Annex N 1

of the Decree of the Government of the Republic of Armenia N 381 – N dated on 13 April 2017

PROCEDURE

FOR ISSUANCE, ALLOCATION, BUYBACK, CIRCULATION AND REDEMPTION OF THE RA GOVERNMENT TREASURY SHORT-TERM BONDS, MEDIUM-TERM AND LONG-TERM COUPON BONDS

I. GENERAL PROVISIONS

1. This procedure regulates the relationships with regard to the definition of the rules for issuance, allocation, buyback, circulation and redemption of the RA government treasury short-term bills, medium-term and long-term coupon bonds.

II. DEFINITIONS

2. The key definitions used in this Procedure are as follows:

1) issuer: the Ministry of Finance of the Republic of Armenia;

2) bond: the government treasury short-term bill, medium-term and long-term coupon bond issued by the issuer in accordance with this Procedure and the legislation of the Republic of Armenia;

3) issue: the totality of the actions for the determination of the main criteria, public disclosure of the bond, its registration in the government securities registration and settlement system;

4) short-term bill: a bond, which is issued with a maturity period of up to 1 year inclusive, is sold with a discount, without the payment of coupon and is redeemed for the face value;

5) coupon bond: a bond, which is issued with a maturity period of more than 1 year, is sold with the face value, discount or premium, with semi-annual payments of coupons and is redeemed for the face value;

6) medium-term bond: a coupon bond with a maturity period of 1 to 5 years inclusive;

7) long-term bond: a coupon bond with a maturity period of more than 5 years;

8) central bank: the Central Bank of the Republic of Armenia;

9) settling person: a legal entity, which has signed a contract with the issuer for the implementation of the settlement of the auction.

10) redemption servicing person: a legal entity, which has signed a contract with the issuer for the implementation of the redemption of the bond, payment of coupons;

11) auction system operator: a legal entity ensuring the auction system, which has signed a corresponding contract with the issuer;

12) auction manager: a legal entity, which has signed a contract with the issuer for the implementation of the auction, if it is not the issuer;

13) dealer: a person providing investment services defined by the legislation of the Republic of Armenia, which has signed a contract with the issuer about the implementation of the dealer functions in the bonds market;

14) investor: any person (including a contractual investment fund), which buys bonds with ownership right in accordance with this Procedure and the acting legislation, and is not a dealer;

15) nominee: a person into whose name the bonds owned by other persons are registered, without transferring the ownership right;

16) Treasury direct: a structure ensuring the direct sales of bonds to retial investors by the issuer, the registration and servicing of the bonds owned by investors. The functions of Treasury direct are implemented by the issuer;

17) operator: a person (persons), which organize the activities of the regulated market for bonds;

18) government securities registration and settlement system (hereinafter - System):  a system ensuring the implementation of the registration of the bonds on the depo accounts maintained at the central custodian and the implementation of settlements with depo accounts;

19) central custodian: a legal entity implementing custodian activities and bearing obligations towards the issuer for the official registration, circulation of bonds, which has a custody contract with the issuer;

20) sub-custodian: a person implementing custodian activities, with whom the own bonds, nominees’ bonds and (or) the bonds in the ownership of investors (by specific investors) are registered;

21) face value (or volume): a monetary unit, which the issuer is obliged to pay to the owner and (or) nominee of the bond on the maturity date;

22) discount (premium): a difference between the face value and the price of the bond, if it is positive (negative);

23) price: a monetary unit, which the buyer of the bond is obliged to pay to the seller of the bond on the settlement date for the defined face value of the bond, with an accuracy of ten RA lumas, in accordance with the arithmetic rounding rules;

24) yield (or annual yield to maturity): an interest rate (with an accuracy of ten-thousandth digit after the decimal point, under the arithmetic rounding rule) by which the price is calculated, in accordance with Chapter VI of this Procedure;

25) annual coupon rate: a fixed interest rate defined by the issuer for each coupon bond (with an accuracy of one-hundredth digit after decimal point);

26) coupon: the interest amount, paid against the face value of the bond by the issuer to the owner and (or) nominee of the bond until the maturity date inclusive, calculated from the issue date, with a semi-annual frequency and with the annual coupon rate, in accordance with Chapter VI of this Procedure;

27) coupon payment date: a calendar day defined by the issuer, on which the latter is obliged to pay the coupon for the given bond;

28) first coupon payment date: a calendar day defined by the issuer, on which the latter is obliged to pay the coupon for the given bond for the first time;

29) primary market: a market where the allocation of the bonds is done;

30) secondary market: an organized or non-organized market for the implementation of the transactions (trading (including also repo/reverse repo and other transactions defined by legal acts), free delivery) ensuring the circulation of the bonds outside of the primary market;

31) issue volume: the maximum summed face value of all allocations of the bond of the given issue determined and published by the issuer for each bond;

32) volume subject to allocation (buyback): a maximum face value or range, at which the allocation (buyback) can be done, determined and defined in advance by the issuer, defined for a bond for each auction;

33) allocated volume: the sum of the face values of the bonds sold by the issuer in the result of transactions made during each allocation auction and direct sales;

34) volume bought back: the sum of the face values of the bonds bought by the issuer in the result of transactions made during each buyback auction or buyback from the Central Bank;

35) allocation – the first sale of the bond by the issuer or the sale of the bond through reopening an issue.

36) buyback: purchase of bonds with a free status by the issuer from the secondary market prior to the maturity date;

37) transaction: purchase and (or) sale of a bond;

38) allocation auction: a closed competition process organized for allocation of bonds, during which the potential buyers submit bids for buying bonds, that are registered, classified and compared in the auction system, and can be satisfied by the issuer;

39) additional allocation auction: bond allocation auction held on the next working day after the allocation auction, with the same settlement date, same International Securities Identification Numbers, in a fixed price method, which is carried out by weighted average yield (price) of the allocation auction;

40) direct sale: bond allocation through Treasury Direct after the allocation auction, with the same settlement date, same International Securities Identification Numbers, in a fixed price method, which is carried out by weighted average yield (price) of the allocation auction;

41) buyback auction: a closed competition process organized for buyback of circulating bonds, during which the potential sellers submit bids for selling the bonds, that are registered, classified, compared in the system and can be satisfied by the issuer;

42) auction: allocation auction (including additional allocation auction) and (or) buyback auction;

43) auction system: an automated software complex used for organizing auctions in electronic manner, which is designated for organizing and holding auctions by the Operator and processing and maintaining the information related thereof;

44) participant of auction system: the dealers and the Central Bank;

45) multiple price method: a method of implementing the auction, where each winning bid is satisfied (partially satisfied) at the price (yield) stated in the bid;

46) fixed price method: a method of implementing allocation and (or) buyback, where any submitted bid is satisfied in full extent (fully) at a price (yield) announced in advance;

47) reopening – making the decision about the allocation of the next share of each bond issue

48) range – the guiding value of the minimum and maximum volumes of reopening.

49) bid: an offer for conclusion of a transaction with the totality of the face value and yield (or) price submitted by the participant and addressed to the issuer;

50) announcement date: the day of publication of the announcement about the issuance of the bond or holding of the auction;

51) issue date: a calendar day defined by the issuer, starting from which the first coupon is calculated;

52) auction date: a calendar day, when the auction shall be organized;

53) maturity date: a calendar day defined by the issuer, starting from which the circulation of that bond in the secondary market and the implementation of any operations with them are prohibited, except for the redemption of the bond;

54) number of days to maturity: the number of calendar days between the maturity date and the settlement date;

55) maturity period: a time period from the issue date until the maturity date;

56) redemption payment date: a calendar day defined by the issuer, when the latter is obliged to pay in fact the face value of the bond, and, in case of a coupon bond, also the last coupon;

57) bid satisfaction (partial satisfaction), conclusion of transaction: an establishment of an agreement between the buyer and the seller of the bond about the material conditions of the trade of the bond and the rights and obligations arising from the trade of the bond, in accordance with this Procedure, in the form defined by the rules of the auction system operator and the corresponding contracts;

58) weighted average yield: the weighted average yield of the concluded transactions, where the weightings represent the volumes of the concluded transactions, with an accuracy of one ten-thousandth after decimal point, in accordance with the arithmetic rounding rules;

59) bond increment: an amount of the face value of the bond, which all the transactions done with the bond shall be multiple of;

60) settlement: a totality of actions, in the result of which the obligations arising from the conclusion of transactions between the participants of the auction system, related to the transfer of bonds and cash, and the issuer are fulfilled;

61) settlement date: a calendar day defined by the issuer, on which the obligations related to the transfer of cash and bonds shall be fulfilled in accordance with the concluded transaction.

62) depo account: a multitude of records of the central custodian or a sub-custodian, foreseen for the registration of bonds, which is unified with common attributes and foreseen for the accounting of the bonds;

63) benchmark bond: bonds defined by the issuer and subject to mandatory quoting by the dealers;

64) arithmetic rounding rule: the method of rounding, under which the unit subject to rounding is not changed in case it is followed by a number equal to 0-4; and is changed by adding one unit in case it is followed by a number equal to 5-9;

III. ISSUANCE OF BONDS AND ANNOUNCEMENT OF AUCTIONS

3. The bonds are issued by the issuer on behalf of the Republic of Armenia, in the national currency of the Republic of Armenia, in nominal, non-documentary form and are secured by the assets of the state, which are in the ownership of the state.

4. The conditions of issuance of the bonds, issued in accordance with this Procedure and in circulation, cannot be amended. The issuer has the right to issue bonds solely in accordance with this Procedure.

5. The criteria of the issuance of the bonds are stipulated by the order of the Minister of Finance of the Republic of Armenia. In the order defining the criteria of the issuance of the bonds, the issuer shall at least stipulate the issue date, the issue volume, the maturity date, the redemption payment date; in case of a coupon bond – the first coupon payment date and the annual coupon rate.

6. The bond is deemed issued on the issue date upon making the corresponding records about the given bond in the system of the central custodian.

7. Each bond issue is assigned a CFI code defining the specificities of the financial instruments in accordance with ISO 10962 standard, as well as an International Securities Identification Number compliant with ISO 6166 standard, in accordance with the guideline for the assignment of the International Securities Identification Numbers by The Association of National Numbering Agencies.

8. The issuer shall ensure the redemption of the bonds issued by it and the payment of the coupons.

9. The implementation of any type of operation with the bond is prohibited on the maturity date (except for the redemption).

10. The bond increment is one thousand RA drams.

11. The registration of the rights verified by the bonds is done through the implementation of the corresponding records in the depo accounts.

12. The issuer has a right to deem the bonds of any issue as benchmark bonds, if the face value of the bonds of the given issue in circulation is at least ten billion AMD. On its official website, the issuer shall publish every quarter, at least ten working days prior to each quarter, the list of the bonds deemed as benchmark bonds.

13. Not later than five working days prior to the bonds issue date (two working days, if the bond is a short-term bill with a maturity period of up to 13 weeks), before 11 AM the issuer shall electronically transfer to the central custodian the criteria mentioned in Point 5 of this Procedure and the International Securities Identification Number, for the purpose of registration in the system.

14. Upon the registration of the bond in the system based on the information defined in Point 13 of this Procedure, the central custodian shall inform, in electronic manner, the issuer and the auction system operator about the verification of the registration of the bond on the same day before 3 PM.

15. At least two working days (one working day, if the bond is a short-term bill with a maturity period of up to 13 weeks) prior to the allocation and (or) buyback date of the bonds, before 11 AM the issuer shall transfer, in electronic manner, to the auction system operator the announcement about the organization of the auction. On the working day preceding the date of the additional allocation auction of the bonds, before 3 PM the issuer shall transfer, in electronic manner, to the auction system operator the announcement about the organization of the additional allocation auction.

16. The announcement about the organization of the auction shall include at least the following data: the date of the announcement, the International Securities Identification Number assigned to the bond of the given issue, the issue date, the issue volume, the maturity date, the redemption payment date, the first coupon payment date (if available), the annual coupon rate (if available), the auction date, the yield (only in case of the fixed price method), the volume subject to allocation (buyback), the settlement date.

17. The issuer has a right to annul the announced and (or) published auction. The issuer shall transfer the decision about the annulment of the auction to the auction system operator at least one working day prior to the auction date, before 2 PM.

18. The auction system operator is obliged to publish (to announce) on its official website:

1) the criteria mentioned in Point 5 of this Procedure and the International Securities Identification Number for the bond, at least five working days prior to the issue date (two working days, if the bond is a short-term bill with a maturity period of up to 13 weeks), before 4 PM;

2) the information about the organization of the allocation (buyback) auction, at least two working days (one working day, if the bond is a short-term bill with a maturity period of up to 13 weeks) prior to the auction date, before 4 PM.

3) the information about the organization of the additional allocation auction, on the working day preceding the date of the additional allocation auction, before 4 PM;

4) the decision about the annulment of the announced auction, at least one working day prior to the auction date, before 4 PM.

IV. ORGANIZATION OF THE ALLOCATION AND BUYBACK OF THE BONDS

19. The auctions are carried out in the auction system, at the date of the auction and by the auction manager.

20. The rules for organizing auctions are approved by the auction system operator and agreed with the issuer.

21. The allocation of bonds is done through organizing sales auction and direct sales.

22. The auctions are organized by the auction system operator.

23. The auction date can differ from the settlement date, however the maximum difference between the settlement date and auction date is two working days. The settlement date is defined by the issuer, separately for each auction.

24. The issuer may allocate the issued bonds in full or in separate parts through reopening.

25. At any allocation auction, the maximum volume of bond subject to allocation is the difference between the issue volume and the total volume allocated prior to the auction date.

26. The allocation auctions are implemented with multiple price method. Only the dealers, as well as the Central Bank (in the case defined by the RA Law “On the Central Bank of the Republic of Armenia”) can participate in the allocation auction.

27. The issuer has the right to announce an additional auction for the allocation of bonds of the same issue, with a volume of up to twenty percents of the allocated volume, on the working day following the bond allocation auction date.

28. Only the participants of the auction system, which have purchased a bond through the allocation auction, may present a bid for the additional allocation auction.

29. The maximum face value of the bids submitted by the dealer in the additional allocation auction shall not exceed twenty percents of the face value of the bond purchased by the dealer in the allocation auction.

30. The maximum volume of each allocation through direct sale shall not exceed ten percents of the volume subject to allocation or of the maximum volume of the range.

31. The direct sale shall be done only to individuals.

32. The issuer has the right to buy back before the date of maturity the bonds, which have been issued by it and are in circulation.

33. The buyback can be done through a buyback auction, with multiple price method or fixed price method.

34. Only dealers may participate in the buyback.

35. The issuer has the right to buy back the bonds purchased by the Central Bank in the secondary market, for a price (yield) mutually agreed between the issuer and the Central Bank.

36. The bonds bought back by the issuer shall be registered in the corresponding depo account of the issuer and shall not be subject to allocation.

V. DEALERS

37. The dealer is the partner of the issuer in the primary and secondary bond markets.

38. The issuer shall carry out the selection of the dealers in accordance with the procedure for the evaluation of the behaviour and the selection of the dealers approved by the issuer.

39. The corresponding status is awarded to the dealer by the contract signed with the issuer. The issuer shall define the model form of the contract signed with the dealers.

40. The dealer shall be a sub-custodian.

41. The dealer has a right to submit bids for the auction both in its name, at its own expense, and in its name by the assignment of the investor and (or) nominee, at the expense of the investor and (or) nominee.

42. The dealer has a right to participate in the bond allocation and buyback auctions, in accordance with the rules for the organization of the bond allocation and buyback auctions defined by the auction system operator.

43. The dealer is obliged to quote the benchmark bonds constantly, in accordance with the quoting rules defined by the operator, which are agreed with the issuer. Sanctions shall be applied to the dealer in accordance with the contract, in case of the unjustified refusal of the transactions with quoted bonds.

44. The dealer can be deprived of its status by the decision of the issuer in accordance with the contract. The decision about the deprivation of the status shall enter into force and the central custodian, the auction system operator, the settling person, the operator and the dealer shall be informed about the decision within one working day upon the adoption of the decision.

45. In case of non-fulfilment as of the settlement date of the obligations for the implementation of transactions with regard to the transactions concluded with bonds, the dealer shall be deprived of its status immediately, by the decision of the issuer.

46. The issuer shall regularly organize meetings with the dealers in order to discuss the upcoming programs in the bonds market.

VI. IMPLEMENTATION OF THE CALCULATIONS FOR THE PRICES AND COUPONS OF THE BONDS

47. The price of the short-term bills shall be calculated in accordance with the following formula:

$$P=\frac{FV}{1+(Y\*D)/360}$$

where:

FV is the face value of the bond,

P is the buying (selling) price of the bond,

Y is the yield (%),

D is the number of days to maturity,

360 is the number of days in the year, assumed conditionally:

48. The price of the medium-term and long-term coupon bonds shall be calculated in accordance with the following formula:

|  |  |  |  |
| --- | --- | --- | --- |
| DP =CP + FV \*  | C |  \*  | A , |
| 2 | E |

where:

$$CP=FV\*\frac{C}{2}\sum\_{i=1}^{N}\frac{1}{\left(1+\frac{y}{2}\right)^{i-1+τ}}+\frac{FV}{\left(1+\frac{y}{2}\right)^{N-1+τ}}-FV\*\frac{C}{2}\*\frac{A}{E}$$



FV is the face value of the bond,

DP is the dirty price of the bond (including the accrued interest amount),

CP is the clean price of the bond (excluding the accrued interest amount),

C is the annual coupon rate (%),

Y is the yield (%),

DSC is the actual number of days left until the upcoming payment of the coupon calculated from the settlement date,

E is the actual number of days left until the upcoming payment of the coupon (in case of the last coupon – the maturity date) calculated from the date of the previous payment of the coupon (in case of the first coupon – the issue date), in case of the corresponding conditionality,

A is the actual number of days from the previous payment of coupon until the settlement date or, in case of being in the first coupon phase, the actual number of days from the issue date until the transaction settlement date,

N is the number of coupon payments outstanding at that moment.

49. The calculation of the coupon of the bonds is implemented by a simple method, in which the actual and announced coupon amounts are equalized, in accordance with the following rule:

|  |  |
| --- | --- |
| A = FV \* | C , |
| 2 |

where:

A is the amount of the coupon to be paid, with an accuracy of ten RA lumas, in accordance with the arithmetic rounding rules,

FV is the face value of the bond,

C is the annual coupon rate.

VII. PROCEDURE FOR THE IMPLEMENTATION OF OPERATIONS BY THE AUCTION SYSTEM OPERATOR

50. The rules for the conclusion of transactions, the organization of auctions shall be defined by the auction system operator, in agreement with the issuer, and shall not contradict this Procedure. These rules shall define the conditions of compilation, submission, acceptance, verification, satisfaction of the bids, the procedure for summarizing and publication of the auction results, the data submitted by the auction system operator and the issuer to each other, the cases and procedure for the interruption, restart, annulment of the auction in emergency situations, and other provisions related to the auction.

VIII. THE CIRCULATION OF THE BONDS IN THE SECONDARY MARKET, PLEDGING OF BONDS, SETTLEMENT OF BONDS, CUSTODIAN ACTIVITY, THE BONDS REGISTRATION AND SETTLEMENT SYSTEM

51. The settlement of the bond auctions shall be done by the settling person on the settlement date mentioned in the announcement.

52. The activities of the bond custodian, the functions of the bonds registration and settlement system shall be implemented by the central custodian.

53. The relationships regarding the rules for the circulation of the bonds in the secondary market, the pledging of bonds, the implementation of settlement, the conditions for the implementation of custodian activities, the criteria for the participation in the system, the submission of the documents constituting the grounds for the implementation of bond transactions (orders for trade, free delivery, pledging), the calculations are regulated by the procedures set in accordance with sub-point “kc1” of Article 20 of the RA Law “On the Central Bank of the Republic of Armenia”.

IX. PROCEDURE FOR REDEMPTION OF BONDS, PAYMENT OF COUPONS

54. The redemption servicing person shall ensure the redemption of the bond and the payment of the coupon on the redemption payment date and (or) the coupon payment date of the bonds, before 12:00 midday, on behalf of the issuer and based on the order from the issuer.

55. The circulating bonds shall be considered as redeemed, if all coupons and the face value of the bonds have been paid.

56. Coupon payment shall not be done for the bonds existing on the sub-accounts of the issuers’ bonds subject to allocation and bonds bought back registered with the central custodian. These bonds are considered as redeemed on the maturity date defined by the issuance order.

57. The payment of the coupon of the bonds shall be done on the corresponding day of the sixth month ensuing the issue date of the given bond, until the expiration of the maturity period of the bond.

58. In case the redemption and (or) the coupon payment date of the bond expires on a month, which does not have the corresponding date, the period shall expire on the last calendar day of that month.

59. In case the date of the redemption and (or) the coupon payment of the bond is a non-working day in accordance with the legislation of the Republic of Armenia, the redemption and (or) the coupon payment of the bonds shall be done on the following working day.

60. The bond shall be redeemed and (or) the coupon shall be paid to the owner and (or) the nominee of the bond registered with the central custodian as of 12 midnight of the working day preceding the redemption and (or) the coupon payment date of the bond. The nominee shall ensure the redemption of the bonds and the payment of the coupon to the owner registered with the nominee.

61. The calculation for the payment of the first coupon of the bonds shall start from the issue date.