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"TRANSLATION CENTRE OF THE MINISTRY OF JUSTICE
OF THE REPUBLIC OF ARMENIA"
STATE NON-COMMERCIAL ORGANISATION

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BOARD OF THE CENTRAL BANK
OF THE REPUBLIC OF ARMENIA

18 September 2012

No 242-N

DECISION

ON APPROVING REGULATION 5/09 "TYPES OF ADDITIONAL ACTIVITIES,
PROCEDURE AND CONDITIONS FOR THEIR PERFORMANCE
BY THE CENTRAL DEPOSITORY"

Pursuing an objective to allow the Central Depository to perform types of additional activities related to its activities, promote increase in the number and volume of types

of activities performed by the Central Depository, reduce and contain the potential risks related to their performance;

based on part 3 of Article 175, part 2 of Article 176, parts 3 and 4 of Article 177, and part 2 of Article 199 of the Law of the Republic of Armenia "On securities market", guided by point "e" of Article 20 of the Law of the Republic of Armenia "On the Central Bank of the Republic of Armenia", Article 16 of the Law of the Republic of Armenia "On legal acts", the Board of the Central Bank of the Republic of Armenia hereby **decides**:

(Preamble amended by No 176-N of 25 October 2016)

1. To approve Regulation 5/09 "Types of additional activities, procedure and conditions for their performance by the Central Depository", pursuant to the Annex to this Decision.
2. This Decision shall enter into force on the tenth day following the day of its official promulgation.

**Governor of the Central Bank
of the Republic of Armenia**

A. Javadyan

19 September 2012

Yerevan

Annex

Approved

*by Decision of the Board of the Central Bank
of the Republic of Armenia No 242-N
of 18 September 2012*

REGULATION 5/09

**TYPES OF ADDITIONAL ACTIVITIES, PROCEDURE AND CONDITIONS
FOR THEIR PERFORMANCE BY THE CENTRAL DEPOSITORY**

CHAPTER 1

GENERAL PROVISIONS

1. This Regulation shall define the procedure and conditions for performing the types of additional activities by the Central Depository.
2. Performance of the types of additional activities by the Central Depository shall be regulated by the Law of the Republic of Armenia "On securities market", this Regulation, as well as the rules of the Central Depository.
 - 2.1. The concepts used in this Regulation shall have the following meanings:
 - (1) **Cash account** — an account opened at the Central Depository for the purpose of cash accounting;
 - (2) **Account holder** — a person, for (in the name of) whom a cash account has been opened at the Central Depository as provided for by this Regulation;

- (3) **Special bank account of the Central Depository** — a special bank account provided for by Article 928.1 of the Civil Code of the Republic of Armenia and opened in the name of the Central Depository at the Central Bank of the Republic of Armenia or at another bank operating in the territory of the Republic of Armenia, where only the monetary funds of account holders of the Central Depository are kept;
- (4) **Regulation 4/02** — Regulation 4/02 "Main prudential standards of investment companies, thresholds, limits, procedure for calculation, composition of elements involved in the calculation thereof, extent of violation of the defined prudential standards" approved by Decision of the Board of the Central Bank of the Republic of Armenia No 44-N of 12 February 2008 "On approving Regulation 4/02 "Main prudential standards of investment companies, limits, procedure for calculation, composition of elements involved in the calculation thereof, extent of violation of the defined prudential standards"".

(point 2.1 supplemented by No 176-N of 25 October 2016)

3. Other concepts used in this Regulation shall have the meaning applied in the Civil Code of the Republic of Armenia, the Laws of the Republic of Armenia "On securities market" and "On investment funds".

(point 3 supplemented by No 176-N of 25 October 2016)

CHAPTER 2

CRITERIA FOR BEING CONSIDERED A TYPE OF ADDITIONAL ACTIVITY

4. The activity performed by the Central Depository shall be considered additional, where it meets at least one of the following criteria:
 - (1) the law or another regulatory legal act of the Central Bank of the Republic of Armenia has enabled the Central Depository to perform that type of additional activity;
 - (2) the law or another regulatory legal act of the Central Bank of the Republic of Armenia has provided for such a type of activity the performance of which is directly connected to the performance of other functions of the Central Depository as a registrar of the participants of the unit holders of the investment fund, including the pension fund, fund custodian, or those related to the investment fund;
 - (3) it is associated with the payment of income (dividend, interest, fees resulting from redemption of debt securities, etc.) with respect to securities registered thereby or the organisation thereof, including acting as a tax agent;
 - (4) it is directly or indirectly associated with the actions related to the management of the issuer provided for by the Law of the Republic of Armenia "On joint-stock companies" and/or the charter of the issuer;
 - (5) it is associated with ensuring the fulfilment of liabilities resulting from trading in other financial assets not considered as securities that are admitted to trading on the regulated market;
 - (6) it is associated with maintenance of cash accounts to effectively ensure — by the Central Depository — the final settlement of transactions concluded

on the regulated market or beyond it, performance of the function of custody of the assets of the investment fund (including payments made to the account of the fund, payment of bonuses), payment of securities-related income, and the final settlement of transactions for trading in foreign currency.

(point 4 supplemented by No 176-N of 25 October 2016, No 136-N of 26 September 2019, No-130-N of 9 August 2022)

- 4.1. The procedure and conditions for performing the type of activity defined by sub-point 6 of point 4 of this Regulation shall be defined by Chapter 4 of this Regulation.

(point 4.1 supplemented by No 176-N of 25 October 2016)

CHAPTER 3

PERMISSION FOR PERFORMING TYPES OF ADDITIONAL ACTIVITIES

5. The Central Depository shall submit the following to the Central Bank of the Republic of Armenia in order to obtain a permit for performing the types of additional activities:
- (1) rationale for the activities meeting at least one of the criteria provided for by point 4 of this Regulation;
 - (2) rules ensuring the performance of types of additional activities (amendments, supplements to the relevant rules). Moreover, the requirements of the rules of the Central Depository (amendments, supplements to the rules) and for their registration prescribed by the Law

of the Republic of Armenia "On securities market" shall apply to the rules (amendments, supplements to the relevant rules) ensuring the performance of the types of additional activities;

- (3) the internal procedure for risk management (amendments, supplements to the internal procedure for risk management). Moreover:
 - a. the internal procedures for risk management shall be described in the internal legal acts of the Central Depository that may be in the form of procedures, regulations, directives, guidelines and other acts;
 - b. the internal procedure for risk management shall reveal all substantial risks (including financial, operational, legal, good reputation) arising from the performance of the types of additional activity, the level of risks acceptable for the Central Depository, mechanisms of risk control and keeping them at an acceptable level;
 - c. the Central Depository shall ensure accessibility of internal legal acts describing the internal procedures for risk management for its staff and the staff's knowledge thereof with respect to the functions performed thereby;
 - d. the Central Bank shall notify — within a maximum of 3 working days — the Central Bank of the Republic of Armenia of amendments to (supplements to or termination of) the provisions of the internal procedure for risk management due to types of additional activity already performed.

(point 5 edited by No 176-N of 25 October 2016)

6. The permit provided for by point 5 of this Regulation shall be considered as issued from the day of entry into force of the rules provided for by sub-point 2 of point 5 of this Regulation.

CHAPTER 4

(Chapter supplemented by No 176-N of 25 October 2016)

PROCEDURE AND CONDITIONS FOR CASH ACCOUNTING BY THE CENTRAL DEPOSITORY

7. Cash accounts (hereinafter also referred to in this Chapter as “financial accounts”) must be opened pursuant to the "Procedure for defining the coding structure of participants of the payment and settlement system or information systems, as well as the structure of cash accounts of customers of the Central Bank of the Republic of Armenia" approved by Decision of the Board of the Central Bank of the Republic of Armenia No 178-N of 23 July 2013.
8. The information available on financial accounts shall be equivalent to the information constituting bank secrecy. It (the information (or any carrier thereof)) may be disclosed in verbal or written form through the mass media or otherwise, making it available to a third person or spreading it, any direct or indirect provision of an opportunity to any third person to obtain such information (authorising, not hindering or making possible the disclosure of such information by the breach of the procedure for storing such information) only under the procedure prescribed by the Law of the Republic of Armenia "On bank secrecy".
9. For the purpose of protection of interests of account holders in relation to the monetary funds owned by the account holders, the Central Depository shall be obliged to:
 - (1) store the information, maintain such record that will allow to separate — at any moment and without delay —the funds of each account holder from the funds of other account holders, as well as from his or her own funds;

- (2) store the information and maintain the record in such a manner so as to ensure their accuracy and relevance to the monetary funds of account holders transferred to the record-keeping thereof and kept with persons provided for by point 18 of this Regulation;
 - (3) regularly make comparisons, adjustments between accounts, information and records regarding the funds of account holders available with it and persons provided for by point 18 of this Regulation, by ensuring the proper performance of the obligations prescribed by sub-points 1 and 2 of this point;
 - (4) undertake necessary organisational measures for managing the risk of *mala fide* or unauthorised use, frauds, incomplete record-keeping of funds of account holders or the loss of rights related to those funds.
10. Financial accounts may be expressed in the Armenian dram and/or a foreign currency, where the recorded monetary funds are kept in accounts expressed in the relevant currency and opened with the persons provided for by part 18 of this Regulation. The total amount of monetary funds recorded in the financial accounts opened at the Central Depository must correspond, as of any moment, to the total amount of the balances of accounts of the Central Depository opened with the persons provided for by point 18 of this Regulation, as per each currency.
11. Monetary funds may be credited to (debited from) the accounts opened with the persons provided for by point 18 of this Regulation only in cashless form. Moreover, the currency of credited (debited) monetary funds must correspond to the currency of the credited (debited) account, otherwise the person maintaining the account shall refuse to make such a transfer.
12. The balance of monetary funds recorded in the financial account of the account holder may be changed in the following cases:

- (1) as a result of transfer of monetary funds to the accounts opened with the persons provided for by point 18 of this Regulation in the name of the account holder;
- (2) as a result of reduction of monetary funds recorded in the financial account of one account holder and increase in monetary funds recorded in the financial account of another account holder in the same amount;
- (3) as a result of transfer — based on the relevant order of the account holder — from monetary funds recorded in the financial account of the given account holder and available in the account opened with the persons provided for by point 18 of this Procedure,
- (4) as a result of fulfilment of the financial liabilities of the account holder against the Central Depository, where it is provided for by a contract concluded between the account holder and the Central Depository;
- (5) in other cases provided for by a contract concluded between the account holder and the Central Depository and/or the rules of the Central Depository.

The scope of transactions which may result in a change in the balance of monetary funds recorded in the financial accounts shall be established by a contract between the account holder and the Central Depository and/or the rules of the Central Depository.

13. The Central Depository shall not have the right to use the monetary funds recorded in the financial accounts and kept with the persons provided for by point 18 of this Regulation to its benefit.
14. The forms of and procedure for issuing orders for conducting transactions with financial accounts shall be established by the rules of the Central Depository, in compliance with the relevant requirements prescribed for banks by law and the regulatory legal acts of the Central Bank of the Republic of Armenia (if applicable).

15. Financial accounts may be opened only for members of the settlement system and for investment funds.

(point 15 amended by No 98-N of 28 April 2017)

16. The following types of financial accounts may be opened for account holders at the Central Depository:
 - (1) own account where the monetary funds belonging to the account holder by the right of ownership are recorded;
 - (2) customer summary account where the monetary funds belonging to the customers of the account holder are recorded.
17. The Central Depository shall be obliged to keep its own monetary funds and monetary funds of its account holders in separate bank (cash) accounts. Moreover, the contract on a bank (cash) account opened for monetary funds of the account holder must contain a clear indication that that bank (cash) account is designated for keeping the monetary funds of account holders of the Central Depository.
18. The Central Depository shall keep the monetary funds of account holders in the Central Bank of the Republic of Armenia or international central depositories (Clearstream, Euroclear), and in case of consent of the Central Bank of the Republic of Armenia — also in another financial institution. The monetary resources of the pension fund may be kept also in any commercial bank operating in the territory of the Republic of Armenia that has been selected by the manager of the given fund. Moreover:
 - (1) the monetary funds of account holders expressed in the Armenian dram (except for monetary resources of pension funds provided for by this point) must be kept in the account opened at the Central Bank of the Republic of Armenia;

- (2) in case of the Central Bank of the Republic of Armenia or any bank operating in the territory of the Republic of Armenia the monetary funds of account holders must be kept in special bank accounts of the Central Depository;
 - (3) a bank (cash) account opened abroad must, according to the legislation of the given country, be an account of monetary funds placed under the management of the Central Depository.
19. The funds deposited in the special bank account provided for by point 18 of this Regulation:
 - (1) may be used only in the areas, cases and under the conditions provided for by this Regulation;
 - (2) may not be pledged, attached (arrested), levied in execution against liabilities of the Central Depository or, in case of bankruptcy of the Central Depository, serve as liquidation assets for fulfilment of liabilities.
20. The contract on cash account concluded between the Central Depository and the customer must contain:
 - (1) the name of the relevant financial institution provided for by point 18 of this Regulation;
 - (2) a provision that the Central Depository shall not be responsible for losses incurred by the fault (including in case of insolvency) of the financial institution referred to in this point;
 - (3) a provision that in cases of failure to make payments within the time limit set by the relevant financial institution provided for by point 18 of this Regulation, and insolvency, the Central Depository shall carry out all the actions required to protect the interests of account holders in such situations;

- (4) a brief description of substantial risks related to the bank (money) account opened at a foreign institution;
 - (5) a provision that an account holder may use the financial account only for purposes deriving from sub-point 6 of point 4 of this Regulation.
21. The internal control requirements for performance of the functions of the Central Depository defined by this Chapter shall be defined by Annex 1 to this Regulation.
22. The marginal ratio of the total capital and risk-weighted assets of the Central Depository (N1 standard) shall be set at 12 per cent.
23. The marginal ratio of the total capital and risk-weighted assets of the Central Depository shall be determined by the following formula:

$$N1 = \frac{C_{tot}}{RWA} ,$$

where:

C_{tot} is the total capital as per calculation of daily average in a month, which is calculated according to Annex 2 to this Regulation;

$RWA = CR + 25/3 * (MR + OR)$, where:

CR is the credit risk which is calculated under the procedure prescribed by Regulation 4/02 for investment companies;

MR is the market risk which is calculated under the procedure prescribed by Regulation 4/02 for investment companies;

OR is the operational risk which is calculated according to Annex 3 to this Regulation.

24. The Central Depository must ensure N1 standard through calculation of daily average in each month.

25. The marginal ratio of highly liquid assets and current liabilities of the Central Depository (N2 standard) shall be set at 60 per cent.

26. The marginal ratio of highly liquid assets and current liabilities of the Central Depository shall be determined by the following formula:

$$N2 = \frac{A_{hl}}{L_d},$$

where:

A_{hl} is highly liquid assets as per calculation of daily average in the month, which is determined by the following formula:

$$A_{hl} = \frac{A_{hl1} + A_{hl2} + \dots + A_{hlN}}{N},$$

where $A_{hl1}, A_{hl2}, \dots, A_{hlN}$ are highly liquid assets of the Central Depository, and “N” is the number of days in the reporting month;

L_d is the demand liabilities as per calculation of daily average in the month, which is determined by the following formula:

$$L_d = \frac{L_{d1} + L_{d2} + \dots + L_{dN}}{N},$$

where $L_{d1} + L_{d2} + \dots + L_{dN}$ are the demand liabilities of the Central Depository by days, and “N” is the number of days in the reporting month. The calculation of demand liabilities shall include on-demand funds or funds with no set repayment period that are recorded in the category “Liabilities” (including on-demand interests and interests with the set repayment period that are accrued thereon), including overdue liabilities. Moreover, demand liabilities (including interests accrued thereon) deducted from the accounts in the banks according to the first paragraph of sub-point 8 of point 27 shall

be deducted from demand liabilities in the relevant currency. Within the meaning of this Regulation, overdue shall be considered to be the liabilities that have not been fulfilled within the time limit set by the liability, except for those in proceedings of the court or the intermediate court. Liabilities in cases in proceedings of the court or the intermediate court shall be considered as demand liabilities.

27. The calculation of highly liquid assets shall include the below-listed assets (without the interests accrued on those assets (except for the assets referred to in sub-points 4, 5, 6, 7 and 9 of this point)) for which there are no conditions restricting their holding. Highly liquid assets shall include also the securities (at current market value) referred to in sub-points 4, 5, 6, 7, and 9 of this point that have been acquired under repo agreements and recorded in section 82 of “Chart of accounts for accounting of banks, credit organisations, investment funds and managers of investment funds operating in the territory of the Republic of Armenia” approved by Decision of the Board of the Central Bank of the Republic of Armenia No 322-N of 30 November 2011. Highly liquid assets shall not include the securities pledged, sold under repo agreements:

- (1) cash monetary funds (including monetary funds on the road and in ATMs), payment instruments equivalent to cash (except for payment instruments on the road), *i.e.* VISA, THOMAS COOK/MASTERCARD, AMERICAN EXPRESS, CITICORP, and upon consent of the Board of the Central Bank of the Republic of Armenia – also other payment instruments;
- (2) funds on accounts, deposits invested in the Central Bank of the Republic of Armenia (the term of which or the time limit to recover the funds by the right of demand before the repayment period does not exceed 3 working days);
- (3) bank gold (including the bank gold on the road);

- (4) transferable bills of exchange issued by the Ministry of Finance of the Republic of Armenia, the period of which until the repayment constitutes up to 1 year and which are subject to mandatory payment by the Central Bank of the Republic of Armenia at the expense of funds on the unified treasury account of the Government of the Republic of Armenia, the state treasury bonds of the Republic of Armenia and securities issued by the Central Bank of the Republic of Armenia — at the current (market) value;
- (5) securities of resident non-financial institutions of the Republic of Armenia at current (market) value, the rating of which is equal to or higher than the rating assigned by rating agencies (Standard & Poor's or Fitch or Moody's) to the Republic of Armenia which is lower by one;
- (6) state treasury bonds of states with A+(A1) and higher rating assigned by Standard & Poor's or Fitch (Moody's) Rating Agencies, at current (market) value;
- (7) corporate bonds with A+(A1) and higher rating assigned by Standard & Poor's or Fitch (Moody's) Rating Agencies, or non-governmental bonds issued by the European Bank for Reconstruction and Development, the European Central Bank, the European Investment Bank, other international organisations (that the Republic of Armenia is a member of), at the current (market) value;
- (8) accounts at resident and foreign banks (including in non-cash gold); moreover, their value is deducted in the amount of liabilities with respect to the same bank, but not more than the balance of the account at the relevant bank. When calculating the highly liquid assets of the Central Depository, first the balance of the demand liabilities, and then the remaining liabilities shall be deducted from the accounts at resident and foreign banks. The remaining liabilities shall not be deducted from the

account, where the rating of the foreign bank for attracting long-term deposits according to Standard and Poor's or Fitch (Moody's) Rating Agencies is BBB-(Baa3) and higher;

- (9) bonds issued by credit organisations carrying out refinancing, at the current (market) value.

Annex 1

to Regulation 5/09 approved by Decision of the Board of the Central Bank of the Republic of Armenia No 242-N of 18 September 2012

MINIMUM CONDITIONS FOR THE CENTRAL DEPOSITORY TO EXERCISE INTERNAL CONTROL

1. Within the meaning of this Regulation, the internal control system shall be a set of measures of the system of management of risks deriving from the performance by the Central Depository of activities prescribed by point 6 of this Regulation, as well as for exercising control over them.
2. Deficiencies and omissions of the internal control system identified by the executive body, persons performing internal control functions, employees of the Central Depository shall be submitted to the Board in the manner and within the time limits prescribed by the internal legal acts of the Central Depository.
3. The internal control system of the Central Depository shall include at least the following with respect to cash accounting:
 - (1) defining procedures for opening, maintaining by the Central Depository cash accounts and conducting transactions thereby;
 - (2) defining procedures for adopting, drafting, complying with and rejecting the orders related to conducting transactions;
 - (3) defining procedures applied for prevention of potential risks while conducting operations with financial accounts;

- (4) defining procedures for providing information on volumes of transactions conducted with accounts recorded at the Central Depository;
 - (5) defining procedures for retaining (archiving) documents;
 - (6) defining procedures for measures aimed at providing information on unexplained, rejected and delayed transactions, and identifying unexplained transactions;
 - (7) defining procedures for identifying the data of account holders;
 - (8) defining the principles of opening and closing accounts by the Central Depository at the Central Bank of the Republic of Armenia or with the institutions prescribed by point 18 of this Regulation, the frequency of monitoring and comparing the balance of these accounts.
4. The Central Depository must have a system of management of consistency of operations conducted under sub-point 3 of point 3 of this Annex.
 5. The Central Depository shall identify, assess, manage and reduce the risks posing danger to the consistency (continuity) of operations with cash accounts.
 6. The management of consistency of operations with financial accounts shall be a complex and complete process that includes all the measures and actions aimed at ensuring and/or restoring – in case of emergency situations — the consistency of these operations within the time limits and on the scale prescribed in advance.
 7. Within the meaning of this Annex, an emergency situation shall be a situation the occurrence of which is possible but difficult to foresee (having low probability) and which gives rise or may give rise to considerable material damage or other adverse effects for the Central Depository, its account holders or other beneficiaries.
 8. The system of management of consistency of operations with financial accounts shall at least include the following:

- (1) analysis of operations, including risk assessment;
 - (2) objectives of and strategy for restoring the operations;
 - (3) the action plan for ensuring the consistency of operations, including a plan for management of emergency situations and rehabilitation;
 - (4) the programme for regular testing and review of the action plan for ensuring the consistency of operations;
 - (5) a programme for holding seminars and awareness raising for employees of the Central Depository.
9. The risk assessment shall identify the potential risks (reasons) that may cause disruption of operations. For these risks, the probability of their occurrence and, if occurred, the potential impact shall be taken into account.
10. The objectives of restoration shall be the pre-set levels (scales) of operations conducted with financial accounts by the Central Depository, according to which these operations must be restored after the emergency situations occur, within the pre-set time limit for restoration.

(Annex supplemented by No 176-N of 25 October 2016)

Annex 2

to Regulation 5/09 approved by Decision of the Board of the Central Bank of the Republic of Armenia No 242-N of 18 September 2012

CALCULATION OF THE TOTAL CAPITAL OF THE CENTRAL DEPOSITORY

1. For calculation of N1 standard prescribed by point 22 of this Regulation, the total capital of the Central Depository shall be the total sum of its core (primary) capital and additional (secondary) capital, after making relevant deductions. Moreover, when calculating the amount of the total capital, the calculation of the total capital shall include the additional capital in the amount of a maximum of 50 % of the core capital (taking into consideration the deductions made under point 3 of this Annex).
2. The core capital of the Central Depository shall be the difference of the sum of the following elements and the elements deducted from the amount of the core capital:
 - (1) authorised capital;
 - (2) retained earnings;
 - (3) principal reserve.
3. The elements deducted from the amount of the core capital shall be:
 - (1) intangible assets (including out of use), as well as the book value of capital investments in intangible assets (except for the software used by the Central Depository when providing its services and the payments for rights to use them — in the amount of payments granting the right to use them);

- (2) the book value of tangible assets constituting the property of the Central Depository and not used for the services of the Central Depository (fixed assets and other tangible assets, including the appropriated assets formed as a result of disposing the pledge or on the basis of other claims, capital investments in other fixed assets out of use) six months after the day these assets are considered as the property of the Central Depository as prescribed by law;
- (3) the value of tangible assets considered as the property of the Central Depository and used for the services of the Central Depository (fixed assets, including the immovable property (buildings and constructions), other fixed assets, as well as capital investments in fixed assets used for the activities of the Central Depository) in the amount exceeding 25 per cent of the book amount of the core capital. Within the meaning of this sub-point, the value of the tangible assets shall be equal to the total sum of the initial value of the tangible assets and capital investments, deducted in the amount of amortisation charges with respect thereto, losses from depreciation and revaluation thereof;
- (4) the balance of capital investments for improving the fixed assets leased by the Central Depository;
- (5) the book value of investments in the authorised capital of other financial institutions, where
 - a. the investment constitutes 10 per cent or more of the authorised capital of the given person; or
 - b. the investment is less than 10 per cent of the authorised capital of the given person, but exceeds 15 per cent of the book amount of the core capital of the Central Depository, or

- c. the investments in the authorised capital of all persons exceed 60 per cent of the book capital of the core capital of the Central Depository.
- 4. The additional capital of the Central Depository shall be comprised of the following:
 - (1) increase due to revaluation of tangible assets constituting the property of the Central Depository and used for providing services by the Central Depository;
 - (2) the below-mentioned elements of other comprehensive income constituting the property of the Central Depository and used for providing services by the Central Depository:
 - a. increase due to revaluation of buildings and constructions;
 - b. increase due to revaluation of other fixed assets;
 - c. profits/losses generated/caused by revaluation of financial assets accessible for sale;
 - d. profits/losses with respect to investments retained until the repayment period;
 - e. increase due to revaluation of intangible assets;
 - f. exchange rate differences due to recalculation of a foreign operation;
 - g. increase due to revaluation of derivative hedging instruments for money flows;
 - h. other comprehensive income.
- 5. The calculation of additional capital shall not include the increase (income, profits/losses) due to revaluation of tangible assets not used by the Central Depository for providing services, tangible assets deducted from the amount of the core capital that are the element of other comprehensive income.

6. Within the meaning of this Regulation, tangible assets used for providing services shall be the assets that the Central Depository uses to perform the functions of the Central Depository prescribed by the Law of the Republic of Armenia “On securities market”. Moreover, own buildings and constructions (immovable property) used for performing depository-specific functions shall be the tangible assets where the Central Depository performs the functions prescribed by the Law of the Republic of Armenia “On securities market”.

(Annex supplemented by No 176-N of 25 October 2016)

Annex 3

**to Regulation 5/09 approved by Decision
of the Board of the Central Bank
of the Republic of Armenia
No 242-N of 18 September 2012**

CALCULATION OF THE OPERATIONAL RISK OF THE CENTRAL DEPOSITORY

CHAPTER 1

CALCULATION OF THE OPERATIONAL RISK

1. The operation risk shall be calculated according to the main characteristics or standardised approach to be included in the calculation of the marginal ratio of the total capital and risk-weighted assets, *i.e.* N1 standard.
2. The Central Depository shall select once a year the approach (main characteristics or standardised approach), whereby the operational risk must be calculated, notifying the Central Bank of the Republic of Armenia thereof before 31 December of the year preceding each year. Where the Central Depository has once selected the standardised approach for calculation of the operational risk, it shall no longer be allowed to select the approach of main characteristics for calculation of the operational risk for further years without the approval of the Central Bank of the Republic of Armenia.

CHAPTER 2

THE APPROACH OF MAIN CHARACTERISTICS FOR CALCULATION OF THE OPERATIONAL RISK

3. According to the approach of main characteristics, the operational risk shall be calculated by the following formula:

$$OR = (NI_y * C + NI_{y-1} * C) / N,$$

where:

OR is the operational risk calculated according to the approach of main characteristics;

NI_y is the net income of the year from January to December of the year (hereinafter referred to as "reporting year") preceding the calculation of the marginal ratio of the total capital and risk-weighted assets, *i.e.* N1 standard;

NE_{y-1} is the net income of the 2nd reporting year preceding the calculation of the marginal ratio of the total capital and the risk-weighted assets, *i.e.* N1 standard;

NE_{y-2} is the net income of the 3rd reporting year preceding the calculation of the marginal ratio of the total capital and the risk-weighted assets, *i.e.* N1 standard;

"C" = 15%;

"N" is number of years out of the last three years with net income higher than 0.

4. Where the net income of any year is less than 0, the net income of the given year shall not be included in the calculation of the operational risk.
5. Where the net income of the investment company has been less than or equal to 0 in each of three years preceding the reporting month, the operational risk shall not be calculated in the given year.

6. The net income of the given year shall be calculated as a difference of the income received and the expenses incurred for the functions performed by the Central Depository. The calculation of the net income of the given year shall not include the profits/losses from the sale of securities, as well as the insurance income received as compensation.

CHAPTER 3

STANDARDISED APPROACH TO THE CALCULATION OF THE OPERATIONAL RISK

7. According to the standardised approach, the net income prescribed by point 6 of this Annex must be divided to the following groups in order to calculate the operational risk:
 - (1) **core activities of the Central Depository.** This group shall include the income (expenses) generated with respect to the functions prescribed by Article 176 of the Law of the Republic of Armenia "On securities market";
 - (2) **non-core activities of the Central Depository.** This group shall include the income/expenses with respect to the functions that are not covered by sub-point 1 of this point.
8. The groups of net income calculated according to the standardised approach and the relevant coefficient "C" shall be provided in Table 1.

Table 1

No	Groups of net income	C	
1	Core activities of the Central Depository	C ₁	14%
2	Non-core activities of the Central Depository	C ₂	18%

9. According to the standardised approach, the operational risk shall be calculated by the following formula:

$$OR = \frac{\sum_{Y=1}^N \sum_{I=1}^2 (NI_{IY} * C_I)}{N},$$

where:

"OR" is the operational risk calculated according to the standardised approach;

"I" is the groups of net income prescribed by point 7 of this Annex;

"NI_I^Y" is the positive net income calculated for group "I" in the reporting year "Y" preceding the calculation of the standard;

"C_I" is the coefficient "C" of the group "I" prescribed by point 8 of this Annex;

"Y" is the reporting years preceding the calculation of the standard;

"N" is the number of reporting years out of the last three years with net income higher than 0.

10. Where the net income calculated for any reporting year of any group is less than 0, its value shall not be included in the calculation of the operational risk.
11. The net income of the groups prescribed by point 7 of this Annex shall be calculated as the total sum of net interest income and net non-interest income generated with respect to the given group. The calculation of the net income of

the given year shall not include profits (losses) from the sale of securities, as well as the insurance income received as compensation.

(Annex supplemented by No 176-N of 25 October 2016)

(Annex amended, edited, supplemented by 176-N of 25 October 2016, amended by No 98-N of 28 April 2017, supplemented by No 136-N of 26 September 2019, No 130-N of 9 August 2022)

Կազմված է սասնհինգ թերթից:

Comprises fifteen sheets:

