

 **MINISTER OF FINANCE**

**OF THE REPUBLIC OF ARMENIA**

13 July 2017 N 348-N

**ORDER**

ON PROCEDURE FOR EVALUATION OF THE BEHAVIOR AND SELECTION OF STATE TREASURY BONDS PRIMARY MARET PARTICIPANTS OF THE REPUBLIC OF ARMENIA

Guided with part 1 of Article 18 of the RA law “On Public Debt”

I order

1. To approve the Procedure for evaluation of the behavior and selection of state treasury bonds primary market participants of the Republic of Armenia in line with the Annex.
2. To define that
3. The agreements “On implementation of functions of Agents in the market of state treasury T-bills, medium-term T-notes and long-term coupon bonds” signed by the RA Ministry of Finance with Ameriabank CJSC, Ararat Bank OJSC, Ardshinbank CJSC, ArmSwissBank CJSC, HSBC Bank-Armenia CJSC, Converse Bank CJSC and VTB-Armenia Bank CJSC, who acted as Agents at the moment when this Agreement entered into force, are effective until December 31, 2017.
4. The evaluation of the behavior of Agents listed in sub-point 1, point 2 of this Order in the period of October 1, 2016 to October 1, 2017 is based only on primary market participation and secondary market activeness indicators. Quarterly generalized performance of Agents is calculated by adding to 40% of primary market participation score 60% of secondary market activeness score. The evaluation of the behavior of Agents listed in sub-point 1, point 2 of this Order for the period of October 1, 2016 to July 31, 2017 shall be published at the official website of the RA Ministry of Finance - [www.minfin.am](http://www.minfin.am), within 5 days after the entry into force of this Order.
5. This Order shall enter into force on the tenths day after its publication.

 MINISTER V. ARAMYAN

Annex to the Order N348-N

of the RA Minister of Finance

of July 13, 2017

PROCEDURE

FOR EVALUATION OF THE BEHAVIOR AND SELECTION OF STATE TREASURY BONDS PRIMARY MARET PARTICIPANTS OF THE REPUBLIC OF ARMENIA

1. GENERAL PROVISIONS AND DEFINITIONS
2. The current Procedure defines rules for evaluation of the behavior and selection of participants of state treasury bills, medium-term bonds and long-term coupon bonds primary market of the Republic of Armenia.
3. The definitions used in this Procedure are as follows:
4. Issuer: the Ministry of Finance of the Republic of Armenia;
5. bond: the government treasury short-term bill, medium-term and long-term coupon bond;
6. primary market participant (hereinafter Agent): 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 agent functions in the bonds market;
7. potential participant: bonds market participant, which is not an Agent.
8. Other definitions used in the current Procedure have the meaning used in legal acts regulating the state treasury bonds market.
9. The number of Agents shall be limited; minimum number shall be five, maximum number is seven.
10. The Issuer selects new Agents based on the evaluation of the behavior of Agents and potential participants.
11. The Issuer, on the second last Thursday of each month, shall organize a meeting with the Agents to discuss the upcoming programs in bond market. Extra-ordinary meetings can be called upon his or Agents' initiative.
12. MINIMUM REQUIREMENTS FOR AGENTS AND POTENTIAL PARTICIPANTS
13. The Agent shall:

1) act as sub-custodian;

2) have the right to deliver services in security market foresee by sub-points 1, 2 and 4 of point 1 of article 25 and point 1 of article 26 of the RA law “On security market”;

3) have a unit of experts operating in primary and secondary security markets, where the staff are qualified as security market experts in the order established by the RA legislation;

4) have internal control unit, performing also custodial activity control.

1. The potential participant who wants to became an Agent shall develop and submit to the Issuer an activity strategy, which should include:
2. activity plan for the next 2 years in the bond market based on the Government debt management strategy;
3. actual volume and structure of security portfolio, the desired volume and structure of portfolio for the coming two years;
4. availability of investors and policy for attracting new investors.
5. EVALUATION OF THE BEHAVIOR OF AGENTS AND POTENTIAL PARTICIPANTSS
6. The behavior of Agents and potential participants shall be assessed for the activities performed in the period starting from October 1 of the previous year to October 1 of the same year (4 quarters). Evaluation of the behavior shall be conducted for every quarter. The annual score shall be calculated as the sum of the quarterly scores.
7. The performance of the Agents in the estimated period shall be assessed based on the indicators in the following areas:

1) primary market participation;

2) secondary market activeness;

3) work with the Issuer.

1. The quarterly generalized scores for Agent shall be calculated adding 40% of primary market participation scores to 50% of secondary market activeness scores and 10% of score for working with the Issuer and with reducing number of Agents quoting violations score.
2. The indicators of evaluation of the behavior of Agents are:

1) **Primary market participation** = **I1\*0.75+ I­­2\*0.25**

Primary market participation indicators of Agent are:

a) allocation and buyback share indicator

**I­1= T-bill\*0.2+T-notes\*0.4+T-bonds\*0.4**

where

In T-bills, T-notes and T-bonds reporting period is the relation of the volume of the total successful bids offered by the Agent in each primary allocation and buyback auction of T-bills, T-notes and T-bonds to the allocated and bought back volume of each T-bills T-notes and T-bonds.:

b) effective participation indicator

**I­­2= T-bill\*0.2+T-note\*0.4+T-bond\*0.4**

where

In T-bills, T-notes and T-bonds reporting period is the relation of the volume of the total successful competitive bids offered by the Agent in each primary allocation and buyback auction of T-bills, T-notes and T-bonds to the volume of competitive offers made by him.

While calculating I1 and I­­2 indicators, the allocation and buyback tenor is viewed by outstanding maturity, and the securities having maturity of up to 365 days are considered as T-bills, the securities with the maturity of 366 up to 1825 days are T-bonds (medium-term bonds) and scurrilities with the maturity of 1826 days and more are considered as T-bonds (long-term bonds).

2) **Secondary market activeness indicator**

Indicator of share in the volume of operations

**I­­3=** $\sum\_{i=1}^{N}(EP\*0.6+OTC\*0.4)$

where

N is number of working days in a given quarter;

EP and OTC is the share of trading operations of Agent in exchange platform and OTC market in the reporting period in the total daily volume.

I­­3 indicator is calculated by Central Bank of the Republic of Armenia and submitted to the Issuer within 5 working days after the end of the reporting quarter.

3) **Work with the Issuer (I4)**

I4 - is an indicator assessing reporting on consultancy, analysis and forecasts provided for the Issuer on the capital market through CBANet for the coming quarter by the Agent 10 days before each quarter, as well as recommendations and comments made during the meetings with Agents.

1. For quarterly assessment of each Agent, the indicator of the number of violations of quotation rules by the Agents shall be applied. Decimal points of number of operating Agents as of the last day of the assessed quarter is subtracted from the quarterly score of the Agent having the highest number of violations, and in the list of violations – 0.1 point less from every next Agent. No points are subtracted from the Agent having no violation.
2. Quarterly operation assessment of the Agent shall be done in the following stages:

1) calculation of the sum of primary market participation indicators;

2) calculation of secondary market activeness indicator;

3) calculation of work with the Issuer indicator;

4) The Agents shall be given the scores, in line with the results for each indicator defined by paragraphs 1, 2 and 3 of this point, in descending order, in accordance with the Table below.

|  |  |
| --- | --- |
| Maximum result  | 7 points  |
|  | 6 points |
|  | 5 points |
|  | 4 points  |
|  | 3 points |
|  | 2 points |
| Minimum result \* | 1 points |

\*- in case of 7 Agents in the primary market. In case of n number of Agents the maximum score shall equal to n, and every next score shall be 1 less;

5) The score for each indicator of the Agent shall be weighted with the share of the relevant area;

6) The sum of weighted scores for each Agent shall be reduced with the indicator of the number of violations of quotation rules.

1. The activity of potential participants shall be assessed with secondary market participant activeness indicator.

**Share in the total transaction volume**

**I­­5=** $\sum\_{i=1}^{N}(EP\*0.6+OTC\*0.4)$

where

N is number of working days in a given quarter;

EP and OTC is the share of trading operations of potential participant in exchange platform and OTC market in the reporting period in the total daily volume.

I­­5 indicator is calculated by Central Bank of the Republic of Armenia and submitted to the Issuer within 5 working days after the end of the reporting quarter

I­­5 indicators shall be calculated for each quarter as the sum of daily share

1. Quarterly operation assessment of the potential participants shall be done in the following manner:

1) The Agents shall be given the scores, in line with the results for each indicator defined by paragraphs 1, 2 and 3 of this point, in descending order, in accordance with the Table below. The potential participants who have collected the highest seven results of I­­5 indicator are given corresponding points in descending order, in accordance with the Table below.

|  |  |
| --- | --- |
| Maximum result  | 7 points  |
|  | 6 points |
|  | 5 points |
|  | 4 points  |
|  | 3 points |
|  | 2 points |
| Minimum result | 1 points |

2) Potential participants with lower scores are given 0 points.

1. The annual score for potential participants shall be the sum of the quarterly scores assessing the activeness of participants in the secondary market.
2. After 7 business days each quarter finishes the Issuer shall publish on its official website the results of quarterly assessment of Agents and potential participants, by separate indicators, specifying the names.
3. By October 15 each year the Issuer shall publish on its official website, the annual assessment of Agents and potential participants by separate indicators, specifying the names.
4. SELECTION OF AGENTS
5. The Issuer shall start the Agents' selection process on October 1 every year.
6. As a result of evaluation of behavior, the Agents and potential participants shall be classified by groups by descending assessment scores.
7. The Issuer shall have to terminate the Agreement with the Agent having the least scores, if the minimum number defined by point 4 of the current Procedure is not infringed.
8. If the number of operating Agents is seven and as a result of assessment two Agents got equal lowest scores, the agreements with these Agents shall be terminated.
9. If the number of operating Agents is seven and as a result of assessment more than two Agents got equal lowest scores, the agreements with these Agents shall not be terminated and no new Agents shall be selected.
10. If the number of operating Agents is less than seven and as a result of assessment, two or more Agents have got equal lowest scores, the agreements with those Agents shall not be terminated and potential participants can submit to the Issuer an application for operating as an Agent.
11. If the number of operating Agents is less than six and the potential participants have not applied to the Issuer for signing an agreement on operation as an Agent, the agreements with the Agents shall not be terminated.
12. If the agreement on implementation of functions of Agents is terminated in the assessed period, the Agent cannot be included in the list for the next year.
13. As a result of assessment, the 7 potential participants having the highest scores, can apply to the Issuer for concluding agreement on performing the operations of Agents within 10 days after publishing the results of annual assessment, in the order established by this Procedure. The Issuer shall select potential participant/participants who submitted an application and have the highest scores.
14. If, as a result of assessment of the first year of Agreement on implementation of Agent's functions with the Issuer, the Agent has the lowest performance, it shall maintain the status of Agent, and the Agreement with the Agent operating for more than a year and having the lowest scores, shall be terminated.
15. The Issuer signs an agreement “On implementation of functions of Agents in the market of state treasury T-bills, medium-term T-notes and long-term coupon bonds” with selected Agents and can terminate it unilaterally.
16. The agreement signed with the Agent can be terminated if the Agent does not ensure the relevant requirements, as well as in the cases established by the Agreement.
17. The Agreement on implementation of the functions of Agent shall be signed for one year for the period of January 1- December 31. If the Agreement is not terminated during this period, it is considered as rolled-over for the period from January 1 to December 31 of the following year.
18. The Issuer shall publish the list of Agents for the next year on its official website by November 15 of the same year.