

18/09/2012  
No 242 N

**ON APPROVAL OF REGULATION 5/09 “TYPES OF ADDITIONAL ACTIVITIES CARRIED OUT BY THE CENTRAL DEPOSITORY, TERMS AND CONDITIONS OF THEIR IMPLEMENTATION”**

This Regulation incorporates amendments as per RA CBA Board Resolutions 176N, dated 25.10.16 and 98N, dated 28.04.17

Regulation has been amended

With the view to allowing the Central Depository carry out additional types of activities related to its operations, enhancing the increase in the quantity and volume of activities carried out by the Central Depository, minimizing and mitigating the possible risks of their implementation;

based on Articles 175.3, 176.2, 177.3 and 4, 199.2 of the Republic of Armenia law “On Securities Market”, pursuant to Article 20 (e) of the Republic of Armenia law “On the Republic of Armenia Central Bank” and Article 16 of the Republic of Armenia law “On Legal Acts”, Republic of Armenia Central Bank,

**(Preamble amended 25.10.16, No 176N)**

Herewith, decides:

1. To approve Regulation 5/09 “Types of Additional Activities Carried Out by the Central Depository, Terms and Conditions of their Implementation” in accordance with the Annex to this Resolution.
2. This Resolution shall enter into force on the tenth day after promulgation.

**Republic of Armenia  
Central Bank Chairman**

**Artur Javadyan**

## Annex

Approved by  
Republic of Armenia  
Central Bank Board  
Resolution No 242-N, dated September 18, 2012

### REGULATION 5/09

#### TYPES OF ADDITIONAL ACTIVITIES CARRIED OUT BY THE CENTRAL DEPOSITORY, TERMS AND CONDITIONS OF THEIR IMPLEMENTATION

##### CHAPTER 1. GENERAL PROVISIONS

1. This Regulation establishes terms and conditions of implementation of the additional types of activities by the Central Depository.
2. Implementation of the additional types of activities by the Central Depository is regulated by the Republic of Armenia law “On Securities Market”, this regulation as well as rules of the Central Depository.
- 2.1. The concepts used in this Regulation have the following meanings:
  - 1) **Cash Flow Account** - account opened at the Central Depository for the purpose of accounting cash;
  - 2) **Account holder** - entity for which (on behalf of which) the Central Depository has opened a settlement accounting account in accordance with this Regulation;
  - 3) **Designated bank account of the Central Depository** – designated bank account as per Article 928.1 of the republic of Armenia Civil Code, opened on behalf of the Central Depository in the Republic of Armenia Central Bank or another bank operating in the territory of Republic of Armenia, where only the funds of the Central Depository Account Holders are kept;
  - 4) **Regulation 4/02** – Regulation 4/02 “Basic Prudential Standards of Investment Companies, their Limits, Order of Calculation, Composition of Elements Participating in Calculations, Amount of Violations of Established Prudential Standards”, approved by February 12, 2008 Republic of Armenia Central Bank Board Resolution No 44-N “On Approval of Regulation 4/02 “Basic Prudential Standards of Investment Companies, their

Limits, Order of Calculation, Composition of Elements Participating in Calculations, Amount of Violations of Established Prudential Standards”.

**(paragraph 2.1. added 25.10.16, No 176N)**

3. Other concepts used in this Regulation have the same meaning as in the Civil Code of the Republic of Armenia, and the laws of the Republic of Armenia "On Securities Market" and "On Investment Funds".

**(paragraph 3 amended, 25.10.16, No 176N)**

## **CHAPTER 2. CRITERIA FOR CONSIDERATION OF ADDITIONAL ACTIVITY**

4. Activities carried out by the Central Depository shall be considered additional, if they meet at least with one of the following criteria:

- 1) the law or Republic of Armenia Central Bank normative legal act allows the Central Depository carry out such additional type of activity;
- 2) the law or Republic of Armenia Central Bank normative legal act provides for such type of additional activity, carrying out of which is directly linked with the implementation of other functions of the Central Depository in the capacity of investment fund, including pension fund registrar, investment fund custodian, etc.;
- 3) it is related to the payment of revenue (dividends, interest, payments arising from redemption of debt securities) on securities accounted by it or on its arrangement, including acting in the capacity of a tax agent;
- 4) it is directly or indirectly related to the activities on management of an issuer specified in the Republic of Armenia law “On Joint-Stock Companies” and (or) issuer’s charter;
- 5) it is related to ensuring fulfillment of the liabilities arising as a result of trade with financial assets other than securities allowed for trade in regulated market;
- 6) it is related to settlement of transactions concluded by the Central depository in the regulated market or elsewhere, or running of cash flow accounts with the view to ensuring efficient payment of revenue on securities.

**(paragraph 4 added 25.10.16, No 176N)**

4.1. Terms and conditions of carrying out types of activities defined in paragraph 4.6 of this Regulation are established in Chapter 4 hereinabove.

(paragraph 4.1. added. 25.10.16, No. 176N)

### CHAPTER 3. PERMISSION FOR CARRYING OUT ADDITIONAL ACTIVITY TYPES

5. In order to receive permission for carrying out additional activity types Central depository shall furnish the Central Bank with:
- 1) Justification of satisfying at least one of the criteria for the activity set out in paragraph 4 of this Regulation;
  - 2) Rules ensuring carrying out additional types of activities (amendments, supplements to relevant rules). Rules ensuring carrying out additional types of activities (including amendments and supplements thereof) shall comply with the requirements set out with regard to the Central Depository rules (including amendments and supplements thereof) by the Republic of Armenia law "On Securities Market";
  - 3) internal risk management procedure (including amendments and supplements thereof). In addition:
    - a. internal risk management procedures shall be described in the internal legal acts of the Central depository, which may be in the form of procedures, rules, regulations, directives, guidelines, and other acts;
    - b. internal risk management procedures shall disclose the significant risks arising from the additional types of activities (such as financial, operational, legal, reputation risks) the acceptable level of risks for the Central Depository, mechanisms of risk control and mitigation);
    - c. Central depository shall ensure availability of the internal legal acts describing internal risk management procedures for its staff and in particular, awareness of staff of the procedures related to their direct job responsibilities;
    - d. Central depository shall notify Central Bank of Armenia on changes (supplements or repeal of provisions) of the internal risk management procedures due to additional types of activities, which are already carried out, within the maximum period of three working days.

**(paragraph 5 added 25.10.16, No 176N)**

6. Permission defined in paragraph 5 below shall be deemed provided from the day the rules defined in paragraph 5.2 hereinabove, enter into force.

## CHAPTER 4. TERMS AND CONDITIONS OF ACCOUNTING CASH BY THE CENTRAL DEPOSITORY

7. Settlement accounts shall be opened in accordance with the Procedure “On the Establishment of the Coding Structure of Participants of the Payment and Settlement System or Information System of the Central Bank of the Republic of Armenia as well as the Structure of the Clients' Settlement accounts” approved by the Republic of Armenia central Bank Board Resolution No 178-N, dated July 23, 2013.
8. Information contained in the settlement accounts shall be considered bank secrecy. Its disclosure (information or any of its carriers) in oral or written form, through mass media or otherwise, provision to a third party, provision of direct or indirect access to third parties (permitting, not obstructing or making it available as a result of breach of the safeguard)) only in the manner prescribed by the law of the Republic of Armenia.
9. With the view to protecting interest of account holders in terms of their settlement accounts, the Central depository shall be obligated:
  - 1) maintain information, keep such records that will allow at any time and without delay separating each account holder’s funds from other account holders as well as from its own funds;
  - 2) maintain information and carry out accounting in such manner as to ensure its accuracy and compatibility with cash transferred to it for accounting and held at entities specified in paragraph 18 of this Regulation;
  - 3) periodically carry out comparisons and adjustments between accounts, information and registrations of the account holders’ cash kept by the central depository and entities specified in paragraph 18 of this Regulation, ensuring proper fulfillment of the obligations laid down in subparagraphs 1 and 2 of this paragraph;
  - 4) take the necessary organizational measures to manage the risk of negligent or unauthorized use of cash flows of account holders, fraud, defective accounting or loss of rights associated with those funds.
10. Settlement accounts may be expressed in the Republic of Armenia drams and (or) foreign currency, where accounted cash shall be kept at entities specified in paragraph 18 of this Regulation in the accounts of the relevant currency. At any moment, the total amount of cash registered in the Central Depository accounts shall comply with the sum of the balance of accounts opened by the Central Depository in accordance with paragraph 18 of this Regulation, for each currency.
11. Cash can be accepted (disbursed) to/from the accounts opened by the Central Depository in accordance with paragraph 18 of this Regulation only through a bank transfer. Currency

of the accepted or disbursed cash shall correspond to the currency of the relevant accepting (disbursing) account, otherwise the entity, which runs the account shall waive the transfer.

12. Cash balance on the account holder's account may be changed in the following cases:
  - 1) as a result of the transfer of funds on behalf of the account holder to the accounts opened at the entities stipulated by paragraph 18 of this Regulation;
  - 2) as a result of the reduction of cash in one account holder's account and increase of cash to the same amount in another account holder's account;
  - 3) as a result of cash transfer from the relevant account opened at the entities stipulated by paragraph 18 of this Regulation, based on the instruction of the account holder;
  - 4) as a result of fulfillment of the monetary obligation of the account holder to the Central Depository, if it is provided by the contract concluded between the Account Holder and the Central Depository;
  - 5) in other cases stipulated by the agreement between the account holder and the Central Depository and (or) the Central Depository Rules.

The scope of the transactions resulting in the change in the balance of funds kept in the settlement accounts shall be determined by the agreement between the account holder and the Central Depository and/or the Central Depository Rules.

13. The Central Depository shall have no right to use the funds kept in the accounts registered with the persons referred to in paragraph 18 of this Regulation for its own benefit.
14. Forms of instructions on performing operations with settlement accounts and procedure of their submission shall be defined by the Central Depository rules in compliance with the relevant requirements for banks (if applicable) established by the law and the Central Bank of the Republic of Armenia.
15. Settlement accounts may only be opened for members of the settlement system and investment funds.

**(paragraph 15 amended 28.04.17, No 98N)**

16. The following types of accounts can be opened for the account holders in the Central Depository:
  - 1) own account, where the funds belonging to the account holder are accounted for;
  - 2) client cumulative account, where funds belonging to the clients of the account holder are accounted for.

17. The Central Depository shall be obligated to keep its own funds and funds of its account holders in separate bank (monetary) accounts. The contract of bank (monetary) account opened for the account holder account shall contain a clear indication that this bank (monetary) account is intended for keeping the funds of the Central Depository's account holders.
18. The Central Depository keeps the accounts of the account holders in the Central Bank of the Republic of Armenia or in the international central depositories (Clearstream, EuroClear) and, in the case of the Central Bank of Armenia, in another financial institution as well. Funds of the pension fund may also be kept by the commercial bank operating in the territory of the Republic of Armenia chosen by the fund manager. Subsequently,
  - 1) funds of the account holders denominated in Republic of Armenia drams (except for the funds of the pension funds stipulated by this paragraph) shall be kept in the account opened in the Central Bank of the Republic of Armenia;
  - 2) in the case of the Central Bank of the Republic of Armenia or bank operating in the territory of the Republic of Armenia, funds of the account holders shall be kept in the special bank accounts of the Central Depository;
  - 3) bank (monetary) account opened abroad shall be deemed settlement money transferred to management of the Central Depository according to the legislation of the given country.
19. Funds deposited in the designated bank account provided for by point 18 of this Regulation:
  - 1) may only be used in the directions, cases and conditions provided for in this Regulation;
  - 2) cannot be pledged, seized (placed under arrest), confiscated against liabilities of the Central Depository, or cannot serve as a liquidation means in case of bankruptcy of the Central Depository.
20. The agreement between the Central Depository and the client on running the settlement account must contain:
  - 1) name of the respective financial institution provided for in paragraph 18 of this Regulation,
  - 2) provision that the Central Depository is not liable for the damages caused by the fault of the financial institution referred to in this paragraph (including, in case of insolvency);
  - 3) provision that in case of insolvency, the Central Depository implements all the actions required in such cases to protect the interests of the account holders in case of failure

to pay within the period specified by the relevant financial institution provided for by point 18 of this Regulation;

- 4) a summary of significant risks associated with the bank (monetary) account opened in a foreign entity;
- 5) provision that the account holder can use the settlement account only for the purposes defined in paragraph 4.6 of this Regulation.
21. Internal control requirements of the Central Depository for the performance of the functions defined in this Chapter are set out in Annex 1 to this Regulation.
22. The ratio between the total capital and risk weighted assets of the Central Depository (N1 standard) is set at 12 percent.
23. Marginal ratio between the total capital of the Central Depository and risk weighted assets is determined by formula

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

where:

$C_{tot}$  - total capital calculated on an average daily basis of the month, in accordance with Annex 2 of this Regulation;

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

CR – credit risk, calculated in accordance with the procedure established for investment companies in Regulation 4/02;

MR – market risk, calculated in accordance with the procedure established for investment companies in Regulation 4/02;

OR – operational risk, calculated in accordance with Annex 3 of this Regulation.

24. Central Depository shall ensure compliance with N1 standard on average daily basis each month.
25. Marginal ratio between highly liquid assets and current liabilities of the Central Depository (N2 standard) is set at 60 percent.
26. Marginal ratio between highly liquid assets and demand liabilities of the Central Depository is determined by formula

$$N2 = \frac{H_L}{L_d} \text{ formula}$$



where:

$A_{hl}$  – highly liquid assets on an average daily basis determined by formula

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

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

$L_d$  – demand liabilities on an average daily basis during the month determined by formula

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

where:  $L_{d1} + L_{d2} + \dots + L_{dN}$  – demand liabilities of the Central Depository by days, and “N” is the number of days in the reporting month. Calculation of demand liabilities includes assets carried in the "Liabilities" section of the balance sheet or those without fixed maturity term (non-repayable) (including demand and non-repayable interest accrued on them), including overdue liabilities. At the same time, demand liabilities in the respective currencies are deducted from the liabilities in the bank accounts, pursuant to the first paragraph of sub-clause 8 of paragraph 27 (including interest accrued on them). For the purposes of this regulation, demand liabilities are those which were not covered in due time, excluding those that are in the proceedings of the court or arbitral tribunal. Liabilities, which are in the proceedings of the court or arbitral tribunal, shall be deemed demand liabilities.

27. Calculation of highly liquid assets includes interest accrued on all assets listed below (excluding those specified in sub-paragraphs 4, 5, 6, 7 and 9 of this paragraph), for which there is no limitation on their possession. In addition, calculation of highly liquid assets includes securities specified in sub-paragraphs 4, 5, 6, 7 and 9 of this paragraph (at their current fair value), which have been acquired by repo agreements and are accounted for in section 82 of the "Plan of Accounts for Banks, Credit Organizations, Investment Companies, Investment Funds and Investment Funds Managers Operating in the Republic of Armenia" approved by the Central Bank Board Resolution No. 322-N of November 30, 2011. Highly liquid assets do not include pledged and securities sold under repo agreements:

- 1) cash and cash equivalents (including cash on hand and ATMs), cash equivalent payment documents (except for payment documents on the way), VISA, THOMAS COOK / MASTER CARD, AMERICAN EXPRESS, SITICORP, as well as other payment documents subject to no objection of the Board of the Central Bank of the Republic of Armenia;

- 2) Funds in the accounts of the Central Bank of the Republic of Armenia, deposits (whose maturity or the right of redemption before maturity period does not exceed 3 working days);
- 3) bank gold (including bank gold on the way);
- 4) transferable Notes issued by the Ministry of Finance of the Republic of Armenia with the maturity up to one year and subject to mandatory redemption by the Central Bank of the Republic of Armenia from funds of the Republic of Armenia Government Treasury, Treasury Bonds of the Republic of Armenia Government and Securities Issued by the Central Bank of the Republic of Armenia at fair (market) value,
- 5) securities of the RA resident non-financial organizations at fair (market) value, whose rating is equal or higher by one point than the rating given to the Republic of Armenia by rating agencies (Standard & Poor's, Fitch or Moody's);
- 6) Government Treasury Bonds of countries with A+(A1) and higher rating given by rating agencies Standard & Poor's or Fitch (Moody's), at fair (market) value;
- 7) corporate bonds with A+(A1) and higher rating given by rating agencies Standard & Poor's or Fitch (Moody's) or non-government bonds issued by the European Bank for Reconstruction and Development, European Central Bank, European Investment Bank and other international organizations (to which the Republic of Armenia is a member), at fair (market) value;
- 8) accounts in resident and foreign banks (including in non-cash gold), whereby their size is reduced by the amount of liabilities to the same bank, but not more than the account balance in the relevant bank. When calculating highly liquid assets of the Central Depository, first of all balance on demand liability to the same bank shall be deducted from the accounts of resident and foreign banks and then the remaining liabilities. Other liabilities are not deducted from the account, provided rating of a foreign bank on attraction of long-term deposits provided by rating agencies Standard & Poor's or Fitch (Moody's) is equal or higher than BBB-(Baa3);
- 9) bonds issued by refinancing credit organizations at fair (market) value.  
**(Chapter 4 added 25.10.16, No 176N)**

**Annex**

Approved by

Republic of Armenia Central Bank Board

Resolution No 242-N, dated September 18, 2012

**Annex 1**

To Regulation 5/09

Approved by Republic of Armenia Central Bank Board

Resolution No 242-N, dated September 18, 2012

**LEAST CONDITIONS OF CONDUCTING INTERNAL CONTROL BY CENTRAL DEPOSITORY**

1. For the purposes of this Regulation, the system of internal control is a complex consisting of the system of managing risks ensuing from implementation of activities of the Central Depository established in paragraph 6 of this Regulation, as well as measures of control over it.
2. Deficiencies and omissions of the internal control system identified by the executive body of the Central Depository, persons performing functions of internal control and staff, shall be submitted to the Board in accordance with the procedure and within the deadlines established by the internal legal acts of the Central Depository.
3. In terms of monetary accounting the system of internal control of the Central Depository shall at least include:

- 1) establishment of procedures for opening, servicing and carrying out transactions with monetary accounts by the Central Depository;
- 2) establishment of procedures for acceptance, processing, execution and rejection of orders related to execution of transactions;
- 3) establishment of procedures applied for mitigation of risks during implementation of operations with monetary accounts;
- 4) establishment of procedures on provision of information about volumes of operations carried out with monetary accounts registered at the Central Depository;
- 5) establishment of procedures on maintenance (archiving) of documents;
- 6) establishment of procedures on provision of information on unrecognized, rejected and delayed transactions, and conduction of measures for identification of unrecognized transactions;
- 7) establishment of procedures on identification of account holder data;
- 8) establishment of the principles of opening and closing accounts in the Republic of Armenia Central Bank or organizations referred to in paragraph 18 of this Regulation by the Central Depository, defining the schedule of monitoring and evaluation of balances on those accounts.

4. The Central Depository shall have a management system for ensuring sustainability of operations carried out under subparagraph 3 of paragraph 3 of this Annex.

The Central Depository shall disclose, evaluate, manage and mitigate the risks threatening sustainability (continuity) of operations with monetary accounts.

5. Management of sustainability (continuity) of operations with monetary accounts is an integrated and comprehensive process, which includes all measures and activities, which are aimed at ensuring sustainability and (or) restoration of those operations in emergency situations within the prescribed time and scope.

6. For the purposes of this Annex, the emergency situation is the occurrence, which is possible but not easily predictable (low probability) and which can result in significant material losses or other adverse consequences for the Central Depository, its account holders or other beneficiaries.

7. The system of management of sustainability (continuity) of operations with monetary accounts shall at least provide for:

- 1) analysis of operations, including risk assessment;
- 2) objectives and strategy of restoration of operations;
- 3) plan of ensuring sustainability (continuity) of operations, including program of management and restoration of emergency situations;
- 4) program on regular testing and review of the action plan on ensuring sustainability (continuity) of operations;

- 5) program on conducting seminars and raising awareness of employees of the Central Depository.
8. Risk assessment identifies possible risks (causes) that can lead to failure of operations. In relation to those risks probability of occurrence and possible impacts in case of occurrence are taken into account.
9. Purposes of restoration are the pre-defined levels (volumes) of the operations carried out by the Central Depository with settlement accounts, according to which these operations should be restored after an emergency situation occurs, within the prescribed restoration period.

## Annex 2

To Regulation 5/09

Approved by Republic of Armenia Central Bank Board

Resolution No 242-N, dated September 18, 2012

### CALCULATION OF TOTAL CAPITAL OF CENTRAL DEPOSITORY

1. Total (fixed) capital of the Central Depository for calculating the N1 standard defined in Paragraph 22 of this Regulation is the sum of its core (primary) and additional (secondary) capital after the corresponding deductions have been made. Moreover, in calculating total capital, the additional capital is included in the total capital calculation at a maximum of 50% of the total capital (taking into account the deductions made in accordance with paragraph 3 of this Annex).
2. Core capital of the Central Depository is the difference between the sum of the following elements and the elements deducted from core capital:
  - 1) statutory capital;
  - 2) retained earnings;
  - 3) general reserve.
3. Elements deducted from core capital are as follows:
  - 1) carrying value of intangible assets (including non-operating), as well as capital investments on intangible assets (excluding software used by the Central Depository during provision of its services and the amount of payments for the right to use them);
  - 2) carrying value of tangible assets that are owned by the Central Depository and not used for services of the Central Depository (fixed assets and other tangible assets, including capitalized investments in ownership of held-in assets, other collateralized or other fixed assets);
  - 3) the value of tangible assets used by the Central Depository and used for services of the Central Depository (capital investments, including real estate (buildings and constructions), fixed assets, as well as fixed capital used for the activities of the Central Depository), in the amount over 25% of the carrying value of core capital. For the purpose of this subparagraph, the value of a tangible asset is equal to the fair value of a tangible asset and the sum of capital investments, deducted by depreciation charges, impairment losses and revaluation losses;
  - 4) balance of capital investments for improvement of fixed assets rented by Central Depository;
  - 5) carrying value of the investment in the statutory capital of other financial institutions, provided:
    - a. investment is equal to at least 10 percent of statutory capital of the relevant entity; or

b. investment is equal to less than 10 percent of statutory capital of the relevant entity, however it exceeds 15 percent of carrying value of the Central Depository core capital; or

c. investments in statutory capital of all entities exceed 60 percent of carrying capital of the Central Depository core capital.

4. Additional capital of the Central Depository consists of:

1) surplus of tangible assets owned by the Central Depository and used by the Central Depository for the delivery of services resulting from revaluation;

2) other elements of comprehensive income owned by the Central Depository and used by the Central Depository for the delivery of services as follows:

a. surplus from revaluation of buildings and constructions;

b. surplus from revaluation of other fixed assets;

c. profit/loss on revaluation of available-for-sale financial assets;

d. profit/loss on held-to-maturity investments;

e. surplus on revaluation of intangible assets;

f. foreign exchange difference on translation of foreign operations;

g. surplus on revaluation of derivative instruments of cash flow hedging;

h. other comprehensive income.

5. calculation of supplementary capital does not include revaluation surplus (income, profit / loss) of tangible assets not used for provision of services by the Central Depository, non-core assets deducted from fixed capital and other components of comprehensive income.

6. For the purposes of this Regulation, tangible assets used for the provision of services are those assets that are used by the Central Depository for the performance of the Central Depository functions defined by the Law of the Republic of Armenia "On Securities Market" Owned buildings and structures (real estate), used for the implementation of depository functions, are the tangible assets where the Central Depository carries out functions defined by the Law of the Republic of Armenia "On Securities Market".

Approved by Republic of Armenia Central Bank Board

Resolution No 242-N, dated September 18, 2012

## **CENTRAL DEPOSITORY OPERATIONAL RISK CALCULATION**

### **CHAPTER 1**

#### ***OPERATIONAL RISK CALCULATION***

1. In order to include the marginal ration between total capital and risk weighted assets in the calculation of standard N1, operational risk is calculated on the basis of the main characteristics or standardized approach.
2. The Central Depository selects once a year the approach (main characteristics or standardized) by which the operational risk is calculated, notifying the Central Bank of Armenia until December 31 of the year preceding each year. If the Central Depository has chosen a standardized approach to calculating operational risk once, it will no longer be allowed to choose the main characteristics approach for future risk calculation without the approval of the Central Bank of the Republic of Armenia.

### **CHAPTER 2**

#### ***MAIN CHARACTERISTICS APPROACH FOR OPERATING RISK CALCULATION***

3. According to main characteristics approach, operational risk is calculated using the following formula:

$$OR = (NI_a * C + NI_{a-1} * C + NI_{a-2} * C) / N,$$

where:

OR – operational risk calculated in accordance with the main characteristics approach;



NI<sub>a</sub> - net income from January to December of the reporting year preceding the year of calculating marginal ratio between total capital and risk weighted assets (standard N1);

NI<sub>a-1</sub> - net income of the second reporting year preceding the year of calculating marginal ratio between total capital and risk weighted assets (standard N1);

NI<sub>a-2</sub> - net income of the third reporting year preceding the year of calculating marginal ratio between total capital and risk weighted assets (standard N1);

“C” = 15%,

“N” – the number of years with net income above 0 over the past three years.

4. If net income of any year is less than 0, net income of that year is not included in the calculation of operational risk.
5. If, in all the three years preceding the reporting period, net income of the investment company was smaller or equal to zero, operational risk for that year is not calculated.
6. Net income for the year is calculated as the difference between revenues and costs incurred by the Central Depository. Calculation of net income for the year does not include profit / loss from sale of securities, as well as indemnified insurance premiums.

### CHAPTER 3

#### *STANDARDIZED APPROACH FOR OPERATING RISK CALCULATION*

7. According to standardized approach, Ստանդարտացված մոտեցման համաձայն՝ For the purpose of calculating operational risk, net income as defined in paragraph 6 of this Appendix shall be divided into the following groups.
  - 1) **The main activity of the Central Depository.** This group includes income (expenses) on the functions defined in Article 176 of the RA Law on Securities Market.
  - 2) **Non-core activities of the Central Depository.** This group includes income / expenses, which is not included in sub-paragraph 1 of this paragraph.
8. Table 1 presents net income groups calculated based on the standardized approach and their respective "C" coefficients.

**Table 1**

<b>N</b>	<b>Net Income Groups</b>	<b>C</b>	
1	Core activity of the Central Depository	C <sub>1</sub>	14%

2	Non-core activity of the Central Depository	C2	18%
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9. According to standardized approach, operational risk is calculated using the following formula:

$$OR = \frac{\sum_{I=1}^I \sum_{Y=1}^Y (NI_I^Y * C_I)}{N}$$

where:

OR - operational risk calculated in accordance with the standardized approach

I –groups of net income defined in paragraph 7 of this Annex;

NI<sub>I</sub><sup>Y</sup> - positive net income for “I”-th group in the “Y”-th year preceding calculation of the standard;

C<sub>I</sub> – C coefficient for “I”-th group defined in paragraph 8 of this Annex;

Y – reporting years preceding calculation of the standard;

“N” - the number of years with net income above 0 over the past three years.

10. If net income for any reporting year in a group is less than 0, its size is not included in the calculation of operational risk.
11. Net income of the groups defined in paragraph 7 of this Annex shall be calculated as the sum of net interest income and net non-interest income generated on the relevant group. Calculation of net income for the year does not include profit / loss from sale of securities, as well as indemnified insurance premiums.