

## Law of the Republic of Azerbaijan on Securities Market

This Law was adopted pursuant to sections 11 and 15 of Part I of Article 94 of the Constitution of the Republic of Azerbaijan and it sets forth the principles and rules for issue, state registration, public offering of investment securities, depository and post trading systems, market for securities and derivative instruments, organization, management and liquidation of persons holding licenses in the securities market and central depository, and sets forth the legal and economic grounds for relations relating to protection of investors' rights and for regulation and oversight by the state of the securities market.

### Chapter 1

#### General Provisions

##### Article 1. Definitions

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

1.0.1 **related person** - the persons defined in the Civil Code of the Republic of Azerbaijan;

1.0.2 **underwriting** – means the investment service comprised of public offering and placement of securities on behalf an issuer or third party;

1.0.3 **beneficiary** – a legal or physical person, who as a result of transactions with money or other property is the final person receiving the benefits of such transactions, including true owner of the legal person for whose benefit a transaction is completed or a physical person, who controls the client on behalf of the financial transactions and or physical person exercising control over a physical person or legal entity in which other deals are made;

1.0.4 **depot account** – means the account opened at the central depository for the client of a depository member based on the request of that member and all entries relating to the rights of the client to the client's securities are made into that account;

1.0.5 **issuer** – means a legal person, state (acting through a relevant government agency so authorized) or municipality, which issues investment securities pursuant to Chapter 2 of this Law. An issuer is not the owner of the securities it issues;

1.0.6 **Listing of stock exchange** – means list of securities admitted to trading in the stock exchange pursuant to internal rules of the stock exchange;

1.0.7 **Institutional investor** – means investment companies, investment funds and their managers, persons whose principal business it organizing investments in securities, credit organizations, insurance companies, pension funds and their managers, other regulated financial institutions, dealers in commodities and derivatives relating to such commodities, international financial organizations, states, central banks;

**1.0.8 Investment advice** – means any advice to clients relating to purchase, sale, subscription, exchanging of, redemption, holding of securities or derivative financial instruments and whether rights in connection with the securities or derivative financial instruments must be executed or not. An advice, which was disclosed in mass 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 an investment advice;

**1.0.9 Investment research** – means a research for public use, which, either directly or indirectly, offers or recommends an investment strategy, including a strategy relating to one or more securities or derivative instruments, existing and future prices such securities and derivative instruments;

**1.0.10 Investor** – means a person purchasing or making an offer to purchase securities or derivative financial instruments;

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

**1.0.12 Cash account for securities transactions** – means the account, which reflects the cash balance resulting from securities transactions;

**1.0.13 Management of securities accounts** - means the ancillary service provided by an investment company, which service consists of protection and holding of client's assets;

**1.0.14 Branch of investment company** – means a separate division of an investment company, which, while not a legal person, 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** – means a separate division of an investment company located outside the place of the investment company and is not a legal person and is not authorized to provide investment services, but which represents and protects interests the investment company;

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**1.0.17 Financial analyst** – means a person, who prepares investment research;

**1.0.18 Market maker** – means a legal person, constantly conducts sale and purchase of securities or derivative financial instruments on its own behalf within price pools agreed with a stock exchange and at prices determined by itself;

**1.0.19 Significant share** – means holding, either directly or indirectly, 10 or more percent of shares in the charter capital of a joint stock company or being able to influence decisions of the legal person, in which it participates through an agreement;

1.0.20 **Client** – means a physical or legal person, who enters into agreement on purchase of services relating to securities and derivative financial instruments;

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

1.0.22 **Financial market supervisory authority** – *the body established by the relevant executive authority, ensuring the regulation and supervision of the financial markets;*

1.0.23 **Portfolio management** – means an investment company's investment service comprised of managing a portfolio consisting of one or more securities or derivative financial instruments, as well as funds according to instructions given by an individual client;

1.0.24 **Repo agreement** – means a sale or purchase of investment securities with the predetermined obligation to repurchase or resale such securities;

1.0.25 **Regulated market** – means a system operated and managed by a stock exchange, which shows third parties' interest arising from sale and purchase of securities or derivative financial instruments, which have been admitted to trading pursuant to the internal rules of the stock exchange;

1.0.26 **Single data resource** – means an automated systems created by the financial market supervisory authority; this systems contains information, which must be disclosed pursuant and made publicly available pursuant to article 9 of this Law;

1.0.27 **Personal clearance requirement** – in case of holder of a significant share and, in case of legal persons, for the head of corporate authority of such legal person – absence of a criminal liability for crimes committed intentionally; for members of a supervisory council or board of management of an investment company, stock exchange, clearing house and central depository and liquidator – absence of criminal conviction, absence of past criminal conviction record for serious or grave crimes against property or similar economic crimes, not being barred pursuant to a court decision from holding a certain position or engaging a particular occupation;

1.0.28 **Delivery versus payment** – means a principle whereby a seller of securities deliver securities to a buyer or its authorized representative only at the time a buyer makes full payment for the securities;

1.0.29 **Settlement** – means mutual execution of obligations of parties to the securities transactions or transactions with derivative financial instruments.

## **Article 2. Legislation on securities market**

2.1 The securities market in the Republic of Azerbaijan is governed by the Constitution of the Republic of Azerbaijan, the Civil Code of the Republic of Azerbaijan, this Law and

other acts of a normative nature of the financial market supervisory authority of the Republic of Azerbaijan and international agreements to which the Republic of Azerbaijan is a party.

2.2 In the event international agreements, to which the Republic of Azerbaijan is a party, provides for any rules that are different from the rules in this Law, such international agreements shall prevail over the provisions of this Law.

2.3 Relationships in the securities market in the Alat free economic zone are governed by the requirements of the Law of the Republic of Azerbaijan "On Free Economic Zone of Alat".

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

## **Chapter 2**

### **Issue and public offering of investment securities**

#### **Article 3. Issue of investment securities**

3.1 Issue of investment securities consists of actions set out in article 3.5 of this Law taken as a whole.

3.2 Investment securities are placed in issues and rights confirmed by the securities of the same issue shall be the same. Issue of investment securities is the combination of investment securities of the same type, same state registration number and same nominal value.

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

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

3.5 The issue of investment securities must be completed in the following stages:

3.5.1 issue by the issuer of the decision on issue of investment securities;

3.5.2 preparation by the issuer of prospectus or, in cases specified in article 5.5 of this Law, of information memorandum relating to the investment securities to be issued (in cases of public offering of the investment securities);

3.5.3 registration by the financial market supervisory authority of the issue of the securities or approval by such authority of the information memorandum;

3.5.4 disclosure of the information in the prospectus or information memorandum relating to the investment securities (in cases of public offering of the investment securities);

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

3.5.6 approval by the financial market supervisory authority of the report on results of issue of investment securities;

3.5.7 disclosure of information in the on the report on issue of issue of the investment securities (in cases of public offering of the investment securities).

3.6 The financial market supervisory authority shall adopt the rules on issue of government and municipality investment securities.

3.7 The financial market supervisory authority shall adopt the rules on the issue and conversion of investment securities during reorganization of legal persons.

3.8 The financial market supervisory authority shall determine the maximum limits to volume of an issuer's bond issue.

#### **Article 4. Decision on issue of investment securities**

4.1. General meeting of shareholder of a joint stock company adopts decision on issue of shares.

4.2 Decision on issue of bonds is adopted by the relevant corporate body of the issuer, which is so authorized under the legal person's charter.

4.3 The following information shall be in the decision on issue of investment securities:

4.3.1 issuer's name and its place of residence;

4.3.2 date of the decision and place where it was taken;

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

4.3.4 number and total value of the investment securities being issued;

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

4.3.6 underwriters (in cases of public offering of the securities) and terms (with the exception of circumstances indicated in article 8.17 of this Law) of the issue;

4.3.7 procedure for the placement of the investment securities;

4.3.8 start and close dates of the subscription or the method of calculation of such dates;

4.3.9 name of the corporate body, which adopted the decision;

4.3.10 name, last name and sealed signature of the head of the corporate body, which adopted the decision.

## **Article 5. Prospectus and information memorandum relating to investment securities**

5.1 Public offer of investment securities must be accompanied by a prospectus. In order to have investment securities admitted for trading in a regulated market, issuer or any other person offering investment securities must prepare prospectus.

5.2 The prospectus shall contain information concerning financial situation of the issuer and rights confirmed by the investment securities. Content of the prospectus must be unambiguous and fluent.

5.3 The financial market supervisory authority shall determine the requirements with regard a prospectus.

5.4 Persons who participating in preparing a prospectus shall, along with their names and place of residence, insert into a prospectus a statement, whereby they have prepared the prospectus based on true facts.

5.5 In the following cases an information memorandum is prepared instead of a prospectus:

5.5.1 investment securities, including the rights attached to such securities, are offered to or placed among shareholders or participants of a legal person, which is being merged into the issuing legal person;

5.5.2 investment securities, including the rights attached to such securities, are offered to or placed among shareholders or participants of the issuing legal person;

5.5.3 total amount of the investment securities at issue is less than the threshold set by the financial market supervisory authority;

5.5.4 composite nominal value of issuer's investment securities issued during any calendar year is more than the threshold set by the financial market supervisory authority;

5.5.5 investment securities are offered to institutional investor.

5.6 In the following circumstances an issuer does not have the obligation to prepare prospectus:

5.6.1 the state or municipality, international organizations to which the Republic of Azerbaijan is a party or the Central Bank of the Republic of Azerbaijan issues investment securities;

5.6.2 investment securities issued with state guarantee;

5.6.3 value of investment securities offered to each investor is exceed the threshold set by the financial market supervisory authority;

5.6.4 issue of shares for which no payment is required and which are issued dividend payments and in the same type as existing shares;

5.6.5 share issues admitted to trading in regulated market within one calendar year, provided the amount of those shares does not exceed 10 percent of the issuer's share capital;

5.6.6 conversion of investment securities;

5.6.7 investment securities are not offered publicly.

5.7 The following persons shall have liability for information in a prospectus:

5.7.1 issuer and members of its corporate body who approve a prospectus – for all information in the prospectus;

5.7.2 person publicly offering investment securities – for itself and investment securities, which that person has publicly offered;

5.7.3 guarantor (if there is any) – for itself and for the guarantee it has provided;

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

5.8 The financial market supervisory authority shall approve the information memorandum as set forth in article 6 of this Law and shall disclose content of the memorandum as set forth in article 7 of this Law.

5.9 The relevant government authority shall set the requirements relating to information memorandum.

5.10 In the event an issuer adopts the decision on several issues of securities during one calendar year (with the exception of bonds), base prospectus can be prepared.

5.11 The relevant government authority shall set the requirements relating to a base prospectus and its attachments.

5.12 The financial market supervisory authority shall approve and disclose the base prospectus pursuant to articles 6 and 7 of this Law.

5.13 Amendments made by the issuer to a base prospectus in connection with each issue shall be submitted to the financial market supervisory authority pursuant to article 10 of this Law and they shall be state registered pursuant to article 6 of this Law.

5.14 The provisions of this Law relating to prospectus shall apply to base prospectus.

5.15 In case the 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 amended or revised pursuant to article 10 of this Law with the purpose of renewing information on the prospectus or information memorandum, such prospectus or information memorandum shall become valid and effective.

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

## **Article 6. State registration of issue of investment securities and approval of prospectus**

6.1 The financial market supervisory authority state registers issue of investment securities.

6.2 In case of public offering of investment securities, the financial market supervisory authority approves prospectus relating to such securities.

6.3 For the state registration of issue of investment securities an issuer must provide the financial market supervisory authority the following documents:

6.3.1 application to state register issue of investment securities;

6.3.2 decision on issue of investment securities;

6.3.3 copy of the issuer's certificate of state registration and charter, which copy must be certified by a notary or as provided in article 9 of the law of the Republic of Azerbaijan "On Administrative Proceedings";

6.3.4 prospectus relating to the investment securities (in cases issue of investment securities are accompanied by prospectus);

6.3.5 a document evidencing payment of the state duty for approval of the prospectus relating to investment securities (in cases issue of investment securities are accompanied by prospectus);

6.3.6. an example of investment securities certificate (if investment securities are issued in a documentary form).

6.4 The financial market supervisory authority shall review the documents submitted to it in connection with state registration of the investment securities and prospectus relating to such securities within twenty business days from the date of their submission. Unless there are grounds for the refusal of the registration as specified in article 6.6 of the Law, the issue of investment securities must be registered. In these cases the financial market supervisory authority shall issue to the issuer extract from the state register and written notice regarding approval of the prospectus.

6.5 Registration of issue of investment securities consists of approval of the prospectus (in cases issue of investment securities are accompanied by prospectus) and entering of information into the state register.



6.6 Under the following circumstances the supervisory shall refuse registration of the issue of investment securities or approval of the prospectus (in cases issue of investment securities are accompanied by prospectus):

6.6.1 documents submitted to for the state registration of investment securities do not comply with the requirements set in this Law;

6.6.2 financial market supervisory authority has not approved the reports on the results of the previous share issue of the issuer;

6.6.3 prospectus relating to investment securities or decision on issue of investment securities (any other documents serving as the basis for registration of issue of investment securities) contains information that is not accurate or is misleading.

6.7 In case the circumstances listed in article 6.6 of this Law are present, the financial market supervisory authority shall issue a decision on refusal of the state registration of the investment securities and approval of prospectus (in cases issue of investment securities are accompanied by prospectus) indicating the reasons for the refusal and shall, within 2 business days of issuing such decision, send to the issuer the decision.

6.8 Approval of prospectus relating to investment securities, which have been state registered, but have not been publicly offered, during admission of those securities to trading in regulated markets shall be done according to article 6 of this Law by submission of the following documents to the financial market supervisory authority:

6.8.1 written application to approve the prospectus relating to investment securities;

6.8.2 prospectus relating to investment securities.

## **Article 7. Disclosure of prospectus relating to investment securities**

7.1 After the prospectus relating to investment securities is approved by the financial market supervisory authority, the prospectus must be disclosed in single information resource as stipulated in article 1.0.26 of this Law, website of the stock exchange and the issuer (in case there is any).

7.2 The prospectus relating to the investment securities must be available at the issuer's address, point of sale of the investment securities and must be provided by the issuer or an investment company placing the securities free of charge for perusal.

7.3 A prospectus, which has not been approved by the financial market supervisory authority, may not be disclosed or advertised.

7.4 Prospectus relating to investment securities must contain information on places where the prospectus has been published and information necessary for investors to make the decision. The characteristics of investment securities advertising are determined by the Law of the Republic of Azerbaijan "On Advertising".

7.5 Information provided as part of advertisement and by other means must not be uncertain or misleading, and must be in conformity with the information in the prospectus.

7.6 If preparing a prospectus is not required pursuant to article 5.6 of this Law and if there is any date to be provided to investors for their information, such information must be disclosed before the investors.

## **Article 8. Placement of investment securities**

8.1 Placement of investment securities means acquiring by original owners of the issuer's investment securities.

8.2 Investment securities are placed either through public offering or private placement.

8.3 Public offering of investment securities means offering of such securities to indefinite amount of persons, or through means of mass media or to more than 50 persons.

8.4 Private placement of investment securities means offering of securities to less than 50 persons or offering of the investment securities to those persons indicated in the decision on issue of the investment securities.

8.5 An issuer acquires the right to place investment securities from the date the issue of investment securities are state registered.

8.6 Public offering of investment securities (with the exception of offering of share in joint stock company during privatization of state owned enterprises) shall be implemented via stock exchange.

8.7 The period for the subscription to investment securities shall not be longer than three months.

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

8.9 The number of investment securities placed must not be more than the number of such securities shown in the decision on issue of investment securities or the prospectus relating to those securities. If the number of shares placed is lower than the ratio indicated in the prospectus or decision on the issues of those shares, the placement is deemed not completed.

8.10 Except as provided for in article 8.11 of this Law, granting any privilege to one purchaser over other purchasers during purchase of the investment securities shall be prohibited.

8.11 The existing shareholders of a joint stock company shall have the right of first refusal to the shares issued by the company in proportion to the shares held by those

shareholders in the share capital of the company. This right maybe limited pursuant to the decision of the general meeting of shareholders.

8.12 The joint stock company must send the notification on the exercise of the rights of first refusal provided in article 8.11 of this Law by a registered post to each of its existing shareholders within 5 business days from the date issue of the additional shares is 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. The price for the additional shares offered to the 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 price of the investment securities, which are publicly offered, must be paid in cash and this cash must be transferred to the issuer's temporary current account with a bank complying with the requirements of the financial market supervisory authority. The use of those funds are permitted pursuant to article 11.4 of this Law after the completion of placement and the financial market supervisory authority's approval of the results of the public offering.

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

8.15 The financial market supervisory authority shall set the rules for subscription and placement of investment securities.

8.16 The financial market supervisory authority shall set the rules for placement of investment securities of issuer in the Republic of Azerbaijan or issue and placement of investment securities outside the Republic of Azerbaijan by other persons, which securities are secured by the assets of such persons.

8.17 The financial market supervisory authority shall register the shares of the joint stock company found by the state and entire capital of which belongs to the state without applying provisions of Charter 2 of this Law and such securities are deemed placed.

## **Article 9. Suspension of issue of investment securities**

9.1 Suspension of issue of investment securities is the suspension of actions relating to advertisement, placement or subscription to the securities based on the decision of the financial market supervisory authority.

9.2 In the event it is discovered that after the state registration of the securities the terms of the issue or provisions of charter 2 of this Law have been violated, the financial market supervisory authority shall adopt one of the following decisions and such decision must indicate the issuer's name, registration number and date of the investment securities, date of and reasons for the decision:

9.2.1 the persons, who have committed the violation must remedy the violation within a specified time;

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

9.3 Within one business day from issuing any of the decisions provided for in article 9.2 of this Law, the financial market supervisory authority shall provide the decision to the issuer, person implementing public offering or placement of investment securities and must also disclose it in means of mass media.

9.4 The issuer, the person implementing offering and placement of the issuer's investment securities shall, immediately after the receipt of the decision provided for in article 9.2 of this Law, shall publish in the means of mass media, and issuer, whose securities are being public offered and persons implementing public offering of the issuer's investment securities shall publish in the means provided for in article 7.1 of this Law information about the decision, remedy the violations and provide report to the financial market supervisory authority about this.

9.5 In case the financial market supervisory authority issues decision in article 9.2.1 and the financial market supervisory authority determines from the report to be provided under article 9.4 of this Law that the violations have not been remedied or the financial market supervisory authority does not receive the report within a specified time, the financial market supervisory authority shall, within five business days from the date of receiving the report or the date when it must have received the report, issue the decision specified in article 9.2.2 of this Law.

9.6 In case the financial market supervisory authority issues the decision specified in article 9.2.2 of this Law, within 5 business days from the date the financial market supervisory authority receives the report provided for in article 9.4 or from the date it must have received such report, the financial market supervisory authority shall issue one of the following decisions:

9.6.1 if it is determined from the report that the violations have been remedied – decision to continue the issue;

9.6.2 if it is determined from the report that the violations have not been remedied or the report was not provide within a specified time – decision to deem the issue not completed.

9.7 In the event the financial market supervisory authority issues the decision provided for in article 9.6.1, it shall send information about the decision to the persons indicated in

Article 9.3 and in a manner provided for in article 9.3 of this Law, and shall also disclose the decision. In this case the time limit for the offering and placement of investment securities shall be prolonged for a period equal to the suspension period.

### **Article 10. Amendments to prospectus**

10.1 An issuer's corporate body, which adopted decision on issue of investment securities, is authorized to adopt a decision on amendments to the prospectus.

10.2 The written application (together with decision on the amendments, text of the amendment and reasons for the amendments) to register amendments to the prospectus must be submitted to the financial market supervisory authority within five business days from the date of the relevant decision.

10.3 Amendments to the prospectus must be state registered within ten business days from the date of the receipt of the written application.

10.4 In case of circumstances listed in article 6.6 of this Law, the financial market supervisory authority shall refuse the state registration of amendments to a prospectus as provided in article 6.7 of this Law.

10.5 Amendments to a prospectus must be disclosed within five business days of their state registration using the means specified in article 7.1 of this Law and shall enter into force after fifteen business days from their disclosure.

10.6 The investors, who have submitted their subscription order to purchase the securities before amendments to the prospectus enter into force, have the right to withdraw their order within seven business days from the date the amendments are disclosed.

10.7 Amendments to an information memorandum are made pursuant to 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 investment securities are completed the issuer or the person offering the investment securities shall submit to the financial market supervisory authority the report on the results of issue or public offering of investment securities.

11.2 The financial market supervisory authority shall set the requirements with regard the report on the results of issue or public offering of investment securities.

11.3 The financial market supervisory authority shall review the report on the results of issue or public offering of investment securities and unless the grounds specified in article 11.5 of this Law are present, the financial market supervisory authority approves the report.

11.4 After the financial market supervisory authority approves the report 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 such account shall be transferred to the issuer's account (for publicly offered investment securities).

11.5 If during the review of the report on the results of issue or public offering of investment securities the financial market supervisory authority discovers the violation of terms of issue or public offering of securities, or violation of provisions of charter 2 of this Law, it shall issue any of the following decisions:

11.5.1 decision on remedying violations by the persons, who have committed the violations within a defined period of time;

11.5.2 in case the violations may not be remedied, the decision to refuse approval of the report on the results of issue or public offering of investment securities.

11.6 In case of decision provided for in article 11.5.1 of this Law, the person committing the violation shall, within the time specified by the financial market supervisory authority, submit to the financial market supervisory authority the report on remedying the violation together with the supporting documents. If the financial market supervisory authority determines from such report that the violations have been remedied, it shall approve the report on the results of issue or public offering of investment securities, and if the violations are not remedied or the report about such violations is not submitted, the financial market supervisory authority shall issue the decision pursuant to article 11.5.2 of this Law.

11.7 In the event the financial market supervisory authority issues the decision pursuant to article 11.5.2 of this Law, the issuer shall cause the funds received from placement and sale of the investment securities to be returned to investors within ten business days and the issuer shall also submit the report about this to the financial market supervisory authority.

11.8 The securities, which were included in the issue covered by the report, but which have not been placed, shall be deemed canceled from the moment the financial market supervisory authority approves the report on the results of issue or public offering of investment securities.

## **Article 12. Stabilization of prices of investment securities**

If a prospectus or information memorandum relating to the investment securities issued provides for possibility of entering by the issuer or underwriter into transactions aimed at stabilizing prices of the investment securities, the issuer or underwriter shall enter into the transactions aimed at stabilizing the prices of the investment securities after trading in publicly offered investment securities commence. The financial market supervisory authority shall adopt the rules on stabilization of prices of investment securities.

### **Article 13. Circumstances when issue of investment securities is deemed not implemented**

13.1 Under the following circumstances the financial market supervisory authority shall consider the issue not implemented:

13.1.1 if the number of investment securities placed is below the number set in the prospectus, information memorandum or decision on issue of investment securities;

13.1.2 if the prospectus becomes invalid pursuant to article 5.15 of this Law;

13.1.3 if the decision provided for in 11.5.2 of this Law is adopted;

13.1.4 if the decision provided for in 9.6.2 of this Law is adopted.

13.2 In the event the financial market supervisory authority issues the decision to deem the issue of investment securities not implemented, it shall, within one day from the date of the decision, provide a written notice to the issuer, the persons implementing the offering and placement of the investment securities and shall also disclose its decision in means of mass media.

13.3 The issuer shall disclose the information on the issue not being implemented in the means of mass media, and the issuer, whose securities have been publicly offered and admitted to trading in a regulated market, shall disclose such information through the means provided for in article 7.1 of this Law, and shall, within ten business days of completion of placement, shall cause investors' funds be repaid to them and shall provide the financial market supervisory authority information about these actions.

### **Article 14. Issue of investment securities are deemed invalid**

In the event the provisions of this Law were breached during issue of investment securities, a court may hold the issue invalid. In this case all securities in that issue must be withdrawn from the market and funds received from placement of such securities must be repaid to investors.

## **Chapter 3**

### **Securities depository system**

#### **Article 15. Structure of Depository System**

15.1 A depository system is comprised of the system of relations between the central depository and its members, which relations relate to dematerialization, storing,

registration of securities, confirmation of rights on and to securities, creation of encumbrance over securities, 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 through such accounts.

15.2 The central depository, investment companies, which are its members and depositories of investment funds collectively form the depository system. The central depository is the central organization of this system.

15.3 The central depository manages the securities depository system.

15.4 The central depository also ensures protection of investors.

15.5 The central depository is not responsible for the obligations of its members, and its members are not responsible for the obligations of the central depository.

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

15.7 The central depository shall comply with the following:

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 and operations;

15.7.5 have financial resources sufficient to prevent possible risks.

## **Article 16 Legal Status and Management of Central Depository**

16.1 The National Depository Center manages central depository system. The central depository is a non-governmental organization found by the financial market supervisory authority acting on behalf of the Republic of Azerbaijan. The main purpose of the central depository is not to derive profits and its profits are used for development of the depository system.

16.2 Only the National Depository Center is authorized to use terms “central depository” as part of its name.

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

16.4 Main office of the central depository is located in the Republic of Azerbaijan.



16.5 Supervisory council of the central depository is its supreme governing body, while its management board is the executive body of the central depository.

16.6 The supervisory council of the central depository shall have five members. Two of the members shall be representative of the financial market supervisory authority, two of the members shall be representatives of the members of the central depository pursuant to Article 19.1 of this Law and one member shall be an independent member. Other members of the supervisory council shall appoint the independent member. The independent member must not be employee of the financial market supervisory authority, central depository, investment company, stock exchange or clearing house and its income shall not be derived from the capital markets. The members of the supervisory council shall be appointed for 5 years and may be reelected only for one additional term.

16.7 The representatives of central depository's members in the supervisory council specified in Article 19.1 of this Law shall be elected during a meeting of such members by simple majority votes of the members in a secret poll during meeting of the members organized at the initiative of the financial market supervisory authority and the quorum for such meeting shall be simple majority of the members.

16.8 A member of the supervisory council of the central depository may be terminated under the following circumstances:

16.8.1 based on her request;

16.8.2 upon expiry of her term;

16.8.3 termination prematurely, subject to the procedure through which she was appointed or elected;

16.8.4 subject to the decision of the court, which entered into force.

16.9 In the event of premature termination of a member of the supervisory council, the term of a new member appointed for the same position shall not exceed the term of the terminated member.

16.10 The supervisory council shall have its chairman. The members of the supervisory council shall elect chairman of the supervisory council and its deputy based on nominations by the financial market supervisory authority. In the absence of the chairman, its deputy shall perform authorities of the chairman.

16.11 The supervisory council shall hold ordinary and extraordinary meetings. The supervisory council shall hold ordinary meetings not less than once every quarter. Extraordinary meetings of the supervisory council may be called by supervisory authority, chairman of the supervisory council, at least two members of the supervisory council or management board of the supervisory council. A notice of the meeting of the supervisory council must be sent to its member not less than 3 days prior to the planned date of the meeting.

16.12 The quorum for the meetings of the supervisory council shall be at least 3 (including the chairman and its deputy) members.

16.13 The supervisory council shall adopt its decision by a simple majority of votes of the members present at the meeting. In the event votes are equal, the chairman shall have the casting vote. No member of the supervisory council shall remain neutral.

16.14 Decisions of the supervisory council shall be formalized in minutes of the meeting. The minutes shall be signed by the chairman and secretary of the meeting.

16.15 The procedure for convening and holding of supervisory council meetings shall be set by the supervisory council.

16.16 The supervisory council of the central depository shall have the following authorities:

16.16.1 approve the operations strategy of the central depository;

16.16.2 approve the organizational structure and maximum number of employees of the central depository;

16.16.3 approve annual budget and amendments to such annual budget and financial statements of the central depository;

16.16.4 submit proposals to set central depository's service fees by the financial market supervisory authority in coordination with relevant executive authority;

16.16.5 approve form and amount of remuneration of employees of the central depository;

16.16.6 approve internal rules of the central depository, including regulations of the management board and structural units;

16.16.7 determine forms, purpose and rules of the placement [or use] of the funds of the central depository;

16.16.8 approve the rules on 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 chairman of the management board;

16.16.10 appoint and terminate 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 representatives offices of the central depository, approve their regulations;

16.16.13 resolve other matters within its competence under this Law or matters relating to its activities, as it may decide on its discretion.

## **Article 17. Activities of central depository**

17.1 The central depository shall perform the following activities:

17.1.1 holding and registration of securities;

17.1.2 registration 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 the register of owners of securities;

17.1.5 maintain the register of accounts of nominal holder;

17.1.6 register encumbrance over securities;

17.1.7 provides services to its members, issuers, stock exchanges, clearing houses in connection with its duties provide 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 the duties provided for in the Law of the Republic of Azerbaijan On Investment Funds;

17.2 The central depository may provide clearing services without obtaining the relevant license.

17.3. The Central Depository shall comply with the requirements of international agreements where the Republic of Azerbaijan is a party, to the exchange of normative legal acts of the Republic of Azerbaijan, as well as the exchange of tax and financial information, in case of opening accounts or rendering financial services, and pursuant to these international agreements the legal entities and physical persons of foreign states information on the financial transactions, they carry out shall be submitted to the competent authorities of that foreign country on the basis of the requirements of Article 76-1 of the Tax Code of the Republic of Azerbaijan.

## **Article 18. Internal rules of central depository**

18.1 The supervisory council of the central depository shall adopt at least the following internal rules:

18.1.1 rules on requirements to members of the central depository (becoming a member, termination of membership, activities and liabilities);

18.1.2 rules on opening, closing and management of depo accounts in the central depository, cash accounts for securities transactions and cash accounts as provided in the Law of the Republic of Azerbaijan On Investment Funds;

18.1.3 rules for formation and maintenance of register of securities owners;

18.1.4 rules on holding of securities;

18.1.5 rules on creating security interest over securities;

18.1.6 rules on registration and transfer of securities;

18.1.7 risk management rules;

18.1.8 rules on payment of service fees;

18.1.9 protection and transfer of information.

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

## **Article 19. Members of the central depository**

19.1 Investment companies and depositaries of investment funds are members of the central depository.

19.2 The central depository must, within one month from the date of receiving application for admission to membership, admit as its member an investment company or depository of an investment fund, which complies with the membership requirements set forth in the internal rules of the central depository.

19.3 Members of the central depository shall have the following duties:

19.3.1 management of accounts of securities owners;

19.3.2 ensure transfer of securities in the depository system;

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

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

19.3.5 provide its clients with information about its liquidation or reorganization or failure to perform its obligations before the clients;

19.3.6 in the event the agreement with the client is terminated, provide information to the central depository about such termination together with the reasons of the termination;

19.3.7 depositories of investment funds shall comply with their obligations specified in the Law of the Republic of Azerbaijan On Investment Funds.

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

19.5 The central depository shall immediately inform the financial market supervisory authority of the following:

19.5.1 when members do not fulfill their financial obligations before the central depository;

19.5.2 it is discovered that indicators of a member's financial sustainability have fallen below the levels set by the financial market supervisory authority;

19.5.3 any changes to the list of member.

19.6 The central depository and its members may not do the following:

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

19.6.2 use a client's securities to secure its own or a third party's obligations;

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

19.6.4 transfer information about situation with the account of a client, other than as may be required pursuant to a court decision or as maybe provided in response to an inquiry from the financial market supervisory authority or financial monitoring agency.

## **Article 20. Relations of the central depositor with its members**

20.1 A collective agreement governs 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 other any circumstances.

## **Article 21. Client's rights**

21.0 A client has the right to directly deal with the central depository under the following circumstances:

21.0.1 in order to suspend any transactions with securities;

21.0.2 to receive information about securities owned by the client.

## **Article 22. Accounts and assets of clients with central depository**

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

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

22.3 Registration in the central depository of security interest over securities of the client held in the client's depo account may be done with the written consent of the client (except in cases provide in a court decision).

22.4 Depo accounts are used for determining ownership rights to securities, limitations on the use of rights and exercise of rights confirmed by securities.

22.5 Execution of order regarding transfer of securities or exercising of other rights in the depository system are 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 a transfer of securities may be imposed by virtue of a pledge or pursuant to a court order or by the financial market supervisory authority pursuant to article 1078-20.4 of the Civil Code of the Republic of Azerbaijan.

22.7 In order to confirm rights of a person disposing of the securities and in order to allow a notary to obtain information on securities registered in the depository system and any encumbrance over those securities in real time and to immediately transfer the agreements certified by a notary to the depository system and to obtain from the depository system documents confirming a purchaser's rights, the information exchange shall be secured using electronic information systems. The financial market supervisory authority shall set the requirements relating to execution of obligations under agreements certified by a notary and their registration in the depository system and security of information exchange using the electronic information systems.

## **Article 23. Registration of securities**

23.1 Investment securities are issued in the form of a documentary or in dematerialized form. Investment securities in dematerialized form should be kept in a central depository.

23.2 After the financial market supervisory authority state registers the dematerialized securities, the central depository must enter into depo accounts and register.

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

23.3.1 type and form of the securities;

23.3.2 state registration number of the securities;

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

23.3.4 nominal value of securities;

23.3.5 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 obligations of 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 must have a depo account in the depository system.

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

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

#### **Article 25. Register of securities owners**

25.1 The register of securities owners in the composition of information on issuer, its securities, securities owners and nominal holders.

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

25.3 The following information must be included into the register of securities owners:

25.3.1 for owners who are legal persons – full name, address, individual identification number provided for in article 26 of this Law;

25.3.2 for owners who are physical persons – name, patronymic, last name, address, 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 relating to owners or nominal holders of securities.

25.4 The central depository shall regularly update the following information on legal persons – based on register of legal persons and on physical persons – based on information provided by them:

25.4.1 in case of change of state registration number;

25.4.2 in case of change of number of a personal identification card;

25.4.3 in case of change of a legal person's name, physical person's name, patronymic or last name;

25.4.4 in case of change of address.

## **Article 26. Individual identification number of securities owners**

26.1 Each securities owner and member of the central depository must have its individual identification number in the depository system. Individual identification number is assigned to a client when acquiring title to securities and to members, when they are admitted to membership.

26.2 Individual identification numbers are determined based on number of identification card of citizens and for legal persons based on the state registration number of legal persons.

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

## **Article 27. Nominal holder**

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

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

27.3 A nominal holder must provide information to its clients regarding execution of the clients' orders.

27.4 Except as provided in article 27.6 of this Law, a nominal holder must not disclose the name of its client without the client's consent.

27.5 A nominal holder must have sufficient information to be able to identify its client and securities owned by them.

27.6 A nominal holder must, within five business days, provide to the financial market supervisory authority or the central depository information about identification of clients whose securities it holds as a nominee based on the demand from the financial market supervisory authority or the central depository.



27.7 A nominal holder does the following based on orders from its clients:

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

27.7.2 enters into transaction relating to securities;

27.7.3 records securities in its books;

27.7.4 creates encumbrance over securities;

27.7.5 protects its client's interests;

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

27.8 If a client so instructs in the securities owner's register the client's name must appear instead of nominal holder's.

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 must return the securities upon a demand from a client.

## **Article 28. Disclosure and protection of information on securities**

28.1 The central depository shall disclose to public generalized information on securities, except for information on securities owners.

28.2 Information identifying owners of securities, which is held at the depository system, is considered confidential. Such information is provided to the financial market supervisory authority, financial monitoring agency or a court based on their request.

28.3. Information provided for in Article 28.2 of this Law shall be provided to the monitoring participants and other persons participating in monitoring in accordance with the Law of the Republic of Azerbaijan "On Combating the Legalization of Criminally Obtained Funds or Other Property and Terrorist Financing" on request.

## **Article 29. Liability for damages to securities owners**

29.1 Member of the central depository shall be liability before its client for any damages resulting from its failure to enter order or for entering incorrect or misleading information in the depository system.

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

## **Chapter 4**

### **Investment companies**

#### **Article 30. Investment company and its services**

30.1 Investment company is a legal entity created in the form of an open joint company, which holds a license for engaging in the business of an investment company, and sole business of which consists of investment services provided for in articles 30.3 and 30.4 of this Law.

30.2 An investment company provides core and ancillary investment services.

30.3 The following are the core investment services (transactions):

30.3.1 Accepting and executing orders of clients relating to transactions with securities and derivative financial instruments;

30.3.2 Management of portfolio of individual investors;

30.3.3 providing investment advice;

30.3.4 placement and underwriting of securities without undertaking obligations;

30.3.5 placement and underwriting of securities by undertaking obligations;

30.3.6 execution of transactions with securities or derivative financial instruments on its own behalf as a member of the central depository and stock exchange;

30.3.7 margin trading.

30.4 The following are ancillary investment services (transactions):

30.4.1 administration of its client's securities account, including execution of transactions relating to creation of security interest over securities or derivative financial instruments;

30.4.2 granting credit or other loans to investors to allow them to engage in transactions relating to securities or derivative financial instruments;

30.4.3 investment research and financial analysis relating to securities or derivative financial instruments;

30.4.4 act as collateral manager in case of secured bonds;

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

30.5 The Central Bank of the Republic of Azerbaijan is authorized to enter into transactions relating to securities or derivative financial instruments on its own name

without obtaining a license for investment company activities, if those transactions are entered for nationwide's interests.

30.6 The financial market supervisory authority shall adopt rules on engaging in investment services (transactions) by investment companies as provided in articles 30.3 and 30.4 of this Law.

30.7. The investment company shall comply with the requirements of the international agreements of the Republic of Azerbaijan, which provide for the exchange of normative legal acts of the Republic of Azerbaijan, as well as the tax and financial information of the Republic of Azerbaijan, in case of opening accounts or rendering financial services to clients and according to these international agreements the legal and physical persons of foreign states shall submit information on the financial transactions they carry out to the competent authorities of the foreign countries on the basis of the requirements of Article 76-1 of the Tax Code of the Republic of Azerbaijan.

### **Article 31. Prudential control measures for investment companies**

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

31.2 The capital requirements for investment companies encompasses requirements with regard the company's charter capital and sustainable capital requirements throughout the time an investment company is in operation.

31.3 In order to engage in providing the core and ancillary investment services (transactions) as specified in articles 30.3 and 30.4 of this Law an investment company shall maintain its charter capital the minimum amount of which is set by the financial market supervisory authority.

31.4 For 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 must be set at a higher amount.

31.5 The financial market supervisory authority shall set the requirements with regard sustainable capital requirements for investment companies by taking into account the assets under their management and their trading books.

31.6 If the amount of an investment company's charter capital or sustainable capital falls below the set minimum amounts, the investment company must inform the financial market supervisory authority of this within three business days.

31.7 An investment company's internal control system must ensure the following:

31.7.1 determination and assessment of risks, which may affect compliance with sustainable capital requirements;

31.7.2 assessment of accounting and reporting systems;

31.8 An investment company must assess on a regular basis effectiveness of its internal control system and if the need arises must update its internal control system.

31.9 The risk management system of an investment company must ensure the following:

31.9.1 adoption of internal rules for management of risks relating to the investment company;

31.9.2 determination of acceptable levels of risks encountered during its business activities and consistent control of risk levels;

31.9.3 assessment of risk management systems;

31.9.4 determination of risk profile of the investment company.

31.10 The capital requirements provided for in articles 31.3 and 31.4 of this Law shall enter into force not earlier than six months from the date of their announcement to investment companies.

31.11 The prudential requirements to investment companies are applied on a consolidated bases under the following circumstances:

31.11.1 if they have any subsidiaries;

31.11.2 if an investment company itself is a subsidiary.

31.12 If an investment company is subject to prudential rules on consolidated bases due to its parent company as provided in Law, the investment company shall be exempt from the obligations set forth in article 31.1 of this Law.

## **Article 32. Organizational requirements to investment companies**

32.1 In order to engage in its business an investment company shall fulfill the following:

32.1.1 Adopt and apply organizational structure, which clearly defines internal rules systems and duties;

32.1.2 ensure that associated persons are informed about fulfillment of their duties;

32.1.3 employ staff having adequate professional qualifications;

32.1.4 apply the system of internal reporting and information exchange;

32.1.5 record its activities in electronic form;

32.1.6 take measures to prevent conflict of interests;

32.1.7 taking security measures relating to maintenance and restoring of the data base interruptions that may occur during the time of providing the services and possesses

sufficient technical resources and implement adequate procedures in connection with this;

32.1.8 in case of outsourcing any of its services, take measures to reduce its operations risks;

32.1.9 adopt rules on review and recording of client complaint.

32.2 An investment company must implement internal audit system complying with the following requirements:

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

32.2.2. providing recommendations in connection with audits carried out according to

32.2.3. ensuring control over implementation of the recommendations;

32.2.4. preparation of reports on the results of the audit.

32.3. Reports on internal audits and risk management must be provided to the investment company's supervisory council at least once a year.

### **Article 33. Assets of investment company's clients**

33.1 An investment company must protect its client's rights to their assets. Except as may be required otherwise by a court decision, 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 satisfy the obligations.

33.2 An investment company may not create security interest over its client's assets without the client's written consent.

33.3 An investment company shall do the following in order to protect its client's rights:

33.3.1 record its clients separate from its own clients and from assets of other clients;

33.3.2 ensure correct operation of a client's account and the system of recording, and shall cross check their accuracy;

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

33.3.4 take measures to reduce risks of damages to clients' assets and their associated rights to assets, which risks may result from abuse, inefficient administration, inaccurate recording.

**Article 34. An investment company's activities and reports and information investment company must provide to supervisory authority in connection with its activities**

34.1 An investment company shall submit to the financial market supervisory authority 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 pursuant to the provisions of this Law.

34.2 All investment companies must submit to the financial market supervisory authority half-yearly reports, in addition investment companies specified in article 31.4 of this Law must submit monthly reports, and in addition investment companies specified in article 31.3 of this Law shall submit quarterly reports relating to capital requirements.

34.3 In the event an investment company fails to fulfill its obligations relating to repo transactions, lending securities or derivative financial instruments, it must immediately inform the financial market supervisory authority of such failure.

34.4 The financial market supervisory authority shall set the rules on preparation and submission of reports by the investment companies pursuant to article 34.1 of this Law.

**Article 35. Reports by investment companies to their clients**

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

35.2 An investment company must provide report on the status of execution of the client's orders subject to the client's inquiry.

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

35.4 In case an investment firms provides services of portfolio management and administration of a client's account and if the use of secured transactions resulted in a loss that is higher than a preset level, the investment company must inform the client of this not later than the next business day.

35.5 The 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 must be able to take technical and organization measures and have internal procedures to identify, manage and prevent any conflict of interest that may arise between a related person of an investment company, investment company and its client and the investment company 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 may check the presence of at least the below risks in order to identify any conflicts interest that may endanger its client's interests:

36.2.1 possibility of an investment company's or related person's obtaining profit or avoiding a damage to the detriment of a client;

36.2.2 difference between interest of a client and investment company or its related persons 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 person to hold interest of one client from interests of any other clients

36.2.4 engaging by the investment company or its related person in the business, which is the same as the business in which the client is engaged;

36.2.5 except for the payment of services fees for the services, payment to an investment company by third parties of any profit or supplying of any service as a result of an investment company's provision of the services to clients.

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

36.4 Internal rules of an investment company on prevention of conflict of interest must set forth the following:

36.4.1 investments services (transactions) that create the risk of conflict interest 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 regarding persons who prepare such research**

37.1 The following shall be prohibited during investment research:

37.1.1 With exception of transactions by a market maker aimed at stabilizing the market or transactions aimed at completion of execution of client orders, entering into transactions with securities or derivative financial instruments, which are subject of the

investment research, by financial analysts or other related persons of the investment company until such time as the investment research is implemented and its results are disclosed to the public or to a client.

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

37.1.3 promising by investment company, financial analyst or other related persons of the investment company participating in preparing an investment a favorable results to the issuer, who has an interest in the investment research;

37.1.4 in an investment research contains recommendation or forecast of prices of securities or derivative financial instruments, review by an issuer, related persons of an investment company not involved in the research or other persons (with the exception of review for the purposes of determining compliance with investment company's obligations) with the draft of the investment research before their disclosure;

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

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

37.3 The financial market supervisory authority shall set the rules on disclosure of information by persons conducting research on securities and their issuers, disclosing results of the research and recommending or suggesting an investment strategy.

## **Article 38. Requirements to execution of order relating to investment services**

38.1 Information provided by an investment company to its clients must not be false or misleading.

38.2 Investment company must provide the following information to its clients:

38.2.1 information regarding the investment company and its services (transactions);

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

38.2.3 place of execution of orders;

38.2.4 costs in connection with execution of orders.



38.3 An investment company must adopt rules on execution of orders. These rules must provide for 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 must control the efficiency of its order executions and rules on order executions. Upon request from a client the investment company shall provide information on execution of the client's orders pursuant to order execution rules.

38.6 In the event an investment company accepts orders for providing of investment services (transactions) and the services are not appropriate for the client, the investment company must warn the client of this.

38.7 Provision of investment services (transactions) is governed by the agreement between an investment company and its client, which agreement sets forth the rights and obligations of the parties.

38.8 When executing its client's orders an investment company shall ensure the following:

38.8.1 recording of client orders;

38.8.2 with the exception of specifics of orders and market conditions that are of priority, executing orders in the order of their submission;

38.8.3 when encountering any difficulties in execution a client's order, informing the client about these difficulties.

38.9 An investment company and its related persons may not use information relating to client orders, which have not been fully executed.

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

38.11 Except in cases of providing portfolio management services, an investment company shall, not later than the next business day following the day it executes a client's order or the next business day following the date the investment company receives the order execution confirmation from a third party, provide to the client the report on execution of the client's order.

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

38.13 The financial market supervisory authority shall set the rules on client orders, their execution or suspension of execution and provision of reports to clients.

## **Article 39. Trading book of investment company**

39.1 An investment company must maintain its trading book.

39.2 The following shall be shown in the investment company's trading book:

39.2.1 positions in transactions with securities and derivative financial instruments having the purpose of making a profit;

39.2.2 obligations relating to assets or positions relating to transactions in received financial instruments;

39.2.3 service fees, costs and profits relating to positions in the trading book.

39.3 An obligation which may limit activities of an investment company may not be included into the trading book and all risks relating to the trading book must be covered.

39.4 An investment company must mark all position in the trading book to market on a daily basis.

39.5 The financial market supervisory authority shall set the additional rules on trading book.

## **Article 40. Margin trading**

40.1 Margin trading in an investment service (transaction) comprised of providing an investor with 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 in execution with the help of a loan from an investment company to the investor, the assets purchased for the loan shall be deemed security pledge for the loan, the investment company shall be deemed the pledge holder and the investor shall be deemed 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 relevant government authority, the investor must sell them or provide additional collateral.

40.4 The financial market supervisory authority shall set the rules on underlying assets for margin trading or types of their indicators, their interest rates and provision of information relating to margin trading.

#### **Article 41. Recording of investment company's transactions**

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

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

41.3 An investment company must provide generalized information on records of transactions relating to the activities of the investment company to the financial market supervisory authority within one day from the date of receiving the request.

41.4 The financial market supervisory authority shall set the rules on recording by investment companies of transactions relating to their activities.

#### **Article 42. Investment company's outside audit**

42.1 Under the following circumstances the financial market supervisory authority shall appoint an outside auditor of the investment company:

42.1.1 if an outside auditor is not appointed within one year;

42.1.2 if the investment company does not provide auditor's opinion within one year;

42.1.3 capital requirements to the investment company are violated.

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

#### **Article 43. Qualification certificates relating to providing of investment services (transactions)**

43.1 The qualification certificate is a document for providing investment services (transactions) issued to a physical persons, who obtain satisfactory or higher results in examinations organized by the financial market supervisory authority.

43.2 In order for an investment company or branch office of a foreign investment company to provide core investment services (transactions) specified in articles 30.3.1, 30.3.4, 30.3.5 or 30.3.7 of this Law and ancillary investment services (transactions) specified in article 30.4.1 of this Law, the investment company or branch office of a foreign investment company must employ at least one person holding a qualification certificate.

43.3 In order for an investment company or branch office 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 the investment company or branch office of a foreign investment company must have at least five persons holding a qualification certificate in its personnel.

43.4 The qualification certificates provided for in articles 43.2 and 43.3 of this Law shall be issued pursuant to the results of the examination organized by the financial market supervisory authority. The examination is organized using automated tests.

43.5 The financial market supervisory authority shall adopt the rules on organization of examination for obtaining qualification certificates relating to provision of investment services (transactions).

## **Chapter 5**

### **Stock Exchange**

#### **Article 44. Organization of public trading**

44.1 Public trading is the transaction entered into as a result of initial offering or offering in the secondary market of securities or derivative financial instruments to indefinite number of purchasers.

44.2 A stock exchange organizes public trading in securities and derivative financial instruments.

44.3 A stock exchange is the legal entity organized in the form of a joint stock company, which is engaged exclusively in organizing and managing a regulated market, and which holds a license for engaging in activities of a stock exchange.

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 the rules of a stock exchange.

44.5 Securities and derivative financial instruments admitted to public trading in a regulated market may only be purchased or sold by investment companies.

#### **Article 45. Duties of stock exchange**

45.1 A stock exchange shall have the following duties:

45.1.1 ensure that the trading it organizes are fair and transparent;

45.1.2 ensure participation of members in trading directly and (or) from distance according to its internal rules;

45.1.3 organize and execute trading in securities and derivative financial instruments;

45.1.4 use and maintain the trading system;

45.1.5 organize public offering and placement of securities;

45.1.6 adopt requirements to derivative financial instruments, securities admitted to trading in the stock exchange and their issuers;

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

45.1.8 monitor transactions executed through its trading system;

45.1.9 monitor financial situation of its members in connection with the 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 organizes trading in the following markets:

45.2.1 market for state securities;

45.2.2 market for corporate securities;

45.2.3 market for derivative financial instruments.

45.3 In the event a stock exchange discovers any serious violation of its internal rules or trading terms or circumstances of abuse of the markets organized by it, it must inform the financial market supervisory authority of these circumstances.

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

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

45.6 Employees of a stock exchange and their relatives pursuant to article 10.1 of this Law who have 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:

46.1.1 execution of trading in securities and derivative financial instruments in the stock exchange;

46.1.2 terms and procedures of admission of securities and derivative financial instruments into trading, suspension of the trading and their withdrawal from the trading;

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

46.1.4 rules on entering into and termination of transactions in the stock exchange;

46.1.5 rules on methods of determining prices of securities and derivative financial instruments in the stock exchange;

46.1.6 requirements to trading days and trading hours in the stock exchange;

46.1.7 rules for calculation of exchange indexes, which are being applied;

46.1.8 rules setting out the requirements to members of the stock exchange (admission to, termination of membership and activities of members);

46.1.9 rules on 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 personnel and rules on their use of information relating to their work;

46.1.12 rules and procedures relating to resolution of disputes in stock exchange;

46.1.13 action procedures relating to protection of markets organized in the stock exchange;

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

46.2 The stock exchange shall provide to the financial market supervisory authority its internal rules and any amendments to those rules within five business days from their adoption. In the event the financial market supervisory authority discovers in the internal rules any provision, which does not comply with the provisions of this Law, the supervisory shall within twenty business days from receiving the rules or amendments to them demand (by also indicating the reasons) that the stock exchange make relevant changes to such rules or amendments.

46.3 Within fifteen business days of providing the demand specified in article 46.2 of this Law the relevant changes must be made to the internal rules and information about this must be provided to the financial market supervisory authority. Within not later than five business days of approval of internal rules or amendments to them, such internal rules or amendments to them must be disclosed by the stock exchange.

## **Article 47. Member of stock exchange**

47.1 Members of a stock exchange are investment companies entitled to directly participate in exchange transactions under the internal rules of the stock exchange. A stock exchange must have at least three members.

47.2 Member of a stock exchange must hold a license for engaging in a business of an investment company and must meet the requirements set forth in the internal rules of the stock exchange regarding their creditworthiness, relevant organizational mechanisms and organization of their operations.

47.3 A stock exchange must admit as its member an investment company complying with the membership requirements within one month from the date of application for the membership.

47.4 A stock exchange must provide the financial market supervisory authority with information about the following:

47.4.1 when members are not able to fulfill their financial obligations before the stock exchange;

47.4.2 in the event it is discovered that indicators of a member's creditworthiness have fallen below the levels set by the financial market supervisory authority.

47.5 A stock exchange must provide equal trading opportunity to all of its members.

47.6 A stock exchange must oversee compliance of its members with its internal rules and prevention of circumstances of abuse.

47.7 A stock exchange must provide the list of its members and any changes to the list to the financial market supervisory authority within one business day.

47.8 Membership in a stock exchange may be terminated under the following circumstances:

48.8.1 based on a member's request;

48.8.2 in the event a license issued to the investment company, which is a member of the stock exchange, is canceled;

47.8.3 in the event 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 in the event a member of the stock exchange does not perform its financial obligations before the stock exchange;

47.8.5 in the event activities of the stock exchange are terminated.

## **Article 48. Disclosure of information by stock exchange**

48.1 Before trading a stock exchange shall disclose information relating to the bid and ask prices of securities and derivative financial instruments and their volume.

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

48.3 The financial market supervisory authority shall set the rules 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 disclosure of any of the 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 financial market supervisory authority shall postpone disclosure of such information.

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

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

49.2 Under the following circumstances a stock exchange must withdraw from trading securities and derivative financial instruments admitted to trading:

49.2.1 when securities or derivative financial instruments are paid or take out of the market;

49.2.2 when a stock exchange is liquidated;

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

49.3 Under the following circumstances a stock exchange must suspend trading in securities and derivative financial instruments admitted to trading in the markets organized by the stock exchange:

49.3.1 payments are not made in connection with securities or derivative financial instruments issued by an issuer;

49.3.2 a decision is taken on bankruptcy or to liquidate issuer of securities;

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

49.4 Under the following circumstances the financial market supervisory authority shall suspend trading of securities or derivative financial instruments traded in a stock exchange:



49.4.1 if trading in securities or derivative financial instruments disturbs the trading order established in the internal rules of the stock exchange or it creates source of danger to interests of investors;

49.4.2 in cases of financial crisis;

49.4.3 disturbance of normal trading in the stock exchange due to emergency situations.

49.5 In the event the financial market supervisory authority discovers any of the circumstances specified in article 49.4 of this Law, it shall sent a written notice to the stock exchange on suspension of trading. Immediately upon receipt of such notice the financial market supervisory authority shall suspend the trading in securities or derivative financial instruments specified in such notice.

49.6 A stock exchange may suspend trading according to article 49.3 of this Law in each of securities or derivative financial instruments separately or suspend trading in the market in which the securities or derivative financial instruments are being traded or may suspend trading in the entire market.

49.7 In the event a stock exchange suspends trading in or withdraws securities or derivative financial instruments from the market, it must inform the financial market supervisory authority of this and disclose this information to the public.

49.8 In the event the financial market supervisory authority suspends trading in a stock exchange, it shall disclose the information to the public.

## **Chapter 6**

### **Post-trading system**

#### **Article 50. Organization of post-trading system**

50.1 A post-trading system is the system of relations between clearing houses and their members relating to engaging in clearing.

50.2 Clearing is the activity comprised of collection, verification, matching of mutual obligations, netting of positions, listing of obligations, setting-off claims with the purpose to determine mutual obligations arising from transactions with securities or derivative financial instruments.

50.3 A clearing house is a legal persons organized in the form a joint stock company, whose exclusive field of activity is engaging in clearing and which holds a license for engaging in clearing.

50.4 Clearing houses together with investment companies, who are their members and bank form a post trading system.

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

50.6 In order to reduce risks associated with failure to execute transactions relating to clearing in the post trading system at least one of the below measures must be take:

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 securing assets with pledges.

50.7 Members of a clearing house must 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 financial market supervisory authority shall adopt the requirements to post trading systems and rules on engaging in clearing.

#### **Article 51. Requirements to clearing house**

51.0 A clearing house must comply with the following requirements:

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

51.0.2 have risk management system;

51.0.3 have the software and technical means necessary for its activities;

51.0.4 adopt internal rules provided for in article 54 of this Law;

51.0.5 have financial resources sufficient to prevent possible risks.

#### **Article 52. Activities of clearing house**

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

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

52.3 The entries registered by a clearing house must contain information on type of securities or derivative financial instruments, type of entry and information about the person, who requested the entry.

52.4 A clearing house must 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 agreement between the parties.

### **Article 53. Members of clearing house**

53.1 A clearing house must, based on request of an investment company, accept as its member the investment company or a bank complying with its membership requirements within one month from the date of receiving the request. A clearing house must have at least three members.

53.2 A clearing house provide information to the financial market supervisory authority about the following:

53.2.1 when members fail to fulfill their financial obligations before a clearing house or a clearing fund;

53.2.2 when it is discovered that indicators of a member's financial soundness have fallen below the levels set by the relevant government authority;

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

53.3 A clearing house must control compliance of its members with its internal rules.

### **Article 54. Internal rules of clearing house**

54.1 In order to organize its activities a clearing house must adopt at least the following internal rules:

54.1.1 rules which set forth requirements to organization and operation of a post trading system;

54.1.2 rules which set forth requirements to members of the clearing house (admission to membership, termination or termination not at its will and activities and etc.);

54.1.3 rules on transactions relating to clearing;

54.1.4 rules on management of credit, market, operational and liquidity risks and its control, including management of a clearing fund (if must be created);

54.1.5 requirements to security and efficiency (indications for regular audit of systems for sustainable operation and recovery from possible disasters);

54.1.6 rules on exchange of information to support clearing activities;

54.1.7 rules disclosure of information and reporting;

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

54.2 Amending internal rules of a clearing house upon demand of The financial market supervisory authority shall be carried out pursuant to articles 46.2 and 46.3 of this Law.

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

55.1 In the event during clearing and settlement a clearing house member does not have sufficient funds in its accounts to pay for its obligations relating to its assets, it is deemed a clearing house member does not fulfill its obligations.

55.2 A clearing house must immediately inform the financial market supervisory authority of failure of the clearing house member to fulfill its obligations. If a clearing house member does not fulfill its obligations a clearing house shall be entitled to the following:

55.2.1 immediately request information relating to a clearing house member's failure to perform its obligations;

55.2.2 use the funds in the account of the members failing to perform its obligations to close transactions, which have not been closed, and use assets of the member entered into depo accounts and assets serving as pledge or guarantee;

55.2.3 ensure the transactions are closed, including receiving and providing loans, execute repo transactions with securities and apply netting limitations to the member, how fails to perform its obligations;

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 obligations, shall not be allowed to execute any transactions until it performs its obligations.

### **Article 56. Transfer orders**

56.1 Transfer order is the order to a clearing house to transfer funds in the accounts of an investment company or its client during settlement.

56.2 Transfer orders, which have been entered into post trading systems may not be withdrawn.

56.3 The transfer order, which was entered into the post trading system before bankruptcy of a clearing house member must 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 does not invalidate results of netting.

56.5 The time when a transfer order is deemed entered into the post trading system is defined in the internal rules of a clearing house.

56.6 Money funds, securities, derivative financial instruments and pledge asset, which are in the account of a clearing house member, will be used to execute orders entered into the post trading system during the day of commencement of bankruptcy proceedings in relation to that member and to pay obligations 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 obligations of parties pursuant to an agreement and for each seller acts as a buyer and for each buyer acts as a seller.

57.2 A central counterparty acts as special authorized person in the post trading systems in relation to mutual performance by a seller and buyer of their respective obligations.

57.3 During transactions in which a central counterparty is involved parties to the agreement perform their respective obligations before the central counterparty. A credit risk of a party to the contract is replaced with the credit risk of the central counterparty.

57.4 In transactions in which a central counterparty is involved parties to the agreement do not know each other and each performs its respective obligations before the central counterparty.

## **Article 58. Clearing fund**

58.1 A clearing house must form a clearing fund by selecting any of the methods specified in article 50.6.2 of this Law.

58.2 The investment company, which is a member of the clearing house forming a clearing fund must 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 financial market supervisory authority.

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 the sources of a clearing fund's funds:

58.5.1 membership fees paid by members of the clearing house;

58.5.2 profits derived from investments of the clearing fund's assets;

58.5.3 in cases where a clearing house acts as a liquidator, fees for such services;

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

58.6.1 depositing with the Central Bank of the Republic of Azerbaijan or investing in securities of the Central Bank of the Republic of Azerbaijan;

58.6.2 putting as deposits in banks;

58.6.3 investing in highly liquid securities, the maturity of which does not exceed one year.

58.7 The financial market supervisory authority shall set the 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 makes payments as follows:

58.9.1 payments for closing of clearing and settlement in the post trading system relating to failure to perform mutual obligations arising from transactions entered into by members of the clearing house;

58.9.2 insurance premiums under insurance agreements entered into for the purposes of the clearing fund;

58.9.3 costs relating to management of the clearing fund.

## **Article 59. Payments to clearing fund**

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

59.2 In determining the annual members fee the clearing house must take into account that the amount must be sufficient to transfer the credit risk arising from the transaction, which is not executed.

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

#### **Article 60. Enforcements against clearing fund members**

60.1 In the event a clearing fund member does not perform its obligations and the payments it makes to the clearing fund are not sufficient to pay these obligations, the clearing house shall apply withholdings towards other members of the clearing fund pursuant to the internal rules of the clearing fund with the purpose of paying expenses of the clearing house and in this case the clearing house must ensure that these withholdings does not significantly affect the financial situation of such members.

60.2 If the clearing house determines that there is a need to collect additional payments these payments must be equal to the difference between the payments collected from the clearing fund members and expenses of the clearing fund.

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

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

### **Chapter 7**

#### **Organization and management, acquisition of significant share in investment company, stock exchange, clearing house and investment fund depository**

#### **Article 61. Organization, management, audit and financing of investment company, stock exchange, clearing house and investment fund depository**

61.1 An investment company, stock exchange, clearing house and investment fund depository (hereafter – licensed persons) shall be organized in the form of a joint stock company.

61.2 The name of licensed persons must contain “investment company”, “stock exchange”, “clearing house” or “investment fund depository” respectively. In the Republic of Azerbaijan only the entities formed under article 61 of this Law and holding the relevant license may use the words investment company”, “stock exchange”, “clearing house” or “investment fund depository” in their names.

61.3 Licensed persons engage in their activities subject to obtaining a license from the financial market supervisory authority.

61.4 Head office of licensed persons must be located in the Republic of Azerbaijan,

61.5 Licensed persons shall be managed by their supervisory council and executive body elected by the general meeting of shareholders.

61.6 Information about member of licensed persons (if there are any) shall be disclosed in the means of mass media.

61.7 Employees or related persons of employees of investment companies, who are members of a stock exchange or clearing house, and their auditors may not be a member 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 financial market supervisory authority shall set the minimum amount of licensed persons' charter capital.

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

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

61.12 Licensed persons must prepare their annual financial statements pursuant to the Law of the Republic of Azerbaijan On Accounting, and must, together with the auditor's opinion, provide the statements to the financial market supervisory authority and to shareholders, subject shareholder's request, and publish them on internet or periodic publications after the expiry of the reporting period, but not later than 30th day of April of the next year.

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

61.14 The supervisory council of a licensed persons shall appoint an outside auditor. The financial market supervisory authority shall requirements to outside auditors of licensed persons.

61.15 A licensed persons must provide the financial market supervisory authority with information on appointment of the outside auditor (including name and address of auditors) within seven business day from the date of the appointment.

61.16 Members of licensed persons' supervisory board and executive body, as well as heads of licensed persons' structural units (branch, representative Office, etc.) should submit the information on acting of themselves and of persons specified under Clauses 49-1.1.3 and 49.1.1.5 of the Civil Code of the Republic of Azerbaijan as a related party with respect to the transaction closed, as well as the information on features of their own



interests with respect to the transaction (its formation, size, etc) in the manner specified under Clauses 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 which may establish disputes between personal interests of members of executive body of licensed persons and interests of licensed persons, as well as making transactions contrary to the interests of licensed persons shall be performed according to requirements specified in Article 107-10.5 of the Civil Code of the Republic of Azerbaijan.

## **Article 62. Acquisition of significant share in licensed persons and requirements to those shareholders**

62.1 A single person may not, directly or indirectly, hold controlling shares (50 percent or more) in more than one person in the Republic of Azerbaijan holding a license for conducting activities of an investment company.

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

62.3 Persons registered in the offshore zones the list of which is approved by the financial market supervisory authority, or persons, the shareholder or significant shareholders or beneficial owners of which are registered in such zones are not allowed to hold shares in licensed persons.

62.4 Persons holding significant share in licensed persons and persons intending to acquire significant share in licensed persons pursuant to article 62.5 of this Law shall comply with the following requirements:

62.4.1 must comply with the personal clearance requirements;

62.4.2 must comply with the financial soundness normative requirements (if there are any) in the arear of their activity (for legal persons);

62.4.3 must comply with the requirements set forth in articles 62.1-62.3 of this Law;

62.4.4 may not be citizens of or be legal persons registered in countries included in the list shown in article 7.3 of the Law of the Republic of Azerbaijan On Combating Legalization of Money and Other Assets Obtained By Committing Crime and Financing of Terrorism.

62.5 Any person may acquire significant share in the charter capital of licensed entities or additional share, which will raise the total shares to the level of significant share in the charter capital of licensed persons, or any share which brings to or causes the total shares to exceed 25, 50 or 75 percent of shares in charter capital of licensed persons only subject to approval of the financial market supervisory authority.

62.6 During application for approval provided for in article 62.5 of this Law the following documents must be submitted to the financial market supervisory authority:

62.6.1 in case acquirer is a legal person:

62.6.1.1 copy registration certificate and charter certified by a notary or as provided in article 9 of the Law of the Republic of Azerbaijan On Administrative Proceedings, audited financial statements covering the past three years or in case the legal person has been in operation less than three years, then the entire time the legal person has been in operation and relevant documents showing outside auditor's opinion.

62.6.1.2 certified copy of the decision of the authorized corporate body of the legal person on acquisition of proposed significant share;

62.6.1.3 information about significant shareholdings in capital of other legal persons;

62.6.1.4 information about significant shareholders, who are legal persons, including the following relating to such legal persons:

1. copy documents evidencing its registration as a legal person certified by a notary or pursuant to article 9 of the Law of the Republic of Azerbaijan On Administrative Proceedings;

2. copy of the charter certified by a notary;

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

4. for participants, who are physical persons, personal identification documents, information and documents (if there are any) on place of employment (type of occupation) and their written application certified pursuant to article 9 of the Republic of Azerbaijan On Administrative Proceedings regarding their personal clearance, if the physical person is a foreign citizen, in addition to the above documents, recommendation from at least one financial institution in his/her country of residence;

5. information about significant shareholdings in other legal entities and for each participant, which is a legal person, information about significant shares held by other persons;

62.6.1.5 information about a beneficial owners.

62.6.2 in case the acquirer is a physical person:

62.6.2.1 copy of the personal identification document certified by a notary or pursuant to article 9 of the Law of the Republic of Azerbaijan On Administrative Proceedings, information and documents (if there are any) evidencing place of employment (type of occupation), if the physical person is a foreign citizen, in addition to the above documents, recommendation from at least one financial institution in his/her country of residence;

62.6.2.2 written application on personal clearance, signature certified by a notary;

62.6.2.3 information about the significant shares of that person in other legal persons.

62.7 The financial market supervisory authority shall review the application within 30 business days and shall adopt the reasoned decision on granting the approval, if the person applying complies with requirements set in article 62.4 of this Law, and refusing to grant the approval and shall inform the person applying of this.

62.8 If the documents listed in article 62.6 of this Law are incomplete or information in such documents are incomplete or false, the financial market supervisory authority shall, within ten business days, demand that the documents to completed or corrected. If this demand is not complied with, the financial market supervisory authority shall refuse approval of the proposed acquisition of the significant share pursuant to article 62.5 of this Law.

62.9 If in the decision of the financial market supervisory authority it is allowed to acquire a significant share pursuant to article 62.5 of this Law, transactions which ensure acquisition of such share shall be executed. The central depository shall not register transactions relating to acquisition of significant share in charter capital of licensed persons without approval of the financial market supervisory authority for such transactions. The transactions resulting in acquisition of significant shares pursuant to article 62.5 of this Law shall be deemed void from the date of their execution, if entered without approval from the financial market supervisory authority.

62.10 The financial market supervisory authority shall be authorized to obtain information from the state agencies about significant shareholders and persons intending to acquire significant share. The state agencies must provide the information based on such inquiry of the financial market supervisory authority within five business days.

62.11 The approval issued by the financial market supervisory authority for acquisition of a significant share shall indicate the term for completion of the acquisition.

### **Article 63. Requirements to persons holding offices at licensed persons**

63.1 Members of a licensed persons' executive body, supervisory council, internal audit and branch managers of investment companies must meet the following requirements:

63.1.1 have university education;

63.1.2 must not be a member of supervisory council, executive body, audit committee or be auditor a legal person, which was liquidated due to worsening of the financial situation or bankruptcy, any time during the last one year from the date the decision on liquidation was taken;

63.1.3 must not have been terminated during the past 3 years from his office due to lack of professional qualities, non-compliance with his/her professional occupation, or for being unsuitable for the office;

63.1.4 meet the personal clearance requirements;

63.1.5 must not simultaneously hold any position with other licensed persons or provide any services to other licensed persons;

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

63.2 Members of executive bodies of licensed persons and branch managers of investment companies must pass the examination with the financial market supervisory authority apart from complying with the requirements set forth in article 63.1 of this Law.

*63.2-1 The chief accountant of licensed persons or the person implementing these duties shall be professional accountant.*

63.3 In case of any changes to the corporate bodies of licensed persons, the financial market supervisory authority must be informed of such changes within three business days.

63.4 In the event members of licensed persons' supervisory council, executive body or internal audit or managers of branches of an investment company do not comply with the requirements set forth in articles 63.1 and 63.2 of this Law, upon notice from the financial market supervisory authority licensed persons must prematurely terminate those persons.

63.5 Members of licensed persons' supervisory council, executive body or internal audit and employees receiving confidential information while performing their duties must protect confidentiality of the information, unless they are required to disclose such information pursuant to the Law of the Republic of Azerbaijan On Combating Legalization of Money and Other Property Obtained By Committing Crime and Financing of Terrorism or a court order.

## **Chapter 8**

### **Licensing of activities of stock exchange, investment fund and investment company**

#### **Article 64. General requirements to licensing**

64.1 Only persons, who have been obtained a relevant license pursuant to charter 8 of this Law, may engage in the activities of a stock exchange, clearing, investment fund depository and investment company (hereafter – licensed activities) in the territory of the Republic of Azerbaijan.

64.2 The financial market supervisory authority issues a license for licensed activities pursuant to the provisions of charter 8 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 their parties. The licensed for licensed activities shall become effective from the date it is issued by the financial market supervisory authority.

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

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

64.6 The license issued to an investment company shall indicate the investment services (transactions) provided for in articles 30.3 and 30.4 of this Law that the investment company will be engaged in. The license issued a stock exchange must indicate the type of market listed in article 45.2 of this Law.

64.7 An investment company may extend the list of investment services (transactions) shown in the license for its activities subject to a permission of the financial market supervisory authority, which may be granted pursuant to article 74 of this Law. A stock exchange may extend the list of markets shown in the license for its activities subject to a permission of the financial market supervisory authority, which may be granted 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.

### **Article 65. Stages of licensing**

65.0 The financial market supervisory authority shall review applications for obtaining licenses for licensed activities in two stages:

65.0.1 review of the initial application for the license of the person authorized by founders under a notarized document;

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

### **Article 66. Documents to be submitted for obtaining a license for licensed activities during initial application**

66.1 During initial application for a license for licensed activities the following documents must be submitted:

66.1.1 written application for obtaining a license for the licensed activities (additionally, the application for obtaining a license for activities of an investment company must list the

investment services (transactions) it would be providing, and for stock exchanges the application must list markets it would be organizing);

66.1.2 decision on foundation and notarized copy of the charter;

66.1.3 information about founders, who are legal persons, including the following:

66.1.3.1 a document evidencing its state registration as a legal person certified by a notary or pursuant to Law of the Republic of Azerbaijan On Administrative Proceedings;

66.1.3.2 notarized copy of the charter;

66.1.3.3 certified financial statements cover the operations during past three years, or if the entity has been in operation for less than three years, then the statements cover operations for the entire period of its activities, including also outside auditor's opinion;

66.1.3.4 copy of decision of an authorized authority on proposed acquisition of participating shares, which copy must be certified pursuant to the relevant procedure;

66.1.3.5 copy of existing licenses;

66.1.3.6 information about related persons;

66.1.3.7 letter from the relevant regulatory authority confirming its compliance normative requirements of financial soundness (if there are any) in the area of its activities;

66.1.4 copy of personal identification document of founders, who are physical persons, and letter with information on their place of employment (if there is any);

66.1.5 if a founder, who is a physical person is a foreign citizen, in addition to the documents listed in article 66.1.4, he/she must submit recommendation letter from at least one financial institution from his/her country of residence;

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

66.1.7 information about significant share founders in other legal persons and for each founder, which is a legal persons, also information on significant shares held in their chapter capital by other persons;

66.1.8 the business plan showing the following for at least next three years:

66.1.8.1 organization action plan and justified amount of funds for these purposes;

66.1.8.2 information about the office space, information technologies and telecommunication systems, electronic accounting and other software, which are proposed to be used;

66.1.9 information about internal control systems for its activities;

66.1.10 list of persons, who are proposed to be serving as founders, members of the supervisory council and executive body and letter on personal clearance together with their notarized signatures;

66.1.11 documents and information about education and work experience of persons appointed as members of the supervisory council and the executive body;

66.1.12 information about beneficiaries;

66.1.13 for stock exchange and clearing house draft of their internal rules provided for in articles 46 and 54 of this Law.

66.2 Documents issued by a government authority of a foreign country, which a foreign founders submits during initial application for a license of licensed activities, must be either legalized pursuant to international agreements, to which the Republic of Azerbaijan is a party or apostilled.

#### **Article 67. Review of initial application for license of licensed activities**

67.1 The financial market supervisory authority shall review the documents submitted in connection with initial application for a license for licensed activities within 60 calendar days of their submission.

67.2 In the event the financial market supervisory authority detects any mistakes or deficiencies, it must sent notice to the applicants about this within five business days and recommends that they remove the mistakes or deficiencies. This recommendation must be complied with within ten business days. Providing recommendation does not suspend the time specified in article 67.1 of this Law. Within fifteen business days of submission of the documents the financial market supervisory authority shall send a written notice and inform about accepting the documents for review.

67.3 In order to verify the information in the documents the financial market supervisory authority may obtain information from government authorities. The government authorities must provide the information within five business days.

67.4 The financial market supervisory authority may reject the initial application under the following circumstances:

67.4.1 in the event the documents required to be submitted pursuant to article 66.1 of this Law are not complete or they do not comply with requirements of this Law or information in the documents are not complete as required under article 67.2 of this Law;

67.4.2 in case the capital requirements provided for in article 61.9 of this Law are not met;

67.4.3 in the event requirements in articles 62.4, 63.1 and 63.2 of this Law are not met.

67.4.4 in case it evident from the business plan that there is a danger of not being able to comply with financial soundness requirements or creditworthiness or ensuring normal operation of the licensed person or violation of investors' rights;

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

67.5 The financial market supervisory authority shall adopt a justified decision on the results of review of initial application and shall send the decision to the applicant within the period set forth in article 67.1 of this Law.

67.6 An appeal in administrative proceedings or to court may be filed against the decision of the financial market supervisory authority on its decision to reject the initial application.

67.7 In case the financial market supervisory authority approves the initial application for the license the legal person, which was found, must be state registered pursuant to the Civil Code of the Republic of Azerbaijan. The final application for the license must be submitted within ninety calendar days from the date the financial market supervisory authority provides its approval to the initial application for the license.

#### **Article 68. Documents to be submitted with final application for obtaining license for licensed activities**

68.0 The following must be submitted to the financial market supervisory authority with final application for license for licensed activities:

68.0.1 the final application showing name, organizational-legal form, place of residence, number of current account and the name of the bank where the account is opened, name of the activities for which a license is requested;

68.0.2 document evidencing its state registration as a legal person certified by a notary or pursuant to Law of the Republic of Azerbaijan On Administrative Proceedings;

68.0.3 notarized copy of the charter;

68.0.4 documents evidencing payment of the capital provided for in article 61.9 of this Law;

68.0.5 in the event there are any changes in the information provided during initial application, letter about such changes;

68.0.6 documents confirming compliance of the persons appointed to offices with the requirements provided for in article 63 of this Law, including documents relating to their education and work experience;

68.0.7 for licenses for investment company activities, qualification certificates of employees;



68.0.8 copy of the document evidencing rights to use the office space where the activities will be carried out;

68.0.9 rules on organizational and management structure of the legal person, divisions and their duties, subordination and reporting;

68.0.10 information about computer and telecommunication systems, electronic accounting and other software;

68.0.11 document evidencing payment of the state fee;

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

68.0.13 for a license to engage in activities of a depository, document evidencing opening of the account with the central depository;

68.0.14 certified draft internal rules of stock exchange and clearing house.

#### **Article 69. Review of final application for license for licensed activities**

69.1 The financial market supervisory authority shall review the documents for final application to obtain a license within thirty calendar days the day of their submission:

69.2 If the submitted documents are incomplete or information in the documents are incomplete or false, the financial market supervisory authority shall recommend that the documents be submitted in full or be corrected. This recommendation must be complied with within ten business days. Providing the recommendation does not suspend the time provided for in article 69.1 of this Law.

69.3 In order to verify the information in the documents the financial market supervisory authority may obtain information from government authorities. The government authorities must provide the information within five business days.

69.4 The financial market supervisory authority shall issue the justified decision on granting the license or refusing to grant the license within the time provided for in article 69.1 of this Law and shall send the decision to the applicant.

69.5 The financial market supervisory authority shall refuse the license under the following circumstances:

69.5.1 in the event the documents required to be submitted pursuant to article 68 of this Law are not complete or they do not comply with requirements of this Law or information in the documents are not completed as recommended under article 69.2 of this Law

69.5.2 in the event requirements in articles 43.2, 43.3 or 63.1 of this Law are not complied with.

69.5.3 any of the grounds provided for in article 67.4 have been discovered;

69.5.4 with the exception of delays in the state registration caused not by the founders, failure to submit the final application to the financial market supervisory authority within the period provided for in article 67.7 of this Law.

## **Article 70. Cancellation of license for licensed activities**

70.1 Under the following circumstances the financial market supervisory authority shall cancel the license for a licensed activity:

70.1.1 a licensed person is liquidated pursuant to the decision of its supermen governing 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 clarifying such information as a ground for refusal of license the circumstances specified in articles 67.4 and 69.5 of this Law become known;

70.1.4 not commencing any licensed services during the period of 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 which are not provided in the license;

70.1.6 failure to comply with the repeat decision for the issue of an instruction, execution of which is mandatory, pursuant to article 86.5 of this Law within the period specified in the decision.

70.2 In the event the financial market supervisory authority issues the decision on cancelling a license, it must send this decision to the persons, whose license is cancelled and to tax authorities and must disclose the information in mass media.

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

## **Article 71. Issuing license to branch office of foreign investment company**

71.1 Foreign investment firms may provide investment services (transactions) provided for in articles 30.3 and 30.4 of this Law in the Republic of Azerbaijan through opening their branch office. A branch of a foreign investment company may operate in the Republic of Azerbaijan subject to obtaining a license from the financial market supervisory authority.

71.2 The financial market supervisory authority shall review the application for obtaining a license in connection with a foreign investment company's branch office in two stages pursuant to article 65 of this Law.

71.3 For initial review of the application for opening a branch office of a foreign company the following documents must be submitted:

71.3.1 written application for obtaining license for investment company activities (must contain list of investment services (transactions) that the branch office would be providing and address);

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

71.3.3 a document evidencing payment of the money, which the foreign investment company has allocated to the branch and which must be equal to the capital, into a bank account;

71.3.4 regulations of the branch;

71.3.5 list of managers of the branch – together with information on amount of significant share held by them in the investment company or any other legal person, legalized or apostilled documents on their work experience and education, and also personal clearance letter with their signatures certified by a notary;

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

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

71.3.8 written approval of the regulatory authority of the country, where the foreign investment company is a resident, on opening of the branch;

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

71.3.10 information about corporate bodies of the foreign investment company;

71.3.11 list of persons holding significant share, including the amount of the share, in the investment company as at the application date;

71.3.12 financial statements of the investment company covering its operations during the past three years or if the company has been in operation for less than three years, then covering the entire period of operation and auditor's opinion;

71.3.13 if the foreign investment company is part of any holding of companies, information about such holding companies;

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 application for opening of the branch office the foreign investment company shall submit the following documents:

71.4.1 copy of the document on state registration;

71.4.2 if any changes have been made to the information submitted during initial application, letter about such changes;

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

71.4.4 information about information technologies and telecommunications systems, and other software necessary for engaging in relevant activities;

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

71.4.6 document evidencing payment of the state fee.

71.5 The review of initial and final applications for obtaining investment activity licenses for branches of foreign persons shall be conducted pursuant to 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 company provided for in articles 67.4 and 69.5 of this Law, the license may also be refused on the ground that the jurisdiction of the foreign investment company does not provide the oversight over the investment companies, which oversight would be either equal to or more strict than those provided in laws and regulations of the Republic of Azerbaijan.

71.7 A license for investment activities issued to the branch of a foreign investment company may be cancelled for reasons set forth in article 70 of this Law and also pursuant to the decision of the foreign investment company or in case of cancellation of its license by the financial market supervisory authority.

## **Article 72. Procedure for obtaining license for branch office of local investment company and cancellation of license**

72.1 Branch office of a local investment company may operate in the territory of the Republic of Azerbaijan or territory of a foreign country pursuant to the financial market supervisory authority's permission.

72.2 A written application (information on address and proposed investment services (transactions) must be included) together with the documents listed in articles 71.3.2–71.3.7-ci and 71.4.3–71.4.5 of this Law must be submitted to the financial market

supervisory authority for obtaining a permission for branch office of a local investment company.

72.3 The financial market supervisory authority shall review the documents within sixty calendar days from the date of their submission.

72.4 In the event the financial market supervisory authority discovers any mistakes or deficiencies in the submitted documents, it must within fifteen business days send the notice to the applicants and recommend that those mistakes or deficiencies be removed. If the financial market supervisory authority does not send the notice within such period, the documents shall be deemed accepted.

72.5 The financial market supervisory authority shall refuse permission to a branch office of a local investment company under the following circumstances:

72.5.1 the documents specified in article 72.2 of this Law are not complete or they do not comply with the requirements of this Law, or information in the documents are not completed based on the recommendation pursuant to article 72.4 of this Law;

72.5.2 non-compliance with articles 63.1 and 63.2 of this Law is discovered.

72.6 The financial market supervisory authority shall, within the period specified in article 72.4 of this Law, issue a justified decision on granting or refusing to grant the permission and shall send the decision to the applicant.

72.7 A complaint against the decision on refusing the permission can be lodged either to court or pursuant to the administration procedure.

72.8 The financial market supervisory authority shall cancel the license of branch office of a local investment company under the following circumstances:

72.8.1 license of the investment company is cancelled;

72.8.2 the investment company is declared bankrupt;

72.8.3 the investment company is liquidated;

72.8.4 the branch office does not commence operations within twelve months from the date of issue of the permission or the financial market supervisory authority discovers that the branch has terminated its operations for six months period;

72.8.5 non-compliance with articles 63.1 and 63.2 of this Law is discovered;

72.8.6 failure to comply with the repeat decision for the issue of an instruction, execution of which is mandatory, pursuant to article 86.5 of this Law within the period specified in the decision;

72.8.7 the branch engages in the activities not provided for in its license;

72.8.8 the investment company issues decision on closing the branch.

72.9 In the event the investment company applies to the financial market supervisory authority for cancellation of the permission, it must provide the reasons for its decision. The financial market supervisory authority shall review the application for cancellation of the permission within thirty calendar days and shall issue a relevant decision.

72.10 In the event the financial market supervisory authority issues the decision on cancellation of the permission, it must immediately send the information to the branch, whose permission is cancelled and to the investment company and shall publish it in the mass media.

72.11 The investment company, which opens its branch office in a foreign country, it must provide the financial market supervisory authority with the notice of this within fifteen business days from the date of receiving the relevant permission.

### **Article 73. Obtaining of permission for opening of representative office of foreign investment company and cancellation of such permission**

73.1 Representative office of a foreign investment company may operate in the territory of the Republic of Azerbaijan pursuant to the financial market supervisory authority's permission.

73.2 A written application must be submitted to the financial market supervisory authority for obtaining a permission for representative office of a foreign investment company together with the following documents:

73.2.1 written letter of application for obtaining a permission for activities of representative office of investment company;

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

73.2.3 regulations of the representative office;

73.2.4 list of managers of the representative office – together with information on amount of significant share held by them in the investment company or any other legal person, legalized or apostilled documents on their work experience and education, and also personal clearance letter with their signatures certified by a notary;

73.2.5 copy of the decision of the authorized corporate body of the investment company on appointment of the representative office manager;

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

73.2.7 written approval of the regulatory authority of the country, where the foreign investment company is a resident, on opening of the representative office.

73.3 The procedure for obtaining the permission for opening of representative office the a foreign investment company and cancellation of such permission shall be in accordance

with articles 72.3-72.11 of this Law. The permission to the representative office of a foreign investment company may also be refused on the ground that the jurisdiction of the foreign investment company does not provide the oversight over the investment companies, which oversight would be either equal to or more strict than those provided in laws and regulations of the Republic of Azerbaijan

**Article 74. Obtaining of Permission for Widening List of Investment Company's Investment Services (Transactions) and Markets In Which Stock Exchange shall be Organizing Trading**

74.1 Investment company may widen the list of investment services (transactions) provided for in articles 30.3 and 30.4 of this Law, and a stock exchange may widen the list of markets specified in article 45.2 in which it organizes trading subject to permission of the financial market supervisory authority.

74.2 In order for the investment company to widen the list of investment services (transactions), and a stock exchange to widen the list of markets in which it organizes trading, the following documents must be submitted to the financial market supervisory authority:

74.2.1 written application letter (including information on existing services or markets and proposed new services or markets) for widening the list of investment services (transactions) and of markets in which the stock exchange organizes trading;

74.2.2 decision of the relevant corporate body of the investment company on widening the list of investment services (transactions) or markets in which the stock exchanges organizes trading;

74.2.3 the document evidencing payment of the capital provided for in articles 31.3 and 31.4 of this Law for investment services (transactions) in which the investment companies intend to engage;

74.2.4 qualification certificates for employees for additional investment services (transactions);

74.2.5 information about information technologies and telecommunication systems, software relating to additional investment services (transactions) or markets where trading would be organized.

74.3 The financial market supervisory authority shall review the documents within thirty calendar days from the date of their submission.

74.4 In the event the financial market supervisory authority discovers any mistakes or deficiencies in the submitted documents, it must within fifteen business days send the notice to the applicants and recommend that those mistakes or deficiencies be removed.

If the financial market supervisory authority does not send the notice within such period, the documents shall be deemed accepted.

74.5 The financial market supervisory authority shall, within the period specified in article 74.4 of this Law, issue a justified decision on granting or refusing to grant the permission and shall send the decision to the applicant.

74.6 The financial market supervisory authority shall refuse permission provided for in article 74.1 of this Law under the following circumstances:

74.6.1 the documents specified in article 74.2 of this Law are not complete or they do not comply with the requirements of this Law, or information in the documents are not completed based on the recommendation pursuant to article 74.4 of this Law;

74.6.2 the investment company does not secure the capital specified in articles 31.3 and 31.4 of this Law;

74.6.3 the investment company does not comply with the requirements set in articles 43.2 and 43.3 of this Law;

74.6.4 information technologies and telecommunication systems, software relating to additional investment services (transactions) or additional markets in which trading is organized do not support the relevant investment services (transactions) or markets which trading would be organized.

74.7 A complaint can be lodged from the decision of the financial market supervisory authority to refuse the permission to court or pursuant to administrative proceedings.

## **Chapter 9**

### **Transparency and Disclosure of Information**

#### **Article 75. Reports by issuers**

75.1 Issuers shall submit to the financial market supervisory authority and also disclose to public the reports provided for in article 75 of this Law.

75.2 Issuers annual reports shall be prepared for annual results, approved by its supreme management authority and submitted to the financial market supervisory authority and unless the financial market supervisory authority issues the instruction to suspend public disclosure of such reports pursuant to article 75.5 of this Law, they must be disclosed to public and the issuer shall ensure public access to such reports within the next five years.

75.3 The following must be included into the issuer's annual reports:

75.3.1 financial statements and the external auditor's opinion for its verification;



75.3.2 management report.

75.4 Issuers, whose securities are public offered and admitted to trading in regulated markets, must, within not 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 must be approved by the management body of the issuer and submitted to the financial market supervisory authority. Unless the financial market supervisory authority issues the instruction to suspend public disclosure of such reports pursuant to article 75.5 of this Law, such reports must be disclosed to public. The issuer shall ensure public access to half-yearly reports within the next five years.

75.5 Annual and half-yearly reports must be submitted to the financial market supervisory authority within ten 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 misleading information, the financial market supervisory authority shall, within fifteen business days from their submission, demand from the issuer in writing that the information in the reports be corrected and disclosure of those reports be suspended.

75.6 Unless the financial market supervisory authority issues the instruction to suspend public disclosure of such reports pursuant to article 75.5 of this Law, the issuer shall, within thirty days from the date the information in the annual and half-yearly reports are submitted to the financial market supervisory authority, disclose them in its website (if there is any) and in mass media. Issuers, whose securities were public offered and admitted to trading in a regulated market, must disclose their annual and half-yearly reports in the single data resource provided for in article 1.0.26 of this Law, its website (if there is any) and website of the stock exchange.

75.7 Amendments to annual and half-yearly reports may be made prior to their disclosure and subject to their submission to the financial market supervisory authority. In the event the financial market supervisory authority discovers any issues in the amendments, it must, within five business days of their submission, demand that inclusion of the amendments into the reports be suspended. Unless the financial market supervisory authority demands suspension of including the amendments to the reports within that period, the issuer shall make the amendments and shall disclose them to public as provided for in article 75.6 of this Law.

75.8 The following shall be included in the 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 reports must contain at least information on significant events during the first six months of the financial year and description risks and problems expected during the outstanding six months period, and comments on their effect on the interim reports.

75.10 If interim financial reports have been audited by an outside auditor, the issuer must attach the auditor's opinion to the report.

75.11 Article 75 of this Law shall apply to the following issuers:

75.11.1 state and municipalities, internal organizations to which the Republic of Azerbaijan is a party and Central Bank of the Republic of Azerbaijan;

75.11.2 debt securities public offered and admitted to trading in a regulated market, the nominal value of which does not exceed the threshold set by the relevant government authorities;

75.12 The financial statements of the issue shall be prepared and certified by an auditor pursuant to the Law of the Republic of Azerbaijan On Accounting, and The financial market supervisory authority shall adopt the requirements to management reports.

## **Article 76. Disclosure of information on acquisition or disposal of significant share**

76.1 In the event 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 the total amount of shares of the issuer, such person shall, within not later than four trading days, inform the issuer of this by providing the 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 physical and legal persons, who shares based on agreement or any other instrument;

76.2.2 nominal holders.

76.3 The requirements set forth in article 76 of this Law shall apply to all the 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 the other party from the obligation to provide such notice.

76.4 Article 76 of this Law shall not apply to the following:

76.4.1 Central Bank of the Republic of Azerbaijan – when it acquires shares in connection with implementation of money 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 disposes of 5 or 10 percent of shares of the issuer with the aim to executive its obligations (provided it does not participate in the 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 in case of physical persons – name, patronymic, last name, in case of legal person – full name and place of residence;

76.5.2 date of acquisition of shares;

76.5.3 number of shares acquired and total percent in the capital of the joint stock company.

76.6 The issuers specified in article 76 of this Law must maintain the list of shareholders, who hold significant shares. The list must be accessible to public.

## **Article 77. Requirements to disclosure of information by issuers**

77.1 In the event there are any changes in the rights confirmed by securities or derivative financial instruments of issuers, they must immediately disclose this information to public.

77.2 The issuers, whose securities have been public 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 under the following circumstances:

77.2.1 issuing securities with the purpose to obtain loan;

77.2.2 in case of providing security (in case amount of the security is more than 5 percent of the security provider's capital);

77.2.3 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 proposed to the use of the funds collected by public offering, the supervisory council of the issuer must submit to the general meeting of shareholders (holder of interest) for approval the report, which report must include reasons for the changes, assessment of the funds used until that date, new investment plan and schedule of its implementation. The issuer shall, within not later than five business days, provide the decision general meeting of shareholders (holders of interest) to the financial market supervisory authority and to 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 must provide the information on such changes to the financial market supervisory authority and to the stock exchange, where the securities have been admitted to trading.

77.5 Information, which must be disclosed by issuers under this Law, shall be in 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 required to be disclosed under this Law in a language set by the relevant government authority.

77.6 An issuer may not demand from investors any payment for providing information.

77.7 Issuers, whose securities have been publicly offered and admitted to trading in a regulated market, shall disclose the information required to be disclosed under this Law pursuant to rules set by the financial market supervisory authority in the single data resource provided for in article 1.0.26 of this Law and its website (if there is any).

77.8 The financial market supervisory authority shall set the requirements to the single data resource.

## **Chapter 10**

### **Prevention of circumstances of abuse in securities market**

#### **Article 78. Circumstances of abuse in 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 means information of specific nature relating, either directly or indirectly, to one or more issuers, securities or derivative financial instruments, which has not been disclosed and if disclosed may significantly affect prices of securities or derivative financial instruments.

78.3 Abuse in securities market is prohibited.

78.4 The following shall be considered manipulation in securities market:

78.4.1 entering into transaction or issue of orders (instructions), which provide false or misleading information about prices, demand and supply for securities or derivative financial instruments;

78.4.2 artificially maintaining and changing prices of securities or derivative financial instruments by a person(s), either alone or in collaboration with others, through entering into transaction or issuing order for entering into transactions;

78.4.3 entering into transactions or issuing orders for entering into transactions using fake means or accompanied by fraud with securities or derivative financial instruments;

78.4.4 dissemination of news, gossips or other information through mass media or other means, which news, gossip or information either creates or may create false or misleading impression about securities or derivative financial instruments;

78.5 The financial market supervisory authority shall set the rules for identifying and preventing circumstances of abuse in securities market.

78.6 If there are suspicions of entering into transactions in securities or derivative financial instruments using inside information or circumstances of market manipulation, an investment company and stock exchange must immediately inform the financial market supervisory authority of this. The disclosure of this information to third parties is not permitted.

78.7 The rules in chapter 10 of this Law relating to insider trading and market manipulations do not apply to the following:

78.7.1 Transactions by the Central Bank of the Republic of Azerbaijan, financial markets supervisory authority or other authorities in connection with implementation of money, state debt and currency regulation policies;

78.7.1-1 Transactions with securities, issued by international organizations acceded to by the Republic of Azerbaijan.

78.7.2 Transactions aimed at stabilization of prices for securities and repurchase of the 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 beneficiaries;

79.1.3 any person, who may obtain inside information due to its position, under agreement or due to transfer of any right by the issuer or other insider;

79.1.4 a person, who fulfills duties of the issuer's executive body based on an agreement;

79.1.5 any person holding, either directly or indirectly, 5 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 persons, a person, who participates in making decision on behalf of such legal persons;

79.1.9 close relatives (husband, wife, parents and parents of husband or wife, grandfather and grandmother, children, adopters (adopted children) , brothers and sisters) of persons listed in articles 79.1.1-79.1.5 of this Law.

79.2 The following is not permitted for insiders:

79.2.1 execution, either directly or indirectly, of sale and purchase or attempt to enter into such transaction in securities or derivative financial instruments for its own account or the account 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 into purchase (sale) or refuse to enter into 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 for the purpose of fulfilling 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, must immediately after inside information is created disclose such information to public.

80.2 Information disclosed by the issuer must be unambiguous and fluent. Disclosure of incomplete, uncertain, misleading or ambiguous information is not allowed.

80.3 The issuer shall be liable for disclosure of inside information, completeness and correctness of the information.

80.4 Under the following circumstances the issuer may postpone disclosure of inside information with the aim to avoid creating a misunderstanding, provided it ensures confidentiality of the information and the issuer is liable for protection of its valid interest and for preventing any possible damage:

80.4.1 disclosure information may affect negotiation process or its results;

80.4.2 disclosure of information may create danger of putting the issuer in difficult financial situation or affect the results of negotiations aimed at restoring financial condition of a solvent issuer for a long term, and, consequently, may endanger interest of its investors;

80.4.3 approval of the issuer's other corporate body is outstanding for the decision of issuer's corporate body or agreement entered into by the issuer to enter into force.

80.5 If the issuer disclose information about the decision or agreement provided for in article 80.4.3 of this Law, the information must contain a note to the effect that consent of other corporate body's is outstanding for the decision or agreement to enter into force.

80.6 In the event the issuer adopts decision to postpone disclosure of information as provided for article 80.4 of this Law, it must immediately provide information the financial market supervisory authority of this together with the reasons for the postponement. If the financial market supervisory authority determines that the reasons for postponing the disclosure of information does not comply with article 80.4 of this Law, it shall, within three business days, demand 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 is not required.

80.8 The financial market supervisory authority shall set the rules on disclosure and submission of inside information to the financial market supervisory authority.

## **Article 81. List of insiders**

81.1 The issuer, whose securities have been publicly offered and admitted to trading in a regulated market, shall prepare and maintain the list of persons, who may have access to inside information, including information about such persons.

81.2 The following information shall be in the insiders list:

81.2.1 information about the person having access to inside information (for physical persons – name, patronymic, last name, position and/or share in the issuer's charter capital, address, series and number of personal identification document; for legal persons – full name of

the legal person, TIN and name, patronymic and last name of the person representing the legal person);

81.2.2 reasons for including and excluding the person from the list;

81.2.3 dates of including and excluding the person from the list;

81.2.4 date when the person was informed about his inclusion into or exclusion from "insider list";

81.2.5 date when the list was prepared and updated.

81.3 The issuer shall regularly update the insider list and shall within one business day from receiving request from the financial market supervisory authority provide the list to it.

81.4 The issuer shall keep the insider list for the period of 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 financial market supervisory authority shall set the rules of preparing insider list.

## **Article 82. Disclosure of information relating to transactions of insiders**

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 insider those persons are, or with derivative financial instruments for which such issuer's securities comprise the underlying assets, shall, within one business day from the date of the transaction, provide information about such transactions to the financial market supervisory authority and the issuer.

82.2 The following information must be included in the information about 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 a physical person – name, last name, patronymic, in case of legal persons – full name of the legal person;

82.2.3 reasons 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 number of securities or derivative financial instruments, which are the subject of the transaction;

82.2.6 price of 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 date and place of the transaction;

82.2.9 number and percentage of shares of the person in the capital of the issuer after the transaction has been completed;

82.2.10 date of providing the information.



82.3 The financial market supervisory authority shall set the rules on provision to the financial market supervisory authority of information about transactions entered into by insiders.

## Chapter 11

### Regulation and oversight over securities market

#### Article 83. Purpose of regulation and oversight over securities market

83.0 The following are the main purpose of the regulation of and oversight over securities market:

83.0.1 protect interest of investors in the securities market;

83.0.2 take the necessary actions to ensure transparency in the securities market;

83.0.3 advertise the securities market;

83.0.4 issue licenses to relevant persons in the securities market and oversee activities of licensed persons;

83.0.5 adopt normative nature acts aimed at regulating the securities market and oversee compliance with those acts;

83.0.6 regulate trading in the securities market;

83.0.7 taking measures to prevent manipulations in the securities market and entering into transaction in the securities market using inside information;

83.0.8 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;

83.0.9 oversee compliance with this Law and the Civil Code of the Republic of Azerbaijan, and in the event of discovering their violations issue orders, execution of which is mandatory, to remove the violations;

83.0.10 impose sanctions on persons, who violate laws relating to securities market;

*83.0.10-1 oversee compliance of the requirements of the Law of the Republic of Azerbaijan "On Accounting" by licensed persons operating in the securities market;*

83.0.11 issue decisions requiring to terminate activities of persons, who engage in the business of an investment company, stock exchange, clearing house, investment fund depository without obtaining a license pursuant to chapter 8 of this Law.

## **Article 84. State register**

84.1 The state register of licensed persons and branch or representative offices of investment companies, who have received a license or permission to operate, is maintained by the financial market supervisory authority. The state register shall contain names, legal address and license or permission issued to licensed persons or branch or representative offices of licensed persons, number and date of the license or permission issued to them or cancelled, termination of their activities, list of investment services (transactions) provided by investment companies, types of securities markets in which a stock exchange organizes trading and information on members of corporate bodies of licensed persons. Licensed persons as well as branch or representative offices of investment companies, who have received a license or permission to operate shall be entered into the state register from the date there are issued a license or permission.

84.2 The financial market supervisory authority shall maintain the state register of securities issued prospectus. The state register shall contain name, state registration data and legal address of issuers, date when the decision on issue of securities was adopted, state registration number date, type, form, number and nominal value of securities. The financial market supervisory authority shall set the rules on maintaining of state register.

84.3 Information entered into state register must be publicly available.

## **Article 85. On site audits**

The financial market supervisory authority shall conduct on-site audits of licensed persons pursuant to the Law of the Republic of Azerbaijan On Regulation of Audits of Entrepreneurs and Protection of Interests of Entrepreneurs to oversee their compliance with this Law and other acts of normative legal and acts of normative nature and to review financial stability of such persons.

## **Article 86. Orders of supervisory authority execution of which is mandatory**

86.1 If as a result of analysis and research (with the exception of on-site audit) it is discovered that licensed persons, the central depository or issuers violate provisions of this Law or any other law or regulation relating to the securities market or that there are circumstances that may lead to such violations, the financial market supervisory authority shall issue a written order, execution of which is mandatory, to remove or prevent such violations or circumstances within a certain period of time.

86.2 By issuing the order, execution of which is mandatory, the financial market supervisory authority shall demand 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 law or regulation relating to the securities market;

86.2.2 remove the circumstances of violation of this Law or any other law or regulation relating to the securities market;

86.2.3 submission of information or documents;

86.2.4 resubmission of already submitted documents, which contain false or misleading information or deficiencies.

86.3 The financial market supervisory authority shall issue an order, execution of which is mandatory, by adopting a decision and sending the decision to the person to whom the order relates. Such decision must contain reasons for the decision, requirements required to be complied with and deadline for the compliance.

86.4 The person to whom the order, execution of which is mandatory, is issued must, after receiving the decision, take actions necessary to comply with the order within the time period specified in the order, and submit the report of such actions to the financial market supervisory authority. If compliance with the requirements require additional time, the financial market supervisory authority shall, based on the relevant justified request, set such additional time.

86.5 In the event the financial market supervisory authority does not receive the report provided for in article 86.5 of this Law or it is evident from the report that the requirements have not been complied with either wholly or in part, it shall issue a repeat decision on order, execution of which is mandatory. The provisions of articles 86.3 and 86.4 of this Law shall apply to such repeat decision.

86.6 A complaint can 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 supervisory authority and its employees**

The financial market supervisory authority or its employees shall be liable pursuant to the Civil Code of the Republic of Azerbaijan for damages to physical or legal persons resulting for their unlawful actions (omissions) during performance of regulation and their oversight duties.

### **Article 88. Complaint against decision of supervisory authority**

88.1 A complaint can be lodged to court or pursuant to administrative proceedings against a decision of the financial market supervisory authority in connection with application of this Law.

88.2 With the exception of the circumstances identified in article 76 of the Law On Administrative Proceedings, filing of a complaint pursuant to article 88.1 of this Law shall not limit authorities of the financial market supervisory authority relating to implementation of this Law.

### **Article 89. Remuneration paid to the financial market supervisory authority**

Persons licensed to operate in the securities market and central depository pay their fees to the financial market supervisory authority in the amount and manner established by it.

### **Article 90. Liability**

Persons, who violate provisions of this Law, shall be liable under the Code of the Republic of Azerbaijan for Administrative Offenses, Criminal Code of the Republic of Azerbaijan and Civil Code of the Republic of Azerbaijan.

## **Chapter 12**

### **Transitional provisions**

#### **Article 91. Transitional provisions**

*91.1 – removed*

91.2 Licenses issued for engaging in professional business in securities market (broker, dealer and asset management business) before this Law entered into force, shall remain valid until January 1, 2016 and until such date those persons must apply for receiving a license to engage in the business of an investment company pursuant to provisions of chapter 8 of this Law.

91.3 The persons who have obtained a license for engaging in the business of stock exchange for this Law entered into force shall adjust their business in compliance with this Law until January 1, 2016.

91.4 Licenses issued for engaging in the business of a clearing house 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 must transfer all securities held by them to the central depository until September 15, 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 must transfer all securities held by them to the central depository until September 15, 2015.

91.7 Joint stock companies, who maintained register of their shareholders before this Law entered into force, shall transfer such registers to the central depository until September 15, 2015.

91.8 Law, dated June 16, 2000, No. 899-IQ, of the Republic of Azerbaijan On Protection of Investors Rights in Securities Market (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 from the date this Law enters into force.

**İlham ALİYEV,**  
**President of Republic of Azerbaijan**

**LIST OF SOURCE DOCUMENTS USED**

1. Law of the Republic of Azerbaijan No. 145-VQD dated 04 March 2016 (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016)
2. Law of the Republic of Azerbaijan No. 321-VQD dated 30 September 2016 (State Register of Legal Acts registration number **12201609300321**, added to the State Register of Legal Acts on 22 November 2016)
3. Law of the Republic of Azerbaijan No. 390-VQD dated 11 November 2016 (State Register of Legal Acts registration number **12201611110390**, added to the State Register of Legal Acts on 16 December 2016)
4. Law of the Republic of Azerbaijan No. 520-VQD dated 01 February 2017 (State Register of Legal Acts registration number **12201702010520**, added to the State Register of Legal Acts on 24 February 2017)
5. Law of the Republic of Azerbaijan No. 589-VQD dated 14 April 2017 (State Register of Legal Acts registration number **12201704140589**, added to the State Register of Legal Acts on 02 June 2017)
6. Law of the Republic of Azerbaijan No. 859-VQD dated 17 November 2017 (State Register of Legal Acts registration number **12201711170859**, added to the State Register of Legal Acts on 18 December 2017)
7. Law of the Republic of Azerbaijan No. 1132-VQD dated 04 May 2018 (State Register of Legal Acts registration number **12201805041132**, added to the State Register of Legal Acts on 04 June 2018)
8. Law of the Republic of Azerbaijan No. 1165-VQD dated 31 May 2018 (State Register of Legal Acts registration number **12201805311165**, added to the State Register of Legal Acts on 11 June 2018)
9. Law of the Republic of Azerbaijan No. 1416-VQD dated 28 December 2018 (State Register of Legal Acts registration number **12201812281416**, added to the State Register of Legal Acts on 30 January 2019)
10. Law of the Republic of Azerbaijan No. 1444-VQD dated 28 December 2018 (State Register of Legal Acts registration number **12201812281444**, added to the State Register of Legal Acts on 04 February 2019)
11. Law of the Republic of Azerbaijan No. 1474-VQD dated 01 February 2019 (State Register of Legal Acts registration number **12201902011474**, added to the State Register of Legal Acts on 28 February 2019)
12. Law of the Republic of Azerbaijan No. 1567-VQD dated 23 April 2019 (State Register of Legal Acts registration number **12201904121567**, added to the State Register of Legal Acts on 08 May 2019)
13. Law of the Republic of Azerbaijan No. 1586-VQD dated 03 May 2019 (State Register of Legal Acts registration number **12201903051586**, added to the State Register of Legal Acts on 29 May 2019)

## THE LIST OF CHANGES AND ADDITIONS MADE TO THE LAW

1. According to Law of the Republic of Azerbaijan [No.321-VQD dated 30 September 2016](#) (State Register of Legal Acts registration number **12201609300321**, added to the State Register of Legal Acts on 22 November 2016) the words “**supervisory authority in charge of financial markets**” have been replaced with the words “**financial market supervisory authority.**”
2. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the words “**state and public**” have been deleted from the preamble.
3. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the words “**state regulation and supervision**” have been replaced with the words “**regulation and supervision.**”
4. According to Law of the Republic of Azerbaijan [No.1165-VQD dated 31 May 2018](#) (State Register of Legal Acts registration number **12201805311165**, added to the State Register of Legal Acts on 11 June 2018) Sub-article 1.0.3 has been given in a new wording.  
the previous wording stated:  
1.0.3. ~~beneficiary~~ is a physical person or legal entity that ultimately receives economic or any other benefits from money or other property transactions, as well as a real owner of the legal entity, in favor of which the deals are made or a physical person who conducts control over the customer;
5. According to Law of the Republic of Azerbaijan [No.390-VQD dated 11 November 2016](#) (State Register of Legal Acts registration number **12201611110390**, added to the State Register of Legal Acts on 16 December 2016) the word “**legal**” has been added before the word “**entity**” in the first sentence of Sub-article 1.0.5.
6. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the word “**state**” has been deleted from Sub-article 1.0.11.
7. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) Sub-article 1.0.16 has been deleted.
8. According to Law of the Republic of Azerbaijan [No. 390-VQD dated 11 November 2016](#) (State Register of Legal Acts registration number **12201611110390**, added to the State Register of Legal Acts on 16 December 2016) the word “**legal**” has been added before the word “**entity**” in the first sentence of Sub-article 1.0.18.
9. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) Sub-article 1.0.22 was given in a new wording.  
the previous wording stated:  
1.0.22. ~~supervisory authority~~ the competent executive authority ensuring the state regulation and supervision of the securities market;;
10. According to Law of the Republic of Azerbaijan [No. 390-VQD dated 11 November 2016](#) (State Register of Legal Acts registration number **12201611110390**, added to the State Register of Legal Acts on 16 December 2016) the words “**as well as funds**” were added after the word “**instruments**” in Sub-article 1.0.23.

11. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the words “**supervisory authority**” have been replaced with the words “**financial market supervisory authority.**”
12. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the words “**acts of a normative nature of the financial market supervisory authority**” have been added after the word “acts” in Sub-article 2.1.
13. According to Law of the Republic of Azerbaijan [No. 1416-VQD dated 28 December 2018](#) (State Register of Legal Acts registration number **12201812281416**, added to the State Register of Legal Acts on 30 January 2019) Sub-article 2.3 with a new content has been added.
14. According to Law of the Republic of Azerbaijan [No. 1567-VQD dated 23 April 2019](#) (State Register of Legal Acts registration number **12201904121567**, added to the State Register of Legal Acts on 08 May 2019) Sub-article 2.4 with a new content has been added.
15. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) except for Sub-articles 3.6, 16.16.4, 62.3 and 89.1.2, the words “**competent executive authority**” have been replaced with the words “**supervisory authority in charge of financial markets.**”
16. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the words “**lack of**” have been replaced with the word “**existence**” in Sub-article 5.5.4.
17. According to Law of the Republic of Azerbaijan [No.390-VQD dated 11 November 2016](#) (State Register of Legal Acts registration number **122016111110390**, added to the State Register of Legal Acts on 16 December 2016) the words “**lack of**” have been replaced with the word “**existence**” in Sub-article 5.6.3.
18. According to Law of the Republic of Azerbaijan [No.520-VQD dated 01 February 2017](#) (State Register of Legal Acts registration number **12201702010520**, added to the State Register of Legal Acts on 24 February 2017) at the end of Sub-article 6.3.5, the dot mark has been replaced with a semicolon and the new Sub-article 6.3.6 has been added.
19. According to Law of the Republic of Azerbaijan [No.1132-VQD dated 04 May 2018](#) (State Register of Legal Acts registration number **12201805041132**, added to the State Register of Legal Acts on 04 June 2018) second sentence with a new content has been added to Sub-article 7.4.
20. According to Law of the Republic of Azerbaijan [No.321-VQD dated 30 September 2016](#) (State Register of Legal Acts registration number **12201609300321**, added to the State Register of Legal Acts on 22 November 2016) the words “**as well as for the purposes set forth in Sub-article 89.2 of this Law**” have been deleted from the third sentence of Sub-article 16.1.
21. According to Law of the Republic of Azerbaijan [No.859-VQD dated 17 November 2017](#) (State Register of Legal Acts registration number **12201711170859**, added to the State Register of Legal Acts on 18 December 2017) Sub-articles 17.3 and 30.7 with new content have been added.
22. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on



14 March 2016) the words “**or of the financial monitoring authority**” have been deleted from Sub-article 19.6.4.

23. According to Law of the Republic of Azerbaijan [No.1444-VQD dated 28 December 2018](#) (State Register of Legal Acts registration number **12201812281444**, added to the State Register of Legal Acts on 04 February 2019) the words “**or of the financial monitoring authority**” have been added after the words “**of the financial market supervisory authority**” in Sub-article 19.6.4.
24. According to Law of the Republic of Azerbaijan [No.520-VQD dated 01 February 2017](#) (State Register of Legal Acts registration number **12201702010520**, added to the State Register of Legal Acts on 24 February 2017) Sub-article 23.1 has been given in a new wording.  
The previous wording stated:  
~~23.1. Investment securities shall be issued, transferred and kept in a central depository in uncertificated form.~~
25. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the words “**of the financial monitoring authority**” have been deleted from Sub-article 28.2.
26. According to Law of the Republic of Azerbaijan [No.1444-VQD dated 28 December 2018](#) (State Register of Legal Acts registration number **12201812281444**, added to the State Register of Legal Acts on 04 February 2019) the words “**of the financial monitoring authority**” have been added after the words “**of the financial market supervisory authority**” in Sub-article 28.2.
27. According to Law of the Republic of Azerbaijan [No.589-VQD dated 14 April 2017](#) (State Register of Legal Acts registration number **12201704140589**, added to the State Register of Legal Acts on 02 June 2017) Sub-article 28.3 with a new content has been added.
28. According to Law of the Republic of Azerbaijan [No. 145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the word “**state**” has been replaced with the word “**nationwide**” in Sub-article 30.5.
29. According to Law of the Republic of Azerbaijan [No.390-VQD dated 11 November 2016](#) (State Register of Legal Acts registration number **12201611110390**, added to the State Register of Legal Acts on 16 December 2016) the word “**execution**” has been replaced with the words “**internal on the execution**” in the first sentence of Sub-article 38.3.
30. According to Law of the Republic of Azerbaijan [No.1165-VQD dated 31 May 2018](#) (State Register of Legal Acts registration number **12201805311165**, added to the State Register of Legal Acts on 11 June 2018) the word “**beneficiaries**” has been replaced with the words “**beneficial owners**” in Sub-article 62.3.
31. According to Law of the Republic of Azerbaijan [No.390-VQD dated 11 November 2016](#) (State Register of Legal Acts registration number **12201611110390**, added to the State Register of Legal Acts on 16 December 2016) the words “**of the founders**” have been replaced with the words “**of the significant participatory shareholders**” in Sub-article 62.6.1.4.
32. According to Law of the Republic of Azerbaijan [No.1165-VQD dated 31 May 2018](#) (State Register of Legal Acts registration number **12201805311165**, added to the State Register of Legal Acts on 11 June 2018) the word “**beneficiaries**” has been replaced with the words “**beneficial owners**” in Sub-articles 62.6.1.5, 66.1.12 and 79.1.2.
33. According to Law of the Republic of Azerbaijan [No. 145-VQD dated 04 March 2016](#) (State Register

of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the word “**other**” in the first sentences of Sub-articles 62.10, 67.3 and 69.3 has been deleted, and the word “**request**” in the second sentences of those Sub-articles have been replaced with the word “**inquiry**.”

34. According to Law of the Republic of Azerbaijan [No. 1586-VQD dated 03 May 2019](#) (State Register of Legal Acts registration number **12201903051586**, added to the State Register of Legal Acts on 29 May 2019) **sub-articles** 63.2-1 and 83.0.10-1 have been added.
35. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the words “**and the external auditor's opinion for its verification**” have been added after the word “**statements**” in Sub-article 75.3.1.
36. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) Sub-article 76.2.3 has been considered as Sub-article 76.2.2.
37. According to Law of the Republic of Azerbaijan [No.1474-VQD dated 01 February 2019](#) (State Register of Legal Acts registration number **12201902011474**, added to the State Register of Legal Acts on 28 February 2019) the words “**(except for international organizations acceded to by the Republic of Azerbaijan)**” have been added to the word “**issuers**” in Sub-article 77.2.
38. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the words “**or other state authorities**” have been replaced with the words “**financial market supervisory authority or other authorities**” in Sub-article 78.7.1
39. According to Law of the Republic of Azerbaijan [No.1474-VQD dated 01 February 2019](#) (State Register of Legal Acts registration number **12201902011474**, added to the State Register of Legal Acts on 28 February 2019) Sub-article 78.7.1-1 with a new content has been added.
40. According to Law of the Republic of Azerbaijan [No.390-VQD dated 11 November 2016](#) (State Register of Legal Acts registration number **12201611110390**, added to the State Register of Legal Acts on 16 December 2016) the word “**(adopted children)**” has been added after the word “**adopters**” in Sub-article 79.1.9.
41. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the word “**legal**” has been replaced with the words “**of nature**” in Sub-article 83.0.5.
42. According to Law of the Republic of Azerbaijan [No.390-VQD dated 11 November 2016](#) (State Register of Legal Acts registration number **12201611110390**, added to the State Register of Legal Acts on 16 December 2016) the words “with **prices**” have been deleted in Sub-article 83.0.7.
43. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the words “**legislative acts**” have been replaced with the words “**acts of normative and legal acts and acts of normative nature**” in Article 85 and Sub-articles 86.1, 86.2.1 and 86.2.2.
44. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) the words “State regulation” have been replaced with the words “Regulation” in Article 87.

45. According to Law of the Republic of Azerbaijan [No.321-VQD dated 30 September 2016](#) (the «Azerbaijan» newspaper, November 20, 2016, No. 257, Collection of Legislative Acts of the Republic of Azerbaijan, 2016, No. 11, Article 1756) the word “its control” has been replaced with the words “control” in Article 87.
46. According to Law of the Republic of Azerbaijan [No.145-VQD dated 04 March 2016](#) (State Register of Legal Acts registration number **12201603040145**, added to the State Register of Legal Acts on 14 March 2016) Article 89 has been given in a new wording:

~~**Article 89. Financing of state supervision over the securities market**~~

~~89.1. The performance of the regulatory and supervisory functions of the supervisory authority in the securities market shall be financed from the following sources:~~

~~89.1.1. state budget funds;~~

~~89.1.2. mandatory allocations to the extent of the percent of annual net profit of the central depository, determined by the competent executive authority.~~

~~89.2. The allocations provided for in Sub-articles 89.1.2 of this Law shall be used exclusively for the following purposes:~~

~~89.2.1. Increasing the qualification of the experts involved by the supervisory authority in the implementation of regulatory and supervisory functions, including their participation in international conferences, workshops training courses and other events;~~

~~89.2.2. Performing outreach and promotion of the securities market;~~

~~89.2.3. expanding the logistics capabilities for the regulatory authority to perform regulatory and supervisory functions.~~

47. According to Law of the Republic of Azerbaijan [No.520-VQD dated 01 February 2017](#) (State Register of Legal Acts registration number **12201702010520**, added to the State Register of Legal Acts on 24 February 2017) Sub-article 91.1 has been deleted.