Persons with qualifying holding in licensed persons and persons intending to acquire shares specified in Article 62.5 of this Law shall:

62.4.1. *have fit and proper qualities* (for individuals).

62.4.2. *comply with prudential norms (if any) in the area of their activity and heads of executive bodies should have fit and proper qualities* (for legal entities).

62.4.3. comply with the requirements set forth in Articles 62.1-62.3 of this Law.

62.4.4. not be citizens of or legal entities registered in the states (*territories*) included in the list shown in Article 9.5 of the Law of the Republic of Azerbaijan 'on Prevention of the Legalization of Criminally Obtained Property and the Financing of Terrorism.'

62.5. Any person may acquire qualifying holding in the charter capital of licensed persons or additional shares, which will raise total shares to the level of qualifying holding in the charter capital of licensed persons, or any share which brings to or causes total shares to exceed 25, 50 or 75 percent of shares in charter capital of licensed persons only subject to approval of the *Central Bank*.

62.6. During application for approval provided for in Article 62.5 of this Law the following documents *and information* should be submitted to the *Central Bank*:

62.6.1. in case the acquirer is a legal entity:

62.6.1.1. copy of a state registration certificate and a charter either notarized or certified as per Article 9 of the Law of the Republic of Azerbaijan 'on Administrative Proceedings', audited financial statements for past three years or in case the legal entity has been in operation less than three years, then the entire time the legal entity has been in operation and relevant documents showing external auditor's opinion, *as well as the information and documents regarding the source of funds channeled to the acquisition of qualifying holding.*

62.6.1.1-1. *Information regarding civil impeccability of executive body's managers. If the person is a foreign national, a certificate issued by relevant public authorities of the country of residence confirming whether the person has a criminal record should be submitted, legalized, or apostilled in accordance with the procedure established by law.*

62.6.1.2. certified copy of the decision of the authorized corporate body of the legal entity on acquisition of intended participation share.

62.6.1.3. information on qualifying holding in capital of other legal entities.

62.6.1.4. information on qualifying holding owners of the legal entity, including:

1. copy of a document on state registration as a legal entity either notarized or certified as per Article 9 of the Law of the Republic of Azerbaijan 'on Administrative Proceedings'.

2. a notarized copy of the charter.

3. approved financial statements for past three years or in case the legal entity has been in operation less than three years, then covering the entire time the legal entity has been in operation, along with external auditor's opinion.

4. copies of ID cards of individual founders, information and documents specifying jobs (types of employment) (if any), ~~information on their civil impeccability with their signatures either notarized or certified as per Article 9 of the Republic of Azerbaijan 'on Administrative Proceedings'~~, if the individual is a foreign national, in addition to the above documents, a recommendation from at least one financial institution in his/her home country (*except for foreigners whose permanent place of residence is in the Republic of Azerbaijan*) and a reference issued by relevant public authorities confirming whether the person has been subject to criminal liability, legalized or apostilled in accordance with the procedure established by law.

5. information on qualifying holding of founders in other legal entities and for each legal entity founder on qualifying holding of other persons in their charter capital.

62.6.1.5. *information on beneficial owners in the form determined by the Central Bank, including information on their civil impeccability as specified by this Law. If the beneficial owner is a foreign national, a certificate issued by relevant public authorities of the country of residence confirming whether he/she has been subject to criminal liability, legalized or apostilled in accordance with the procedure established by law.*

62.6.2. in case the acquirer is an individual:

62.6.2.1. a copy of his/her ID card either notarized or certified as per Article 9 of the Republic of Azerbaijan 'on Administrative Proceedings', information and documents specifying jobs (types of employment) (if any), if the individual is a foreign national, in addition to the above documents, a recommendation from at least one financial institution in his/her home country

(except for foreigners whose permanent place of residence is the Republic of Azerbaijan), as well as information and documents regarding the source of funds channeled to the acquisition of qualifying holding.

62.6.2.2. information on his/her civil impeccability.

If the person is a foreign national, a reference issued by relevant public authorities of the country of residence confirming whether he/she has been subject to criminal liability shall be submitted, legalized, or apostilled in accordance with the procedure established by law.

62.6.2.3. information on qualifying holding of that person in other legal entities.

62.6.3. where the buyer acts as the manager of a foreign legal arrangement, a document confirming this; duly legalized or apostilled copies of documents verifying first, last, middle (if applicable) names, date of birth, the personal identification number or the identity card number, citizenship and permanent residence (if these persons are legal entities, their names and identification numbers) of the manager himself/herself and any other managers (if applicable), the founder of the foreign legal arrangement, the beneficiary (or group of beneficiaries) of the foreign legal arrangement, the settlor of the foreign legal arrangement (if applicable), as well as any other person exercising effective control over the foreign legal arrangement and the founding document of the foreign legal arrangement; where any of the aforementioned persons are politically exposed persons, their close relatives, or close associates, for the purposes of the Law of the Republic of Azerbaijan 'on the Prevention of the Legalization of Criminally Obtained Property and the Financing of Terrorism.'

62.6-1. In case of possibility to obtain documents or information specified in Article 62.6 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be required from the applicant. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System their submission shall be required upon request at the consent of the applicant from the relevant public authority (institution) or provided by the applicant.

62.7. The Central Bank shall review the application specified in Article 62.6 of this Law within 30 business days and take a reasoned decision on approval, if the applicant complies with requirements set in Article 62.4 of this Law, otherwise refusing to grant such an approval submit the decision to him/her/it.

62.8. The Central Bank shall refuse to grant consent for the acquisition of qualifying holding as provided for in Article 62.5 of this Law when:

62.8.1. the documents specified in Article 62.6 of this Law are not submitted in full (taking into account the requirements of Article 62.6-1 of this Law), or the information in the documents is incomplete or incorrect, and the Central Bank's request for their full submission or clarification within ten business days is not fulfilled.

62.8.2. qualifying holding owners (or, in the case of legal entities, heads of their executive bodies) and their beneficial owners do not possess the fit and proper qualities.

62.8.3. there are grounds based on facts indicating that the influence of qualifying holding owners and their beneficial owners on the licensed entity may pose a threat to its sound and prudent management.

62.8.4. the source of funds channeled to the acquisition the qualifying holding is unknown.

62.8.5. the financial condition of the legal entity acquiring the qualifying holding is unsatisfactory.

62.8.6. other non-compliance with the requirements of this Law has been identified.

62.9. If the Central Bank allows acquiring qualifying holding specified in Article 62.5 of this Law in its decision, transactions that ensure acquisition of such a share shall be executed. The central depository shall not register transactions related to acquisition of qualifying holding in charter capital of licensed persons without approval of the Central Bank for such transactions. Transactions resulting in acquisition of qualifying holding pursuant to Article 62.5 of this Law

shall be deemed void from the date of their execution, if entered without approval from the Central Bank.

62.10. The Central Bank may obtain information from ~~other~~ state authorities on qualifying holding owners and persons intending to acquire qualifying holding *in accordance with Article 67.3 of this Law. State authorities should provide the information based on the inquiry of the Central Bank within five working days*

62.11. The approval issued by the Central Bank for acquisition of qualifying holding shall indicate deadline for acquisition.

Article 63. Requirements for managers and other persons holding positions at licensed persons

63.1. Members of licensed persons' executive bodies, supervisory boards, *audit committees* and branch managers of investment companies should:

63.1.1. have higher education.

63.1.2. not be a *member* of the supervisory board, the executive body, the audit committee or *the head and staff of the internal audit service* of a legal entity, which was liquidated due to deterioration of financial standing or bankruptcy, any time during past one year from the date the decision on liquidation was taken. *This requirement shall apply for a period of two years from the date the decision on forced liquidation of the legal entity, declared bankrupt in accordance with the procedure established by law, is taken.*

63.1.3. not have been terminated during past 3 years from their offices due to lack of professional qualities, non-compliance with professional occupation, or for being unsuitable for the office.

63.1.4. *have fit and proper qualities.*

63.1.5. not simultaneously hold any positions with other licensed persons or provide any services to other licensed persons.

63.1.6. have at least five-year experience (provided three of those years in executive capacity) in the financial services sector.

63.1-1. *The head and staff of the internal audit service should meet the requirements of the Law of the Republic of Azerbaijan 'on Internal Audit'.*

63.1-2. *The chief accountant or the person performing these duties of licensed entities should obtain a professional accountant certificate in accordance with the Law of the Republic of Azerbaijan 'on Accounting'.*

63.1-3. *The chief accountant (or the person performing these duties), the head and staff of the internal audit service of licensed entities should have fit and proper qualities.*

63.2. *Written notification of all appointments and changes regarding members of the executive body and supervisory board of licensed persons, as well as heads of branches of foreign investment companies, shall be sent to the Central Bank. The notification shall be attached with the documents and information stipulated in Articles 66.1.10, 66.1.11, and 71.3.5 of this Law. The Central Bank shall review the notification within thirty calendar days and, if there are no errors or deficiencies in submitted documents, shall invite the candidates for an interview within that period. Candidates shall begin performing their duties only after receiving a positive opinion from the Central Bank. The procedure for conducting the interview shall be determined by the Central Bank. If errors or deficiencies are identified in the documents, the Central Bank shall inform the submitters within fifteen calendar days from the date of submission and propose that the errors or deficiencies be corrected. In such cases, the review period for the notification shall be calculated from the time the errors or deficiencies are rectified. If the Central Bank fails to invite the candidates for an interview within the review period, their candidacies shall be deemed positively approved.*

63.2-1. *Written notification of all appointments and changes regarding members of the audit committee, the chief accountant (or the person performing these duties), the head and staff of the internal audit service of licensed persons, as well as heads of branches of investment companies, shall be submitted by the investment company to the Central Bank within seven business days from the date the relevant decision is made. The notification shall be attached with the documents and information concerning these individuals as stipulated in Articles 66.1.10, 66.1.11, and 71.3.5 of this Law. The notification shall also include information confirming that the appointed persons meet the requirements set forth in Articles 63.1 and 63.1-1 through 63.1-3 of this Law.*

63.3. In case of any changes to corporate bodies of licensed persons, they should inform the Central Bank on changes within three business days.

63.4. If members of the supervisory board, *audit committee, and executive body* of licensed persons, *the chief accountant (or the person performing these duties), the head and staff of the internal audit service, as well as heads of branches of investment companies* fail to meet the requirements of Article 63 of this Law, the licensed persons should terminate their authority prematurely within seven business days upon the submission of a proposal by the Central Bank.

63.5. Members of the supervisory board, *audit committee, and executive body* of licensed persons, as well as employees who obtain confidential information while performing their official duties, should maintain confidentiality of such information, except when disclosure is required by the Law of the Republic of Azerbaijan 'on the Prevention of the Legalization of Criminally Obtained Property and the Financing of Terrorism' or by a court decision.

63.6. *The requirements of Article 63 of this Law concerning members of the executive body of an investment company shall also apply to heads of branches of foreign investment companies.*

63.7. *If the documents specified in Article 63 of this Law have been previously submitted to the Central Bank and there have been no changes to those documents, their resubmission shall not be required, provided that the Central Bank is notified in writing accordingly.*

Chapter 8

Licensing of stock exchange, clearing, investment fund depository and investment company activities

Article 64. General licensing requirements

64.1. Only legal entities, licensed pursuant to Chapter 8 of this Law, may engage in activities of a stock exchange, clearing, investment fund depository and investment company (hereinafter – licensed activities) in the territory of the Republic of Azerbaijan. *Banks and local branches of foreign banks that have obtained a license in accordance with Chapter 8-1 of this Law shall also engage in investment services (transactions).*

64.2. *The Central Bank shall issue and revoke a license for licensed activities pursuant to the provisions of Chapter 8 of this Law. The Central Bank shall issue and revoke licenses for the provision of investment services (transactions) by banks and local branches of foreign banks in accordance with the procedures established in Chapter 8-1 of this Law.*

64.3. A license for a licensed activity shall be issued for indefinite time. Only persons, who have obtained a license, may use the license, and may not transfer the license to third parties. The license for licensed activities shall take effect on the date of issue by the *Central Bank*.

64.4. A state fee shall be paid in the amount and as provided for in the Law of the Republic of Azerbaijan 'on State Fees' for the issue of a license for a licensed activity.

64.5. No licensed activities by persons, not registered in the territory of the Republic of Azerbaijan and not subject to regulation and supervision by the relevant supervisory authorities of foreign countries, shall be allowed.

64.6. The license issued to an investment company shall indicate investment services (transactions) specified in Articles 30.3 and 30.4 of this Law to be provided by the investment company. The stock exchange license should indicate the types of markets listed in Article 45.2 of this Law.

64.7. An investment company may extend investment services (transactions) specified in the license for its activities subject to a permit by the *Central Bank* pursuant to Article 74 of this Law. A stock exchange may extend types of markets specified in the license for its activities subject to a permit by the *Central Bank* pursuant to Article 74 of this Law.

64.8. An investment company may not be issued a license only for the ancillary services (transactions) provided for in Article 30.4 of this Law.

64.9. *The requirements of this Article regarding activities of investment companies shall also apply to banks and local branches of foreign banks licensed in accordance with Chapter 8-1 of this Law to engage in investment services (transactions).*

Article 65. Stages of licensing

65.0. The *Central Bank* shall review appeals for obtaining licenses for licensed activities in two stages:

65.0.1. review of an initial appeal for the license of the person empowered by founders under a notarized document.

65.0.2. review of a final appeal after a licensed person is state registered.

Article 66. Documents submitted for obtaining a license for licensed activities during initial appeal

66.1. The following documents *and information* should be submitted during an initial appeal for a license for licensed activities:

66.1.1. an application for obtaining a license for licensed activities (additionally, an application for obtaining an investment company license should list investment services (transactions) it would be providing, and for stock exchanges the application should list markets it would be organizing).

66.1.2. *notarized copy* of the decision on foundation *and the charter approved by the founders*.

66.1.3. information on legal entity founders, including the following:

66.1.3.1a copy of the document on state registration as a legal entity either notarized or approved pursuant to the Law of the Republic of Azerbaijan 'on Administrative Proceedings'.

66.1.3.2. notarized copy of the charter.

66.1.3.3. approved financial statements for past three years, if the entity has been in operation for less than three years, then statements covering operations for the entire period of its activities, including external auditor's opinion.

66.1.3.4. a copy of decision of an authorized authority on planned acquisition of participating shares, the copy to be certified pursuant to the relevant procedure.

66.1.3.5. copies of existing licenses.

66.1.3.6. related party information.

66.1.3.7. a reference from a relevant regulatory authority confirming its *compliance with prudential norms* (if any) in the area of its activities.

66.1.4. copies of ID cards of individual founders and a reference on the place of employment (if any).

66.1.5. if an individual founder is a foreign national (*except for foreigners whose permanent place of residence is the Republic of Azerbaijan*), in addition to the documents listed in Article 66.1.4, a recommendation from at least one financial institution of his/her home country.

66.1.5-1. *a founder who acts as the manager of a foreign legal arrangement – a document confirming this fact; duly legalized or apostilled copies of the of documents verifying first, last, middle (if applicable) names, date of birth, personal identification number or the number of the identity document, citizenship, and permanent place of residence of the founder himself/herself and other managers (if any), the founder of the foreign legal arrangement, the beneficiary (or group of beneficiaries) of the foreign legal arrangement, the settlor of the foreign legal arrangement (if any), and any other person exercising effective control over the foreign legal arrangement (if these persons are legal entities, their name and identification number), and the founding document of the foreign legal arrangement; where any of these persons are politically exposed persons, their close relatives, or close associates for the purposes of the Law of the Republic of Azerbaijan 'on the Prevention of the Legalization of Criminally Obtained Property and the Financing of Terrorism.'*

66.1.6. a notarized document evidencing the authority of the representative to represent founders.

66.1.7. Information and documents regarding *the amount of the proposed charter capital, the share of each shareholder, and the source of funds used to acquire the share*; information about qualifying holding of *qualifying holding owner* founders in other legal entities, as well as, for each *such* founder that is a legal entity, information about qualifying holding of other persons in its charter capital.

66.1.8. *A business plan reflecting at least the business strategy, the types of services envisaged, the organizational structure, financial forecasts for the first three years (including statements of financial position and income statement), and information on the means of provision of information systems and technologies (trading platform, electronic accounting, and other software).*

66.1.9. information on internal control mechanisms to provide activities.

66.1.10. *A list of persons proposed for appointment as founders, members of the supervisory board, audit committee, and executive body, indicating their qualifying holding in licensed entities or other legal entities; information on civil impeccability of those persons (in the case of a legal entity founder, heads of its executive bodies), as well as the chief accountant (or the person performing these duties), and the head and staff of the internal audit service. If these persons are foreigners, a certificate issued by the relevant state authority of their country of residence whether they have been subject to criminal liability shall be provided, legalized, or apostilled in accordance with the procedure established by law.*

66.1.11. *Notarized copies of documents indicating the education and work experience of persons appointed as members of the supervisory board, audit committee, and executive body.*

66.1.12. *Relations among shareholders of the licensed entity in the form determined by the Central Bank, and information about the beneficial owners of the licensed entity, including their civil impeccability information as defined by this Law; if the beneficial owner is a foreigner, a certificate issued by the relevant state authority of his/her country of residence whether he/she has been subject to criminal liability, legalized or apostilled in accordance with the procedure established by law.*

66.1.13. draft internal rules of the stock exchange and the clearing house pursuant to Articles 46 and 54 of this Law respectively.

66.1-1. *In case of possibility to obtain documents or information specified in Article 66.1 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be required from the applicant. In the cases of impossibility to*

obtain such documents or information through the Electronic Government Information System their submission shall be required upon request at the consent of the applicant from the relevant public authority (institution) or shall be provided by the applicant.

66.2. Documents issued by a relevant public authority of a foreign country, that foreign founders submit during an initial appeal for a license of licensed activities, should be either legalized pursuant to international treaties seconded by the Republic of Azerbaijan or apostilled.

Article 67. Review of an initial appeal for a license of licensed activities

67.1. The *Central Bank* shall review documents related to an initial appeal for a license of licensed activities within 60 calendar days of their submission.

67.2. In the event the *Central Bank* detects any mistakes or deficiencies in documents submitted for review (*taking into account the requirements of Article 66.1-1*), it should send a notice to applicants about this within five business days and offer them to eliminate mistakes or deficiencies. This offer should be implemented within ten business days. Submission of the offer shall suspend the flow of time specified in Article 67.1 of this Law. If the *Central Bank* fails to send a written notice to applicants within fifteen *business days* upon submission of documents, the documents shall be deemed received for review.

67.3. *The Central Bank may obtain information from independent and reliable sources, as well as from relevant public authorities (institutions), for the purpose of verifying the documents and information submitted, including the financial status of shareholders and beneficial owners of the licensed entity, fit and proper qualities of qualifying holding owners (in the case of legal entities, heads of their executive bodies), beneficial owners, and persons specified in Article 63 of this Law, as well as information on the source of the licensed entity's charter capital. Public authorities (institutions) shall provide the requested information to the Central Bank within seven business days. Public authorities (institutions) may not refuse to provide the requested information on the grounds that it constitutes a commercial secret, tax secret, or other confidential information protected by law, except for state secrets.*

67.3-1. *Article 67.3 of this Law shall also apply to persons seeking to acquire a qualifying holding in a licensed entity (in the case of a legal entity, its executive body heads) and/or beneficial owners, as well as to persons newly appointed to managerial and other positions in licensed entities, in accordance with Article 63 of this Law.*

67.4. The *Central Bank* shall reject the initial appeal if:

67.4.1. the documents specified in Article 66.1 of this Law are not submitted in full (*taking into account the requirements of Article 66.1-1 of this Law*), or inconsistencies with the requirements of this Law are detected in them, and *errors or deficiencies in the documents are not remedied in accordance with Article 67.2 of this Law, as well as there are facts indicating that the influence of qualifying holding or beneficial owners on the licensed entity poses a threat to its reliable and prudential management, or the source of the licensed entity's initial charter capital or the funds equivalent to the initial charter capital of a branch of a foreign investment company is unknown.*

67.4.3. requirements in Articles 62.4, and 63 of this Law are not met, *as well as beneficial owners are not fit and proper persons.*

67.4.3-1. *financial condition of founders is unsatisfactory.*

67.4.4. it is evident from the business plan that there is a threat of not being able to comply with financial stability or solvency requirements or ensuring normal operation of the licensed person or violation of investors' rights.

67.4.5. internal rules of the stock exchange or the clearing house do not comply with the requirements of this Law.

67.5. The *Central Bank* shall take a substantiated decision on results of review of the initial appeal and send the decision to the applicant within the period set forth in Article 67.1 of this Law.

67.6. The decision of the *Central Bank* to reject the initial appeal may be appealed ~~administratively~~ or at the court.

67.7. After the *Central Bank* approves the initial appeal for the license, the established legal entity shall be state registered pursuant to the Civil Code of the Republic of Azerbaijan. A final appeal for a license should be submitted within ninety calendar days from the date the *Central Bank* approves the initial appeal for the license.

Article 68. Documents submitted for obtaining a license for licensed activities during a final appeal

68.1. The following shall be submitted to the *Central Bank* with a final appeal for a license for licensed activities:

68.1.1. a final appeal with the name, organizational-legal form, location, a current account number and the name of the bank the account is opened with, name of the activity for which a license is requested.

68.1.2. a copy of the state registration certificate either notarized or approved pursuant to the Law of the Republic of Azerbaijan 'on Administrative Proceedings'.

68.1.3. a notarized copy of the charter.

68.1.4. documents evidencing payment of the capital provided for in Article 61.9 of this Law to the bank account.

68.1.5. in the event of any changes to the information provided during initial appeal, a reference about such changes.

68.1.6. information confirming the compliance of persons appointed to managerial *and other* positions with the requirements established by Article 63 of this Law, including notarized copies of relevant documents regarding their education and work experience (*in case of changes*).

68.1.7. qualification certificates of investment company staff to obtain an investment license.

68.1.8. a copy of the document confirming the right to use the office space where it will operate.

68.1.9. legal entity's organizational and management structure, units and their functions, subordination, and reporting.

68.1.10. information on computer and telecommunication systems, electronic accounting, and other software.

68.1.11. document evidencing payment of the state duty.

68.1.12. confirmation of at least three members for obtaining a license for activities of a stock exchange and clearing house.

68.1.13. for a depository license, a document evidencing opening of the account with the central depository.

68.1.14. draft approved internal rules of the stock exchange and the clearing house.

68.2. *In case of possibility to obtain documents or information specified in Article 68.1 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be required from the applicant. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System their submission shall be required upon request at the consent of the applicant from the relevant public authority (institution) or shall be provided by the applicant.*

Article 69. Review of a final appeal for a license of licensed activities

69.1. The *Central Bank* shall review documents for final appeal to obtain a license within thirty calendar days from the day of their submission.

69.2. If submitted documents are incomplete or information in documents are incomplete or false (*taking into account the requirements of Article 68.2 of this Law*), the *Central Bank* shall offer documents to be submitted in full or be corrected. This offer should be complied with within ten business days. Providing the offer shall not suspend the flow of time provided for in Article 69.1 of this Law.

69.3. The *Central Bank* may obtain information from ~~other~~ state authorities to verify information in submitted documents. Public authorities should provide the requested information within fifteen business days.

69.4. The *Central Bank* shall take a substantiated decision on granting or refusing to grant a license within the timeframe provided for in Article 69.1 of this Law and send the decision to the applicant.

69.5. The *Central Bank* shall refuse to issue a license if:

69.5.1. the documents specified in Article 68 of this Law are not submitted in full (*taking into account the requirements of Article 68.2 of this Law*), or inconsistencies with the requirements of this Law are found therein, as well as the information in the documents *is not submitted in full or clarified* as per Article 69.2 of this Law.

69.5.2. *the requirements of Article 63 of this Law are not met and/or the investment company does not have at least one employee holding a qualification certificate for the provision of the main investment services (transactions) specified in Articles 30.3.1, 30.3.4, 30.3.5, or the auxiliary investment service (transaction) specified in Article 30.4.1 of this Law, and does not have at least two employees holding the relevant qualification certificates for the main investment services (transactions) specified in Articles 30.3.2, 30.3.3, or 30.3.6 of this Law.*

69.5.3. any of the grounds provided for in article 67.4 has been revealed.

69.5.4. the final appeal is not sent to the *Central Bank* within the period provided for in Article 67.7 of this Law except for delays in the state registration caused not by the founders.

Article 70. Revocation of licenses for licensed activities

70.1. The *Central Bank* shall revoke a license for a licensed activity if:

70.1.1. a licensed person is liquidated based on the decision of a higher authority.

70.1.2. a licensed person is declared bankrupt.

70.1.3. false or misleading information is discovered in documents submitted for obtaining a license and after clarification of that information, as a ground for refusal of license, the circumstances specified in Articles 67.4 and 69.5 of this Law become known.

70.1.3-1. *there are facts indicating that the influence of qualifying holding or beneficial owners on the licensed entity poses a threat to its reliable and prudential management.*

70.1.4. the licensed activity has not commenced within twelve months from the date of the license for a licensed activity enters into force.

70.1.5. licensed persons engage in the type of activities not specified in the license.

70.1.6. a repeated decision to issue a binding instruction taken in accordance with Article 86.5 of this Law is not implemented within the period specified in that decision.

70.2. If the *Central Bank* issues a decision on revocation of a license, it should send this decision to the persons, whose license is revoked and to tax authorities and publish the information in mass media.

70.3. If a license for a licensed activity is revoked, the stock exchange, the clearing house, the investment fund depository, and the investment company shall be liquidated pursuant to the Civil Code of the Republic of Azerbaijan.

Article 71. **Licensing of a branch of a foreign investment company**

71.1. Foreign investment companies shall provide investment services (transactions) provided for in Articles 30.3 and 30.4 of this Law in the Republic of Azerbaijan by opening their branches. A branch of a foreign investment company shall operate in the Republic of Azerbaijan subject to obtaining a license from the *Central Bank*.

71.2. The *Central Bank* shall review an appeal for obtaining a license on operation of a foreign investment company's branch in two stages pursuant to Article 65 of this Law.

71.3. A foreign company should submit the following documents *and information* to open a branch during an initial appeal:

71.3.1. an application for obtaining an investment license (to include a list of investment services (transactions) that the office would be providing and an address).

71.3.2. a copy of the decision of the authorized corporate body of the investment company on opening a branch.

71.3.3. a document evidencing payment of funds, allocated by the foreign investment company to the branch to be equal to capital, to a bank account.

71.3.4. a statute of the branch.

71.3.5. *A list indicating significant participation shares of the branch manager in the investment company or other legal entities, notarized copies of documents showing information about his/her work experience and education, or, if the person is a foreigner, copies legalized or apostilled in accordance with the procedure established by law, as well as information regarding his/her civil impeccability. If the person is a foreigner, a certificate issued by the relevant public authority of his/her country of residence whether he/she has been subject to criminal liability shall be provided, legalized, or apostilled in accordance with the procedure established by law.*

71.3.6. commercial strategy, organizational structure of the branch, including a business plan with financial forecasts for next three years.

71.3.7. a copy of the decision of the authorized corporate body of the investment company on appointment of the branch manager.

71.3.8. a written permit by the regulatory authority of the home country of the foreign investment company on opening the branch.

71.3.9. a legalized or apostilled copy of the foreign investment company's charter and state registration document.

71.3.10. information on corporate bodies of the foreign investment company.

71.3.11. a list of persons with qualifying holding, including the amount of their shares in the investment company as at the appeal date.

71.3.11-1. *information about the beneficial owner of the foreign investment company as determined by the Central Bank.*

71.3.12. audited financial statements of the investment company for past three years or if the company has been in operation for less than three years, for the entire period of operation and an auditor opinion.

71.3.13. if the foreign investment company is part of any holding of companies, information on such a holding.

71.3.14. legalized or apostilled copies of licenses and permits issued to the foreign investment company in the country of its location.

71.4. During its final appeal for opening of the branch office the foreign investment company shall submit the following documents:

71.4.1. a copy of the state registration certificate.

71.4.2. if any changes have been made to the information submitted during initial appeal, a reference about changes.

71.4.3. a notarized copy of the document evidencing the right to use the office space.

71.4.4. information on information technologies and telecommunication systems, and other software necessary to engage in relevant activities.

71.4.5. employee qualification certificates related to investment services (transactions) that the branch is going to provide.

71.4.6. a document evidencing payment of the state fee.

71.4-1. In case of possibility to obtain documents or information specified in Articles 71.3 and 71.4 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be required from the applicant. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System their submission shall be required upon request at the consent of the applicant from the relevant public authority (institution) or shall be provided by the applicant.

71.5. Review of initial and final appeals for investment licenses for branches of foreign investment companies shall be conducted as per Articles 67 and 69 of this Law.

71.6. Apart from the grounds for refusal to issue an investment company license to branches of foreign investment companies provided for in Articles 67.4 and 69.5 of this Law, the license may also be refused on the ground that the legislation of the foreign investment company does not provide supervision of investment companies, whose supervisory regime is either equal to or stricter than those provided in laws and regulations of the Republic of Azerbaijan.

71.7. An investment license issued to the branch of a foreign investment company may be cancelled for reasons set forth in Article 70 of this Law and pursuant to the decision of the foreign investment company or in case of revocation of its license by the *Central Bank*.

Article 72. Requirements for opening a branch of a local investment company

72.1. *A local investment company shall be free to open a branch in the Republic of Azerbaijan, taking into account the requirements of Article 72 of this Law.*

72.1-1. In the case provided for in Article 72.1 of this Law, a local investment company shall send a written notification to the Central Bank within seven business days from the date of the decision to open a branch. The notification shall include the documents and information specified in Articles 71.3.2, 71.3.5, 71.4.4, and 71.4.5 of this Law. The notification shall also indicate the branch's address, the commencement date of activities, the investment services (transactions) to be provided, and information about the branch manager as specified in Article 63.2-1 of this Law. If the Central Bank fails to respond to the notification within fourteen calendar days or send a written notice to the investment company on non-compliance with binding instructions issued under this Law, or regarding non-compliance of the documents and

information submitted for opening a branch in the Republic of Azerbaijan with the requirements set forth in this Law, the respective branch may commence its activities.

72.1-2. A branch of a local investment company may operate abroad with the permit of the Central Bank.

72.2. A written application (information on address and proposed investment services (transactions) to be included) together with the documents listed in Articles 71.3.2, 71.3.4-71.3.7 and 71.4.3-71.4.5 of this Law should be submitted to the *Central Bank* for obtaining a permit for a *foreign branch* of a local investment company (*taking into account the requirements of Article 71.4-1 of this Law*).

72.3. The *Central Bank* shall review the documents within sixty calendar days from the date of their submission.

72.4. If the *Central Bank* discovers mistakes or deficiencies in submitted documents (*taking into account the requirements of Article 71.4-1 of this Law*), it shall within fifteen business days send a notice to applicant and offer them to eliminate mistakes or deficiencies. If the *Central Bank* fails to send a notice within this period, documents shall be deemed accepted.

72.5. The *Central Bank* shall refuse to issue a permit to a *foreign branch* of a local investment company if:

72.5.1. the documents specified in Article 72.2 of this Law are not complete or are incompliant with the requirements of this Law (*taking into account the requirements of Article 71.4-1 of this Law*), as well as the information in documents are not completed as per Article 72.4 of this Law.

72.5.2. incompliance with *Article 63* of this Law has been found out.

72.6. The *Central Bank* shall, within the period specified in Article 72.4 of this Law, issue a substantiated decision on granting or refusing to grant the permit and send the decision to the applicant.

72.7. A complaint against the decision on refusing the permit can be lodged to court ~~or pursuant to the administrative procedure.~~

72.8. The *Central Bank* shall revoke the permit of a *foreign branch* of a local investment company if:

72.8.1. the license of the investment company is revoked.

72.8.2. the investment company is declared bankrupt.

72.8.3. the investment company is liquidated.

72.8.4. the branch fails to commence operations within twelve months from the date of issue of the permit or the *Central Bank* identifies that the branch has terminated its operations within six months.

72.8.5. incompliance with *Article 63* of this Law is discovered.

72.8.6. the repeated decision to issue a binding instruction, taken in accordance with *Article 86.5* of this Law, is not implemented within the period specified in that decision.

72.8.7. the branch engages in the activities not provided for in its permit.

72.8.8. the investment company takes a decision on closing the branch.

72.9. In the event the *local investment company* applies to the *Central Bank* for revocation of the permit *for operation of a foreign branch*, it should provide reasons for the decision. The *Central Bank* shall review the appeal for revocation of the permit within thirty calendar days and take a relevant decision.

72.10. In the event the *Central Bank* takes a decision on revocation of the permit, it should immediately send related information to the branch, whose permit is revoked and to the relevant investment company and publish it *on media*.

72.11. After a local investment company that opens a foreign branch receives a relevant permit in the host country of its branch, it should send a written notice to the *Central Bank* within five business days.

72.12. *When a local investment company decides to suspend or terminate activities of its branches, it should send a written notification to the Central Bank within five business days, stating the reason for such a decision. The notification shall specify the procedure for transferring assets and liabilities of the suspended or terminated operational unit to the investment company or to another operational unit of the investment company.*

Article 73. Obtaining a permit for opening a representative office of a foreign investment company and revocation of such a permit

73.1. A representative office of a foreign investment company shall operate in the Republic of Azerbaijan pursuant to the *Central Bank's* permit.

73.2. A written appeal should be submitted to the *Central Bank* for obtaining a permit for representative office of a foreign investment company together with the following documents *and information*:

73.2.1. an application for a permit for activities of representative office of investment company.

73.2.2. a certified copy of the decision of the relevant corporate body of the investment company on opening of the representative office.

73.2.3. a statute of the representative office.

73.2.4. A list indicating the significant participation shares of heads of representative offices in the investment company or other legal entities, *notarized copies of documents with the information about their work experience and education, or, if these persons are foreigners, copies legalized or apostilled in accordance with the procedure established by law, as well as information regarding their civil impeccability. If those persons are foreigners, a certificate issued by the relevant public authority of their country of residence whether they have been subject to criminal liability shall be provided, legalized, or apostilled in accordance with the procedure established by law.*

73.2.5. a copy of the decision of the authorized corporate body of the investment company on appointment of the representative office managers.

73.2.6. documents specified in articles 71.3.9-71.3.12 of this Law.

73.2.6-1. *information about the beneficial owner of the foreign investment company as determined by the Central Bank.*

73.2.7. written permit of the regulatory authority of the home country of the foreign investment company on opening the representative office.

73.2-1. *In case of possibility to obtain documents or information specified in Article 73.2 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be required from the applicant. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System their submission shall be required upon request at the consent of the applicant from the relevant public authority (institution) or shall be provided by the applicant.*

73.3. Obtaining a permit for opening of a representative office of a foreign investment company and revocation of such a permit shall be provided in accordance with Articles 72.3-72.11 of this Law. The permit to the representative office of a foreign investment company may be refused on the ground that the jurisdiction of the foreign investment company does not provide supervision of investment companies, whose supervision would be either equal to or stricter than those provided in laws and regulations of the Republic of Azerbaijan.

Article 74. Obtaining a permit for widening a list of investment services (transactions) by investment companies and markets where a stock exchange shall organize trading

74.1. An investment company may extend a list of investment services (transactions) provided for in Articles 30.3 and 30.4 of this Law, and a stock exchange may widen a list of markets specified in Article 45.2 in which it organizes trading subject to permit by the *Central Bank*.

74.2. For an investment company to extend a list of investment services (transactions), and a stock exchange to extend a list of markets where it organizes trading, the following documents should be submitted to the *Central Bank*:

74.2.1. an application (including information on existing services or markets and proposed new services or markets) on extending the list of investment services (transactions) and of markets in which the stock exchange organizes trading.

74.2.2. A certified copy of the decision made by the body of the investment company *or the stock exchange* regarding the expansion of the markets where the investment company's services (transactions) or the stock exchange's trading are conducted.

74.2.3. documents evidencing payment of the capital provided for in Articles 31.3 and 31.4 of this Law to bank accounts in accordance with investment services (transactions) extended by investment companies.

74.2.4. qualification certificates of employees for extended investment services (transactions).

74.2.5. information on information technologies and telecommunication systems, software related to extended investment services (transactions) or markets where trading would be organized.

74.2-1. In case of possibility to obtain documents or information specified in Article 74.2 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be required from the applicant. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System their submission shall be required upon request at the consent of the applicant from the relevant public authority (institution) or shall be provided by the applicant.

74.3. The *Central Bank* shall review documents within thirty calendar days from the date of their submission.

74.4. In the event the *Central Bank* discovers mistakes or deficiencies in submitted documents (*taking into account the requirements of Article 74.2-1 of this Law*), it should within fifteen business days send a notice to applicants and offer them to eliminate mistakes or deficiencies. If the *Central Bank* fails to send a notice within that period, the documents shall be deemed accepted.

74.5. The *Central Bank* shall, within the period specified in Article 74.4 of this Law, send a substantiated written notice to the applicant on granting or refusing to grant the permit.

74.6. The *Central Bank* shall refuse to issue a permit provided for in Article 74.1 of this Law if:

74.6.1. the documents specified in Article 74.2 of this Law are not complete (*taking into account the requirements of Article 74.2-1 of this Law*) or are incompliant with the requirements of this Law, as well as the information in the documents is not completed as per Article 74.4 of this Law.

74.6.2. the investment company fails to secure the capital specified in Articles 31.3 and 31.4 of this Law.

74.6.3. the requirements set in Article 43 of this Law are not provided for investment companies.

74.6.4. information technologies and telecommunication systems, software related to extended investment services (transactions) or markets where trading is organized do not support relevant investment services (transactions) or markets where trading would be organized.

74.7. A complaint may be lodged from the decision of the *Central Bank* to refuse to issue a permit to court ~~or pursuant to administrative proceedings~~.

74.8. *Except for Articles 74.2.3 and 74.6.2 of this Law, the requirements of this Article shall also apply to banks engaged in investment services (transactions).*

Chapter 8-1

Licensing of banks engaged in investment services (transactions)

Article 74-1. Stages of licensing

74-1.1. *The Central Bank shall review appeals for obtaining a license to engage in investment services (transactions) by banks in two stages:*

74-1.1.1. *review of the initial appeal for obtaining a license.*

74-1.1.2. *review of the final appeal for obtaining a license.*

Article 74-2. Documents submitted during the initial appeal for a license and the review of the initial appeal

74-2.1. *Banks should submit the following documents to obtain a license to engage in investment services (transactions):*

74-2.1.1. *an application for obtaining a license to engage in investment services (transactions) (specifying the intended investment services (transactions)):*

74-2.1.2. *a business plan reflecting at least the business strategy for conducting investment services (transactions), the types of intended investment services (transactions), organizational structure, and information about the provision of information systems and technologies (trading platform, electronic accounting, and other software).*

74-2.1.3. *a notification from the relevant regulatory authority of the country where the foreign bank is a resident, confirming the foreign bank's permit to engage in investment services (transactions) in that country, and a written permit for the foreign branch to engage in investment services (transactions) (if required).*

74-2.1.4. *documents confirming compliance with the requirements established by the Central Bank for engaging in investment services (transactions).*

74-2.2. *documents related to the initial license appeal issued by the relevant state authority of the foreign country should be legalized or apostilled in accordance with the procedures established by international treaties to which the Republic of Azerbaijan is a party.*

74-2.3. *The Central Bank shall review the documents related to the initial license appeal within thirty calendar days from the date of their submission.*

74-2.4. *If the Central Bank identifies errors or deficiencies in the submitted documents, it shall notify the applicants within seven business days and propose that they correct these errors or deficiencies. This proposal should be completed within seven business days. The submission of such a proposal shall suspend the running of the deadline set forth in Article 74-2.3 of this Law. If the Central Bank fails to send a written*

notice to applicants within seven business days after the submission of documents, the documents shall be deemed accepted for review.

74-2.5. The Central Bank may obtain information from other public authorities to verify the information in the submitted documents. Public authorities should provide the requested information within seven business days.

74-2.6. The Central Bank shall reject the initial license appeal when:

74-2.6.1. the documents specified in Article 74-2.1 are not submitted in full, or inconsistencies with the requirements of this Law are detected, and the errors or deficiencies are not corrected in accordance with Article 74-2.4 of this Law.

74-2.6.2. the provision of investment services (transactions) poses a risk of deterioration of the bank's financial condition or threatens the rights of investors and creditors.

74-2.7. The Central Bank shall make a reasoned decision on results of the review of the initial license appeal and send the decision to the applicant within the timeframe specified in Article 74-2.3 of this Law.

74-2.8. The Central Bank's decision to reject the initial appeal may be challenged in court.

74-2.9. From the date the Central Bank provides a favorable decision on the initial license appeal, the final appeal for obtaining the license must be submitted within ninety calendar days.

Article 74-3. Documents submitted during the final appeal for a license and its review

74-3.1. During the final appeal for a license, the following shall be submitted to the Central Bank:

74-3.1.1. the final application indicating the type of activity for which the license is requested.

74-3.1.2. a certificate regarding any changes in the information provided in the initial appeal.

74-3.1.3. relevant qualification certificates of its employees for obtaining the license to engage in investment services (transactions).

74-3.1.4. a document confirming the payment of the state fee for investment company activity.

74-3.2. The Central Bank shall review submitted documents within ten calendar days from the date of submission.

74-3.3. If the documents are not submitted in full, or the information in the documents is incomplete or incorrect, the Central Bank shall request the submission of the full documents or clarification of the information. This request should be fulfilled within five business days. The submission of this request suspends the time limit set out in Article 74-3.2 of this Law.

74-3.4. The Central Bank shall make a reasoned decision on granting or refusing the license within the timeframe specified in Article 74-3.2 of this Law and send the decision to the applicant.

74-3.5. The Central Bank refuses to grant a license if:

74-3.5.1. the documents specified in Article 74-3.1 of this Law are not submitted in full, or inconsistencies with the requirements of this Law are found in them, or the information in the documents is not submitted in full or clarified as required under Article 74-3.3 of this Law.

74-3.5.2. the applicant does not have the required number of employees with qualification certificates as established under Article 43.3-1 of this Law to carry out investment services (transactions).

74-3.5.3. any of the grounds specified in Article 74-2.6 of this Law are detected.

74-3.5.4. the final appeal is not submitted to the Central Bank within the timeframe specified in Article 74-2.9 of this Law.

74-3.6. A license to a local branch of a foreign bank shall be refused not only on the grounds provided in Articles 74-2.6 and 74-3.5 of this Law but also if, under the legislation of that country, the supervisory regime over the activity of banks engaged in investment services (transactions) is not equal to or stricter than that envisaged by the legislation of the Republic of Azerbaijan.

Article 74-4. License revocation

74-4.1. The license shall be revoked by the Central Bank if:

74-4.1.1. there is a request of the bank or the local branch of the foreign bank.

74-4.1.2. the banking license (including the license for investment services (transactions) of the local branch of a foreign bank) is revoked.

74-4.1.3. false or dishonest information is found in the documents submitted during the license appeal, and after verification of this information, grounds for refusal of the license arise as per Articles 74-2.6 and 74-3.5 of this Law.

74-4.1.4. the bank fails to engage in investment services (transactions) within six months from the date the license comes into effect.

74-4.1.5. activity types not provided for in the license are carried out.

74-4.1.6. a repeated binding instruction issued under Article 86.5 of this Law is not complied with within the deadline specified therein.

74-4.2. If the Central Bank shall decide to revoke a license, it should immediately notify the license holder and tax authorities and disclose it in accordance with Article 70.2 of this Law.

Chapter 9

Transparency and publication of information

Article 75. Reports from issuers

75.1. Issuers shall submit to the *Central Bank* and publish reports provided for in Article 75 of this Law.

75.2. Issuers' annual reports shall be prepared on annual results, approved by their senior management, and submitted to the *Central Bank*, unless the *Central Bank* issues an instruction to suspend public disclosure of such reports pursuant to Article 75.5 of this Law, they should be disclosed to public, and the issuer shall ensure public access to such reports within next five years.

75.3. Issuers' annual reports shall include:

75.3.1. financial statements *and the external auditor's opinion for its verification (except for micro and small businesses)*.

75.3.2. management report.

75.4. Issuers, whose securities are publicly offered and admitted to trading in regulated markets, should, within no later than two months from the end of first six months of the financial year, disclose their half-yearly reports to the public. A half-yearly report should be approved by the management body of the issuer and submitted to the *Central Bank*. Unless the *Central Bank* issues an instruction to suspend public disclosure of such reports pursuant to Article 75.5 of this Law, reports shall be disclosed to the public. The issuer shall ensure public access to half-yearly reports within next five years.

75.5. Annual and half-yearly reports should be submitted to the *Central Bank* within ten *business* days from the date of their approval by the issuer. In the event annual and half-yearly reports do not comply with the requirements set forth in Article 75.12 of this Law, or contain distorted information, the *Central Bank* shall request the issuer in writing to eliminate mistakes and suspend disclosure of those reports within fifteen business days from their submission.

75.6. Unless the *Central Bank* issues an instruction to suspend public disclosure of such reports pursuant to Article 75.5 of this Law, the issuer shall, within thirty *calendar* days from the date the information in annual and half-yearly reports is submitted to the *Central Bank*, disclose them on its website (if any) and in mass media. Issuers, whose securities are publicly offered and admitted to trading in a regulated market, should disclose their annual and half-yearly reports in

a single data resource provided for in Article 1.0.26 of this Law, its website (if any) and the website of the stock exchange.

75.7. The issuer shall make changes to annual and half-yearly reports prior to their disclosure only subject to their submission to the *Central Bank*. In the event the *Central Bank* discovers deficiencies in changes, it should, within five business days of their submission, request to suspend inclusion of changes into reports. Unless the *Central Bank* requests suspension of including changes to reports within that period, the issuer shall make changes and disclose them to public as provided for in Article 75.6 of this Law.

75.8. The following shall be included in half-yearly reports of issuers provided for in Article 75.4:

75.8.1. interim financial statements.

75.8.2. interim management reports.

75.9. The interim report should contain at least information on significant events during first six months of the financial year and description of risks and problems expected during remaining six-month period, and comments on their effect on interim reports.

75.10. If external auditors review interim financial statements, the issuer should attach the auditors' opinions with reports.

75.11. Article 75 of this Law shall not apply to the following issuers:

75.11.1. state and municipalities, internal organizations to which the Republic of Azerbaijan is a party and *the Central Bank*.

75.11.2. issuers, the nominal value of publicly offered and traded debt securities of which in the regulated market is less than the value set by the *Central Bank*.

75.12. Financial statements of the issuer shall be prepared and certified by an auditor opinion as per the Law of the Republic of Azerbaijan 'on Accounting', and the *Central Bank* shall determine requirements for management reports.

Article 76. Disclosure of information on acquisition or alienation of significant share

76.1. In the event the amount of shares of any person holding voting shares in the issuer, whose shares have been admitted to trading in a regulated market, reaches or exceeds 5, 10, 25, 50 or 75 percent of total amount of shares of the issuer, such person shall, within no later than four trading days, inform the issuer of this by providing a notice. Within three trading days of receiving such information, the issuer shall disclose the information to public.

76.2. In addition to the requirements set in Article 76.1 of this Law, the obligation to provide a notice shall apply also to the following persons:

76.2.1. individuals and legal entities, who use shares based on agreement or any other instrument.

76.2.2. nominal custodians.

76.3. The requirements set forth in Article 76 of this Law shall apply to all persons listed in Article 76.2 of this Law. One party's obligation under a contract or agreement to provide the notice specified in Article 76.1 of this Law shall release another party from the obligation to provide such a notice.

76.4. Article 76 of this Law shall not apply to:

76.4.1. *the Central Bank* – when it acquires shares to implement the monetary policy and financial stability measures

76.4.2. acquisition of shares for a short period during settlement in the course of clearing, which does not result in transfer title.

76.4.3. market maker, who acquires or alienates 5 or 10 percent of shares of the issuer when discharging duties (provided it does not participate in management of the issuer).

76.5. The notice set forth in Article 76.1 of this Law shall contain the following information:

76.5.1. if an individual – 1st, last and middle names. if a legal entity – full name and place of residence.

76.5.2. the date of acquisition of shares.

76.5.3. the number of shares acquired and total percent in the share capital of the joint stock company.

76.6. The issuers specified in Article 76 of this Law should maintain a list of shareholders, qualifying holding. The list should be accessible to public.

Article 77. Requirements for disclosure of information by issuers

77.1. In the event of any changes in the rights confirmed by securities or derivative financial instruments, issuers should immediately disclose this information to public.

77.2. Issuers, whose securities have been publicly offered and admitted to trading in a regulated market (*except for international organizations acceded to by the Republic of Azerbaijan*), shall disclose information to public if:

77.2.1. they issue securities to obtain loans.

77.2.2. they provide securitization (in case amount of the securitization is more than 5 percent of securitization provider's capital).

77.2.3. there are any changes to the use of funds collected by public offering as shown in the prospectus or information memorandum.

77.3. If any changes are planned in the use of funds collected by public offering, the supervisory body of the issuer shall submit to the general meeting of shareholders (shareholders) for approval of the report, that includes reasons for changes, assessment of funds used until that date, a new investment plan and a schedule of its implementation. The issuer shall, within no later than five business days, provide a decision of the general meeting of shareholders (shareholders) to the *Central Bank* and the stock exchange, where the securities have been admitted to trading.

77.4. In the event the issuer, whose securities have been publicly offered and admitted to trading in a regulated market, makes any additions or changes to the charter, it should submit related information to the *Central Bank* and the stock exchange, where securities were traded.

77.5. The information to be disclosed by issuers under this Law shall be published in the Azerbaijani language. Issuers, whose securities have been offered publicly and admitted to trading in a regulated market in the Republic of Azerbaijan and other countries, shall disclose the information to be disclosed under this Law in the language set by the *Central Bank*.

77.6. An issuer may not request any payment from investors for information.

77.7. Issuers, whose securities have been publicly offered and admitted to trading in a regulated market, shall disclose the information to be disclosed under this Law (*if required by this Law*) pursuant to procedures determined by the *Central Bank* in a single data resource provided for in Article 1.0.26 of this Law and its website (if any).

77.8. The *Central Bank* shall determine requirements for the single data resource.

Chapter 10

Prevention of abuses in the securities market

Article 78. **Abuses in the securities market**

78.1. Execution of transactions using inside information and market manipulation shall be considered circumstances of securities market abuse.

78.2. Inside information shall mean the information of specific nature related either directly or indirectly, to one or more issuers, securities, or derivative financial instruments, which has not been disclosed and if disclosed that may significantly affect prices for securities or derivative financial instruments.

78.3. Abuse in the securities market shall be prohibited.

78.4. The following shall be considered manipulation in the securities market:

78.4.1. concluding transactions or issue of orders (instructions), that provide false or misleading information about prices, demand and supply for securities or derivatives.

78.4.2. artificially maintaining and changing prices for securities or derivative financial instruments by a person(s), either alone or in collaboration with others, through concluding transaction or issuing order for concluding transactions.

78.4.3. concluding transactions or issuing orders for concluding transactions using fake means or accompanied by fraud with securities or derivatives.

78.4.4. dissemination of news, gossips or other information *on media* or other means, that either creates or may create false or misleading impression about securities or derivative financial instruments.

78.5. The *Central Bank* shall determine procedures for identifying and preventing circumstances of abuse in the securities market.

78.6. If there are suspicions of entering into transactions in securities or derivatives using inside information or circumstances of market manipulation, the investment company, *the bank engaged in investment services (transactions)* and a stock exchange should immediately inform the *Central Bank*. Disclosure of this information to third parties shall not be permitted.

78.7. The provisions of Chapter 10 of this Law related to insider trading and market manipulations shall not apply to the following:

78.7.1. *operations conducted for the purpose of implementing the Central Bank's monetary and exchange rate policy, as well as the government's borrowing policy.*

78.7.1-1. *transactions with securities, issued by international organizations acceded to by the Republic of Azerbaijan.*

78.7.2. transactions aimed at stabilizing prices for securities and repurchase of securities by issuers pursuant to Article 12 of this Law and article 105.1 of the Civil Code of the Republic of Azerbaijan.

Article 79. **Insiders**

79.1. The following persons shall be considered insiders:

79.1.1. members of the issuer's corporate bodies and its audit committee.

79.1.2. *beneficial owners.*

79.1.3. any person, who may obtain inside information due to his/her position, under agreement or due to transfer of any right by the issuer or other insider.

79.1.4. a person, who discharges duties of the issuer's executive body on a contractual basis.

79.1.5. any person holding, either directly or indirectly, 10 or more percent of share in the capital of the issuer.

79.1.6. any person, who obtains inside information illegally.

79.1.7. any person, who may obtain inside information under agreement or due to transfer of any right by the issuer or other insider.

79.1.8. if persons indicated in Articles 79.1.4 and 79.1.5 of this Law are legal entities, a person, who participates in decision making on behalf of such legal entities.

79.1.9. close relatives (spouses, parents and in-laws, grandparents, children, adopters (*adopted children*), siblings) of persons listed in articles 79.1.1-79.1.5 of this Law.

79.2. The following shall not be permitted for insiders:

79.2.1. execution, either directly or indirectly, of sale and purchase or attempt to conclude such transactions in securities or derivative financial instruments at its own expense or at the expense of a third party using inside information.

79.2.2. transfer of inside information to other persons, except as may be required in due course of his/her professional activities.

79.2.3. inducing or providing recommendation to other persons to enter to purchase (sale) or refuse to enter to purchase (sale) transactions with securities or derivative financial instruments based on inside information.

79.3. Article 79.2.1 of this Law shall not apply to transactions executed to fulfill obligations under agreements on sale or purchase of securities or derivative financial instruments, which have been entered into before possessing inside information.

Article 80. **Disclosure of inside information**

80.1. Issuers, whose securities have been publicly offered and admitted to trading in a regulated market, should immediately disclose such information to public after inside information is created.

80.2. Information disclosed by the issuer should be unambiguous and clearly expressed. Disclosure of incomplete, uncertain, distorted, or ambiguous information shall not be allowed.

80.3. The issuer shall be liable for disclosure of inside information, completeness, and correctness of disclosed information.

80.4. The issuer may postpone disclosure of inside information with the aim of avoiding misunderstanding, provided it ensures confidentiality of information, and the issuer shall be liable for protection of its valid interest and for preventing any damage if:

80.4.1. disclosure of information may affect progress of negotiations or their results.

80.4.2. disclosure of information may create danger of putting the issuer in a difficult financial situation or affect results of negotiations aimed at restoring financial condition of a solvent issuer for a long term, and, consequently, may endanger interests of its investors.

80.4.3. approval of the issuer's other corporate body is required for the decision of issuer's corporate body or agreement entered to by the issuer to enter into force.

80.5. If the issuer discloses information on the decision or agreement provided for in Article 80.4.3 of this Law, information should contain a note to the effect that consent of other corporate body is expected for the decision or agreement to enter into force.

80.6. In the event the issuer makes decision to postpone disclosure of information as provided for in Article 80.4 of this Law, it should immediately provide information to the *Central Bank* together with the reasons for postponement. If the *Central Bank* determines that reasons for postponing disclosure of information does not comply with article 80.4 of this Law, it shall, within three business days, request disclosure of the information.

80.7. If the inside information, disclosure of which was postponed, was disclosed to a third party by the issuer or any other person acting, either directly or indirectly, on behalf of the issuer,

the issuer shall ensure immediate disclosure of such information to public. If the inside information, disclosure of which was postponed, was provided to the person, who under an agreement has obligation of confidentiality towards such information, the disclosure of such information shall not be required.

80.8. The *Central Bank* shall determine procedures for disclosure and submission of inside information to the *Central Bank*.

Article 81. List of insiders

81.1. Issuers, whose securities have been publicly offered and admitted to trading in a regulated market, shall prepare a list of insiders, reflecting information on the persons who have access to inside information.

81.2. The following information shall be in the insiders list:

81.2.1 information on the person having access to inside information (for individuals – 1st, last, middle names, position and/or share in issuer’s charter capital, address, series and number of ID card. for legal entities – full name of the legal person, TIN and name, 1st, last, middle names of the person representing the legal entity).

81.2.2. reasons for including and excluding the person to/from the list.

81.2.3. dates of including and excluding the person to/from the list.

81.2.4. the date when the person was informed about his/her inclusion into or exclusion from the ‘insider list’.

81.2.5. the date when the list was prepared and updated.

81.3. The issuer shall regularly update the insider list and within one working day from receiving request from the *Central Bank* provide the list.

81.4. The issuer shall keep the insider list for five years from the date the list is prepared and in case of updating the list five years from the date the list was last updated.

81.5. The issuer shall inform persons, who have been included into or excluded from the list of insiders.

81.6. The *Central Bank* shall determine procedures for preparing an insider list.

Article 82. Disclosure of information by insiders related to their transactions

82.1. The persons specified in Articles 79.1.1-79.1.4 of this Law shall, when entering into transactions with securities of the issuer, whose securities are publicly offered and admitted to trading in a regulated market and whose insiders those persons are, or with derivatives for which such issuer’s securities comprise the underlying assets, shall, within one working day from the date of the transaction, provide information about such transactions to the *Central Bank* and the issuer

82.2. The following information should be included in the information on transactions provided for in article 82.1 of this Law:

82.2.1. full name of the issuer.

82.2.2. in case transaction is entered into by an individual – 1st, last, middle names, in case of legal entities – full name of the legal person.

82.2.3. the reason for providing the information.

82.2.4. type of the security or derivative financial instrument, which is the subject of the transaction.

82.2.5. the number of securities or derivative financial instruments, which are the subject of the transaction.

82.2.6. price for security or derivative financial instrument, which is the subject of the transaction, and total value of the transaction.

82.2.7. direction of the transaction (sale or purchase).

82.2.8. the date and place of the transaction.

82.2.9. the number (in percentage) of shares of the person in the capital of the issuer after the transaction has been completed.

82.2.10. the date of providing the information.

82.3. The *Central Bank* shall determine procedures for provision to the *Central Bank* of information on transactions concluded by insiders.

Chapter 11

Regulation and supervision of the securities market

Article 83. **Objectives of regulation and supervision of the securities market**

83.1. The *regulation and supervision* of the securities market shall aim to:

83.1.1. protect interest of investors in the securities market.

83.1.2. take necessary actions to ensure transparency in the securities market.

83.1.3. promote the securities market.

83.1.4. issue licenses to relevant persons in the securities market and supervise activities of licensed persons.

83.1.5. adopt *regulations* aimed at regulating the securities market and monitoring compliance with those acts.

83.1.5-1. *determine minimum requirements for maintaining information security in persons licensed in the securities market.*

83.1.6. regulate trading in the securities market.

83.1.7. take measures to avoid manipulations ~~with securities~~ in the securities market and prevent transactions in the securities market using insider information.

83.1.8. suspend trading in securities or derivative financial instruments, file claims to freeze and/or arrest assets with the purpose of protecting investors' rights and ensure security in the securities market.

83.1.9. monitor compliance with this Law and the Civil Code of the Republic of Azerbaijan, and in the event of discovering their violations issue binding orders to eliminate violations.

83.1.10. prosecute those who violate the requirements of the securities market legislation.

83.1.10-1. *monitor operations of licensed persons in the securities market in accounting and financial reporting in accordance with this Law and the Law of the Republic of Azerbaijan 'on Accounting'.*

83.1.11. *take measures in accordance with the Law of the Republic of Azerbaijan 'on the Central Bank of the Republic of Azerbaijan' if it is found out that any person is engaged in activities of an investment company, stock exchange, clearing organization, or an investment fund depository without obtaining a license in accordance with Chapter 8 of this Law,*

83.2. *Chapter 11 of this Law shall also apply to banks engaged in investment services (transactions)*

83.3. *If required for supervising the securities market, licensed persons, and the central depository, as well as auditors who are conducting or have conducted audits of licensed persons, should provide any documents and information related to the activities of those persons to the Central Bank upon its written request, within the period specified in that request.*

83.4. For the purposes of this Law, the criminal record of relevant persons shall be determined based on a certificate issued by the body (institution) designated by the relevant executive authority, upon request by the Central Bank.

Article 84. State register

84.1. The state register of licensed persons, as well as the branches and representative offices of investment companies ~~that have been granted a license or permit~~, shall be maintained by the Central Bank. The state register shall include the names and legal addresses of licensed persons and of the branches and representative offices ~~of licensed or permitted investment companies~~; registration numbers and dates of the licenses or permits issued and revoked (*if a license or permit is required under this Law*); information on the termination of their activities; the services (transactions) provided by investment companies; the types of securities markets to be organized by the stock exchange; and information on the members of its governing bodies. Licensed persons, as well as the branches and representative offices of investment companies ~~granted a license or permit~~, shall be entered into the state register by the Central Bank from the date the relevant license or permit is issued to them (*if required by this Law*).

84.2. The state register of securities issuances, *prospectuses, and information memoranda* shall be maintained by the Central Bank. The state register shall include the names of issuers of securities, their state registration details and legal addresses, the date of the decision on the issuance of the securities, the registration number and date of the securities, as well as information on their type, form, quantity, and nominal value. The procedure for maintaining the state register shall be determined by the Central Bank.

84.3. Information entered to the state register shall be publicly available.

84.4. *Licensed persons and issuers shall submit a written notice to the Central Bank within five business days regarding any changes to the information entered in the register*

Article 85. Onsite inspections

85.1. The Central Bank shall conduct on-site inspections in accordance with the Law of the Republic of Azerbaijan 'on the Central Bank of the Republic of Azerbaijan' to verify whether licensed persons *and the central depository* comply with this Law and *other normative legal acts and regulations* related to the securities market, as well as to assess their financial stability.

85.2. *Inspections related to state control over compliance with competition legislation by licensed persons and the central depository shall be carried out in accordance with the procedure established by the Competition Code of the Republic of Azerbaijan.*

Article 86. Binding orders of the Central Bank

86.1. If, as a result of analyses or investigations (excluding on-site inspections), violations of the requirements of this Law or other *normative legal acts and regulations* related to the securities market, or circumstances that may lead to such violations, are identified in the activities of licensed persons, the central depository, or issuers, *including cases where the Central Bank exercises its substantiated judgment* in accordance with the Law of the Republic of Azerbaijan 'on the Central Bank of the Republic of Azerbaijan,' the Central Bank shall issue written instructions containing binding measures to eliminate or prevent such violations and/or circumstances within a specified period.

86.2. By issuing binding orders, the *Central Bank* shall request from licensed persons, the central depository, or an issuer any of the following as it relates to them:

86.2.1. comply with the requirements set forth in this Law or any other *normative legal act and regulation* related to the securities market.

86.2.2. remove the cases of violation of this Law or any other *normative legal act and regulation* related to the securities market.

86.2.3. submit information or documents.

86.2.4. resubmit the documents already submitted if they contain false or misleading information or deficiencies.

86.2.5. *temporary removal from office or dismissal of persons holding positions specified in Article 63 of this Law in licensed persons.*

86.2.6. *suspension of the opening of new branches of an investment company, or suspension or termination of the activities of its existing branches.*

86.3. The *Central Bank* shall issue a binding order by taking a decision and sending the decision to the person the order relates to. Such a decision should contain reasons for every binding order, measures to be taken and their deadline.

86.4. The person to whom the binding order is issued should, after receiving the decision, take actions necessary to comply with the order within the time specified in the order, and submit the report of such actions to the *Central Bank*. If compliance with the requirements require additional time, the *Central Bank* shall, based on the relevant justified request, set such additional time.

86.5. In the event the *Central Bank* does not receive the report provided for in Article 86.5 of this Law or it is evident from the report that requirements have not been complied with either wholly or in part, it shall issue a repeat decision on a binding order. The provisions of Articles 86.3 and 86.4 of this Law shall apply to such a repeat decision.

86.6. A complaint may be lodged to court or pursuant to administrative proceedings against the decision provided for in Articles 86.3 and 86.5 of this Law.

Article 87. Liability of the *Central Bank* and its employees

The *Central Bank* or its employees shall be liable pursuant to the Civil Code of the Republic of Azerbaijan for damages to individuals or legal entities resulting for their unlawful actions (inactions) during *regulation and supervision*.

Article 88. *Complaint against decision of the Central Bank*

A decision of the Central Bank related to the application of this Law may be appealed in court. Filing an appeal shall not suspend the enforcement of the Central Bank's decision

~~Article 89. Fees paid to the Central Bank~~

~~Persons licensed to operate in the securities market and the central depository shall pay fees to the Central Bank in the amount and manner it establishes.~~

Article 90. Liability

Persons, who violate the provisions of this Law, shall be liable under the Code of the Republic of Azerbaijan on Administrative Offenses, the Criminal Code of the Republic of Azerbaijan, and the Civil Code of the Republic of Azerbaijan.

Chapter 12 **Final provisions**

Article 91. Transitional provisions

~~91.1. Transactions with dematerialized investment securities issued before the date of entry into force of this Law may be concluded only after dematerialization of those investment securities. Conversion of certified investment securities into dematerialized investment securities shall be carried out in the central depository.~~

91.2. Licenses issued for engaging in professional business in the securities market (brokerage, dealer, and asset management) before this Law enters into force, shall remain valid until 1 January 2016 and until such a date, those persons should apply for an investment company license pursuant to provisions of Chapter 8 of this Law.

91.3. The persons who have obtained a stock exchange license until this Law entered into force shall adjust their business to this Law until 1 January 2016.

91.4. Licenses of the persons for engaging in clearing house activities before this Law entered into force shall be terminated as of the date this Law enters into force.

91.5. Licenses issued to persons for engaging in the business of a depository before this Law entered into force shall be terminated as of the date this Law enters into force and they should transfer all securities held by them to the central depository until 15 September 2015.

91.6. Licenses issued to persons for engaging in the business of maintaining register of securities holders before this Law entered into force shall be terminated as of the date this Law enters into force and they should transfer all securities held by them to the central depository until 15 September 2015.

91.7. Joint stock companies, which maintained register of their shareholders before this Law entered into force, shall transfer such registers to the central depository until 15 September 2015.

91.8. The Law of the Republic of Azerbaijan 'on Protection of Investors Rights in Securities Market' dated 16 June 2000, No. 899-IQ (Digest of Laws of the Republic of Azerbaijan 2000, № 10, Article 711. 2002, № 12, Article 706. 2007, № 8, Article 745, № 11, Article 1053. 2014, № 10, Article 1149) shall lose its legal force on the date this Law enters into force.

Ilham ALIYEV,
President
The Republic of Azerbaijan

Baku city, 15 May 2015
№ 1284-IVQ