

Armenia registers a confident growth in capital markets

Nasdaq OMX Armenia relies on its full-fledge technology, streamlined regulations and conducive investment environment. Government has been relentlessly supporting the local capital markets as the pension fund reform is a clear evidence.

Konstantin Saroyan, the CEO of the ambitious exchange, explains the achievements, plans and the future strategy.

Being a post-Soviet Union country, Armenia has a relatively young capital market which is only 25 years old. Transition to a market economy in Armenia was mostly accomplished through privatizations. Established legal framework fully regulates and effectively supervises Armenian capital market giving quite appropriate investment opportunities. All the rights of both resident and non-resident investors are protected by the legislation in force. The Legislation defines that the legal regime governing foreign investments and the methods of their implementation cannot be less favorable than the regime governing the investment activities of residents.

“NASDAQ OMX Armenia” OJSC (NOA), formerly known as “Armenian Stock Exchange” OJSC was founded in November, 2000 and currently is the only stock exchange operating in Armenia. In 2008 exchange was acquired by Swedish exchange operator OMX AB and after combination of U.S. NASDAQ and Swedish OMX exchange operators, it became fully owned by the world's largest exchange, NASDAQ OMX Group, Inc. thus entering to a new century of development.



Mr Konstantin Saroyan, CEO
Nasdaq OMX Armenia

Membership in NASDAQ OMX Armenia is open to all companies, providing investment services and complying with the CBA and NASDAQ OMX Armenia requirements. Currently all Armenian banks, 5 investment companies and the CBA participate in the exchange trading.

NOA operates the market through a fully electronic, multi-asset trading system, facilitating the trading in a range of instruments such as equities, corporate bonds, government bonds, repos, FX, currency swaps as well as credit resources. According to 2014 results the lion's share of exchange turnover fell to the credit resources market, though during past year corporate securities market recorded unprecedented increase as well. The total value of trades concluded on equity market amounted to USD 60.58 mln which was 16 times higher compared to the previous year. Moreover, it exceeded the total value of past 13 years since the establishment of stock exchange.

“Equity market on Nasdaq OMX Armenia witnessed a massive growth in 2014. Traded value amounted to 16 times higher than that of the previous year.”

We have always emphasized the importance of providing solid investment environment both for resident and non-resident investors. Along with AMD denominated securities traded on NOA, foreign investors can invest in USD denominated corporate bonds as well. Being currency risk free instrument this is another investment alternative for them.

Returns on investments are quite attractive in Armenia. Annual yields of corporate bonds listed on NOA vary from 8.5% to 12%, which is one more investment incentive. In 2014, value traded in corporate bonds amounted to USD 10.17 million, more than doubling the amount traded in the year 2013.

One of our important achievements is cooperation with leading international data vendors. Currently exchange data as well as press releases are distributed to both Bloomberg and Thomson Reuters enabling investors to

have access to historical trading data as well as news of our exchange.

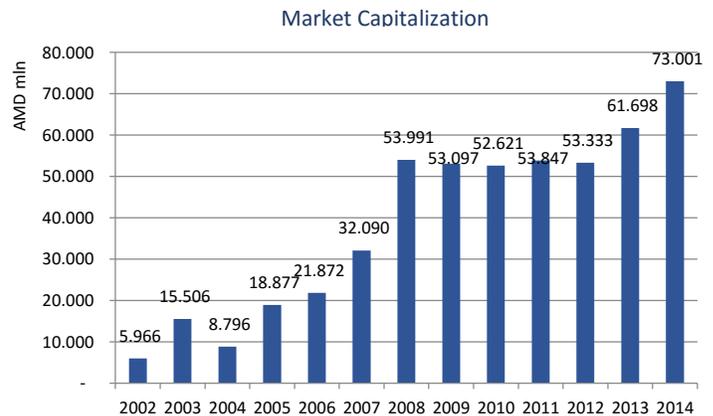
By saying NASDAQ OMX Armenia, we refer jointly to NOA and “Central Depository of Armenia” OJSC (CDA). CDA acts as a centralized registrar and custodian, as well as an operator of settlement system in Armenia. As of the end of September 2015, 2,248 registers were kept and 103,963 securities accounts were maintained by CDA.

As a settlement system operator, CDA performs clearing and settlement of exchange transactions, as well as facilitates OTC transactions on DVP and FOP principles, based on customer preferences. For exchange trading, both securities and cash funds must be pre-deposited before the trade (T+0 settlement). Such a set-up allows NOA to eliminate the non-payment risk and ensure safety and security of exchange trading in Armenia.

“We are working with Clearstream to mobilize a nominee account in CDA. We consider that this will bring a significant activity to Armenian capital markets. Offering high yields, Armenian corporate and government bonds will be very attractive instruments for foreign investors. “

After years of continuous work with the Government of Armenia and the Central Bank, CDA launched new funded pension system in Armenia. CDA, as one of the key players in this two-pillar pension system, performs functions of centralized custodian and centralized registry keeper. Two pension fund managers founded by acknowledged international fund managers, Amundi Asset Management and C-QUADRAT Investment AG currently manage the pension contributions of general public. Presence of these European leading assets managers brings international practice to the capital market as well as emphasizes another guarantee of confidence in the pension system.

The pension reform is anticipated to bring more liquidity into the local capital market. However due to several political and economic reasons injection of liveliness to the stock market through pension funds assets is not quite visible yet.



Another main achievement of NASDAQ OMX Armenia during previous years is the establishment of cross border link with Clearstream Banking Luxemburg in late 2013. Due to the nominee account opened in Clearstream securities of more than 53 developed and developing countries are now available for Armenian investors. Establishment of the link had its valuable contribution for the pension system as well, since fund managers can invest abroad much easier now.

Other cross-border securities accounts of CDA include bilateral nominee accounts with National Settlement Depository, Russian CSD, and a nominee account in Kazakhstan CSD.

Opening of a nominee account for Clearstream in CDA is currently underway. We consider that this will bring a significant change to Armenian capital market. Having high interest rates Armenian corporate and government bonds can be very attractive instruments for foreign investors.

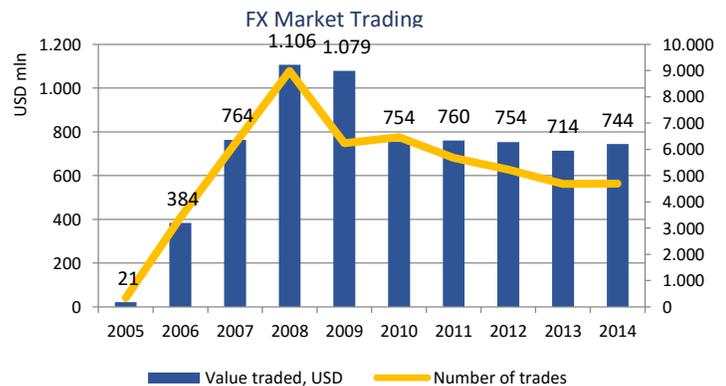
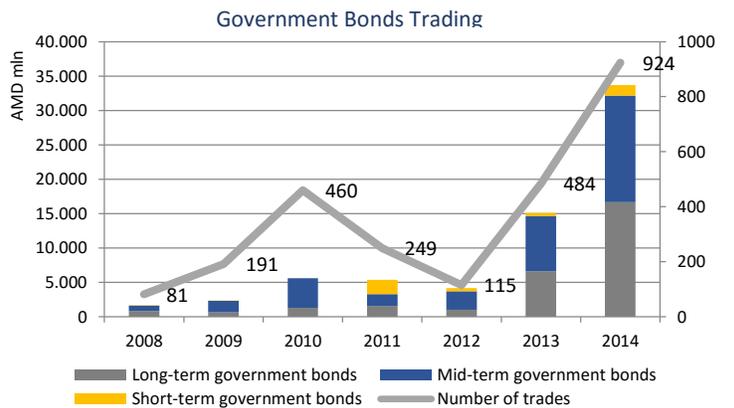
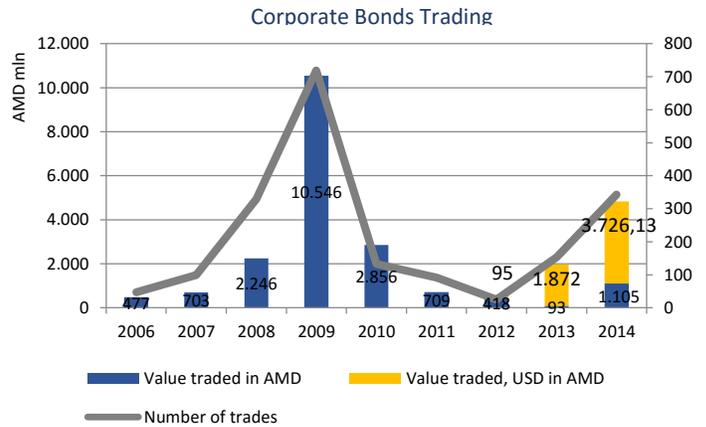
Our ambitions for the near future include organization of government bonds auctions, as well as implementation of a new trading model T+n.

CDA also plans to perform settlement bank functions maintaining cash accounts of market participants. As a precondition of this was the best-designed and implemented practice on managing participants virtual cash accounts. International practice on this field was deeply examined and considered as well.



ARMENIA

Frontier Newsletter, October 2015, Issue 3
 Published by Federation of Euro-Asian Stock Exchanges (FEAS)
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Growth of pension assets will serve as a stimulus for capital market development

While new corporate and sovereign issues will be needed for building well-diversified portfolios, the chief executive of a leading asset management firm in Armenia, Arman Vardanyan points out how the recent progress has been achieved and what steps need to be undertaken for further development.



Mr Arman Vardanyan, CEO
C-QUADRAT Ampega Asset Management Armenia

Q. How do you assess the overall environment of Armenian capital markets?

A. During the last decade and a half, Armenia has undergone a series of major reforms directed at designing a well-functioning capital markets. It now has a comparably active market for government bonds and is in the process of developing the market of corporate securities. In this area as well, there were a few success stories lately, while supranational issuers, such as EBRD and IFC, made bond issuances in the local market, which enhanced the Armenian investors' portfolios by providing opportunities for diversification. Furthermore, at the efforts of opening the market to foreign investors, Armenia made issuances of two Eurobonds: one in 2013 and one in 2015, both of which had strong demand and were well placed in the foreign market. Thus, although in early stages of development, Armenia has a spacious potential of growth and development of domestic capital markets.

Q. Do you think that the regulations are conducive to improving capital markets and trading efficiency?

A. Existing policies and regulations governing the capital markets are mostly aimed at building transparent and trustworthy environment for trading. Being a country with traditional rules-based supervision, the Central Bank is now gradually shifting to a risk-based supervision, which is

known as a more market-oriented approach. Adopting a flexible attitude to changing the regulations in line with market developments serves as a further stimulus for enhancing the market efficiency.

Q. Please give us a list of upsides and downsides of the Armenian capital markets.

A. Ease of entry, transparency and strong regulatory structure are a few of upsides of Armenian capital markets to name. Weak link of the real economy with the capital markets, lack of new corporate issues and bank-dominance in the markets are the main challenges to be solved within the upcoming years for having a more competitive capital market.

Q. How do the domestic pension funds relate to Armenian financial markets?

A. According to the Law on Funded Pensions at least 60% of the mandatory pension funds' portfolios are to be invested in drams. Thus, with the time, the pension fund managers will become the largest investors in the domestic market and play a vital role in its development. Being long-term investors, pension fund managers can serve as a positive force linking the real economy with the capital markets, encouraging creation of new instruments and improving the corporate governance practices.



C-QUADRAT Ampega Asset Management Armenia is a Joint Venture between C-QUADRAT Investment AG, Austria and Talanx Asset Management GmbH Germany. The mission of both companies is to operate a financial entity in Armenia that will offer top-quality asset management services in line with best standards. That way C-QUADRAT intends to play a leading role in the Armenian financial markets, promote the implementation of pension reform and support the development of asset management and investment services as well as capital markets.