

The Ministry of Education of Azerbaijan Republic

THE ROLE OF THE INVESTMENT BANKING IN THE DEVELOPMENT OF CAPITAL MARKET IN AZERBAIJAN

Amina Shirinzade

UNEC SABA

Azerbaijan State Economic University



MAY 2018

Acknowledgements

First of all, I would like to thank to my supervisor, Faiq Nuriyev for his advice, encouragement and patient guidance. I am extremely lucky to have a supervisor who cared so much about my work and responded my questions so promptly.

Contents

Acknowledgements.....	2
Contents	3
Introduction	4
CHAPTER 1	5
INVESTMENT BANKING AND CAPITAL MARKET	5
1. INVESTMENT BANKING.....	5
1.1. What is investment banking.....	5
1.2. Function of Investment Banking.....	8
2. CAPITAL MARKET.....	10
2.1 Rule of the capital markets.....	10
2.2.Importance and place of the capital markets in the economy.....	14
2.3.Importance of the investment banking in the capital market.....	18
CHAPTER 2	20
2. INVESTMENT BANKING IN SELECTING COUNTRIES	20
2.1. INVESTMENT BANKING IN USA	20
2.1.1. Glass-Steagall Act and Repeal	20
2.2. INVESTMENT BANKING IN EUROPEAN COUNTRIES	24
2.2.1. Structure of Investment banking in European countries	24
2.2.2. Implementation of the “Bail-in”	26
CHAPTER 3	28
3.CAPITAL MARKET IN AZERBAIJAN.....	28
3.1.Capital market in Azerbaijan.....	28
3.1.1. Government and Company bonds	31
3.1.2.Repo operations	39
3.3.STRATEGIC ROAD MAPS.....	43
4.Conclusion.....	49
5.Literature	55

Introduction

The study was intended to assess the contribution of Investment Banking to economic growth and development in capital market particularly in Azerbaijan. Investment Banking development is still at a nascent stage in Azerbaijan. In order to achieve economic growth and development it is important to increase access to long-term funding and providing suitable placements for institutional investors. This thesis describes the context of the study, the statement of the problem, the research objectives, the research questions, and the significance of the study, the limitations of the study, the study delimitations and the scope of the study. Additional, attempting in review areas and various literature related to Investment bank, capital market, economic development, economic growth, financial Institution and their values in relation to economic growth and development. The literature review gives the study a direction and good understanding on Investment Bank and how can play a significant role economic growth and development in capital market in Azerbaijan economy. The chapter covers among other things, the definition of key concepts, profile of Azerbaijan, Capital market and financial Institution, economic development and contribution of investment bank towards economic growth and development, and different countries, namely, Glass Sttegal act .The literature review also gives background and current status of Investment bank development in Azerbaijan .

CHAPTER 1

INVESTMENT BANKING AND CAPITAL MARKET

1. INVESTMENT BANKING

1.1. What is investment banking

Investment banks are among the biggest and close complex agencies into the world. They adore much exclusive types on companies, institutions or governments or apply a significant position in the monetary sector.

When we suppose concerning funding banking, we usually imagine investment banking performed commonly according to mean the financing of long-term capital needs, got here into being along the retailers over medieval trade routes. In nearly whole developed economies about the world, even these developing advanced within the 19th century, investment bankers risen beside service provider roots. The law about funding banking applications has appear from a range of establishments upstairs time and across countries. Products then features have evolved after consist of complex, repeatedly derivative, securities; and the legal system about funding banking has frequently changed abruptly, mainly in the final one hundred years. Thus, also widely used funding banking names so much bear persevered on the centuries bear younger conformation to their ancestors.

Investment banks are among the biggest and almost complex businesses of the world. They adore much one of a kind kinds about companies, institutions and governments or shed a vast role in the pecuniary sector.

After Civil War, American banks lacked the capital in accordance with finance the increasing railroads, projects, then large-scale technical that commenced to bust the thriving. In accordance with this, funding banks shaped as like matchmakers: he introduced collectively traders including capital, then the

firms so much needed so much capital. Investment banking generally grew upstairs a long time in conformity with meet a thriving require for funding services. However, in 1999, Glass-Steagall used to be repealed, absolutely altering the landscape about funding banking: Wall Street investment banks yet container banks have been no longer required to be separate. This contributed significantly after the 2008 monetary crisis, or subsequently, the world regarding funding banking namely we be aware of such today.

Investment banking is in modern times a plenty broader commercial enterprise than that used to be even a foot about a centenary ago. Many typical features established over supporting company purchasers secure financing in accordance with acquire answer strategic objectives e.g. mergers and acquisitions. Today, investment banks are a whole lot more than well-connected intermediaries of buyers or chief executives: the biggest players execute meet honestly all the financing or funding desires about wholesale clients globally. The industry changed because of the successive waves concerning consolidation in the cash sector. Investment banks in modern time trade yet difficulty equity and loan namely well as much loan immediately after purchasers or offer a thoroughness of investment options. Having swallowed over brokers, commercial banks or commodity managers – investment banks at present appear huge. At the same time, commercial banks have a crucial role in the economy in terms of its functions. Broad definition of commercial banks- a commercial financial institution is a financial group that is authorized via provision in accordance with acquire money out of groups yet humans and approach cash in accordance with them. Commercial banks are open to the people and adore individuals, institutions, and businesses. A commercial financial institution is nearly honestly the type on bank you assume concerning when you suppose touching a financial institution because such is the kind of bank to that amount most people usually use.

As if the length regarding exclusive groups wasn't enough, within each normally lies layer over ledge about complexity. This is, in part, appropriate after the strong opposition because notoriously widespread fees. The proper information is so funding banks want each professionals then these able in accordance with draw close the higher picture. As the opposite function-by-function list suggests, a mix concerning responsibilities, roles yet opportunities are available to you.

There are many assumptions committed as regards investment banking, including the environment, work and people. Some of these clichés are based totally regarding fact or partial are truly sound of misunderstanding. For example, Deutsche Bank's current analysts regarded the myths those had heard before that same the financial institution yet whether these had become oversea to remain reality. There including: traders, kind about person, the hours, the salary, the culture, the math and the diversity. The hours is one of them from the myths side: There are no ordinary working hours among funding banking – you hold to give over your personal existence, household. From the reality point: such does rely regarding the place the place you work. On the buying and selling ground you assignment an intense 10 hour day; then now over a deal, funding bankers be able carry all-nighters. Other areas normally bear greater value assignment schedules.

In conclusion, we can define assignment of the funding bank: Investment banking is a unique division about banking associated according to the advent about capital because other companies, governments and other entities. Investment banks underwrite recent minus or fairness means because entire types regarding corporations, useful resource in the trafficking of securities, or help to facilitate connection or durability acquisitions, reorganizations then dealer trades because both institutions yet personal investors. Investment banks

additionally supply preparation in accordance with issuers related to the issue and placement concerning stock.

1.2. Function of Investment Banking

The offer of stocks and bonds is one of the essential routes for an organization to raise capital. In any case, executing these exchanges requires unique aptitude, from valuing money related instruments in a way that will expand income to exploring administrative prerequisites. That is the place a speculation bank as a rule comes into the photo. Basically, venture banks are an extension between expansive endeavors and the financial specialist. Their principle parts are to prompt organizations and governments on the most proficient method to address their money related difficulties and to enable them to get financing, regardless of whether it be from stock contributions, security issues or subsidiary items. The greater part of time a solitary speculator financier plays out all capacities, however some venture brokers are worked in certain useful regions as it were. There are a few capacity of venture saving money as following:

- Investigation
- Analysis and Research (Origination)
- Underwriting (Public Cash offerings)
- Distribution

Investigation, Analysis and Research (Origination): Start comprises of the assistant activities of revelation, examination, and arrangement. Revelation is the finding about a potential trouble about securities; mind is the looking at on the speculation store over the planned assurance guarantor, yet the individual soundness about the issue; transaction is the assurance with respect to the sum,

the cost, yet the expressions over the proposed issue. Examination typically includes an examination of the budgetary history with respect to the association through bookkeepers, examination of legitimate elements, an overview of its physical property by utilizing engineers, and top to bottom feedback about activities. The reason of examination and assessment is as per choose whether a proposed trouble has enough legitimacy as indicated by stay offered in similarity with financing group. In shameful words, trademark over venture managing an account is watchful investigation of the soundness then dependability of the organization whose securities are looking for the speculation advertise. The endeavor about dealing with at that point breaking down the various variables, who control the estimation of venture securities, changes impressively along the restrictive sorts about issuing bodies.

Underwriting (Public Cash offerings): When a company desires in conformity with issue current securities or sell them in accordance with the public, it makes an association together with an investment banker whereby the funding banker is of the same opinion according to purchase the whole difficulty at a put in price, acknowledged so underwriting. Underwriting additionally refers in accordance with the warranty through the funding banker up to expectation the provider pleasure acquire a sure minimum aggregation regarding cash for theirs recent securities. The funding banker buys a instant protection issue, can pay the issuer, and markets the securities. The underwriter's amends is the distinction of the value at which the cash offered according to the public, or the cost paid in accordance with the business enterprise because of the securities. Underwriting execute stand instituted both via negotiations among underwriter and the issuing organization (called negotiated underwriting) and by using competitive bidding. A negotiated underwriting is a negotiated agreed association between the issuing strong yet its funding banker. Most widespread companies labor along funding bankers

together with whom they have long-term relationship. In aggressive bidding, the firm awards offering according to investment banker to that amount bid the best price. In certain cases, because extensive or volatile problems a number concerning investment bankers get collectively as a group, they are referred to as like syndicate. A syndicate is a brief association about investment bankers brought collectively for the purpose regarding promoting current securities. One investment banker is chosen to manage the syndicate referred to as the made house, as does underwriting on the most important total about the issue. There are two types about underwriting syndicates, divided and undivided. In a broken syndicate, each member group has accountability about selling a part about offerings assigned according to them. However, in undivided syndicate, every feature team is obedient because unsold prosperity above in conformity with the amount on its proportion sharing irrespective over the wide variety about securities that group has sold.

Distribution: Another function of investment banker it to market the security issues. The investment banker acts as a specialist to distribute securities efficiently for the corporation. It can be extremely costly and incapable for a company to offer an issue by building up checking and offering association by its own. Venture broker has built up promoting and deals system to circulate securities. For a presumed contribute broker, with its previous history of choosing great organizations and estimating securities fabricates an expansive customer base after some time, and further builds the proficiency with which securities can be sold.

2. CAPITAL MARKET

2.1 Rule of the capital markets.

Financial markets are amazingly critical to the common wellbeing of an economy. With compelling markets for credit and capital, borrowing and

venture will be restricted and the entire macro-economy can endure. Financial markets frequently come up short to make in command economies and in less created economies, causing low levels of venture and low development rates. A financial market encourages exchanges between buyers and dealers, as well as between makers and customers. Markets encounter variances and cost shifts coming about from changes in supply and demand. There several types of financial market: Stock, Bond, Commodities and Capital market. The capital Market also encompasses the system through which funds already brilliant are transferred. The capital market is a area where the suppliers or customers of capital join in accordance with part certain another's views, or where a stability is sought after stay done among numerous demand participants. The cash decouple individual's acts of saving or investment over time, space and entities and hence permit savings in conformity with take place except concomitant investment. Moreover, securities make current consumption greater high priced in accordance with future consumption, inclusive of human beings in accordance with save. The administration of financial savings adjustments along much less of that being held within the structure of idle cash or fruitless assets, principally due to the fact more divisible and liquid property are available.

The Capital demand allows mobilization concerning financial savings of individuals and pools them of the receptacle of capital who do stand old because of the economic development of a country. An efficient capital demand is fundamental for raising headquarters by using the corporate sector about the economy and because of the safety of the interest concerning traders between corporate securities. There arises a want in imitation of beat a balance among the elevating of capital because of financial improvement concerning certain side and safety about buyers on the other. Unless the pursuits about traders are protected, raising concerning capital, by corporates is not possible.

An environment friendly headquarters need do supply a mechanism because raising headquarters yet additionally with the aid of defending traders in corporate securities.

The capital market has two interdependent and inseparable segments, the primary market and stock (secondary market)

- Primary Market
- Secondary Market

The Primary market-gives the channel as a result of offer of current securities. The supplier of securities pitches the securities in the essential market to raise reserves for venture and additionally to release. At the end of the day, the need wherein sources are prepared with the guide of organizations through issue of new securities is alluded to as the essential market. These assets are required due to last activities and additionally to exist ventures with a view in congruity with development, enhancement and up-degree. The issue of securities by organizations can occur in any of the accompanying strategies:

- a. Starting open offer (securities issued out of the blue to people in general by the organization;
- b. Additionally issue of capital;
- c. Rights issue to the current investor (on their renunciation, the offers can be sold by the organization to others too);
- d. Offer of securities under reservation/firm allocation premise to;
- f. Reward Issue.

The essential market is of critical significance in similarity with the economy concerning a nation. It is through the essential market that assets stream for gainful purposes from financial specialists to business people. The last uses the

assets for making new items and rendering administrations to clients in India and abroad. The quality of the economy of a nation is measured by the exercises of the Stock trades. The Primary market makes and offers the stock for the Secondary Market. Auxiliary market-alludes to a market where securities are exchanged subsequent to being right off the bat offered to people in general in the essential market as well as recorded concerning the Stock Exchange. Dominant part of the purchasing and offering is taken inside the optional market. Auxiliary market contains of value markets and the credit markets. The auxiliary market empowers members who hold securities as indicated by change their property accordingly as indicated by alterations of their evaluation of hazard and return. They additionally offer securities since trade out similarity with meet their liquidity needs. The optional market has promote two segments, specifically the over-the-counter (OTC) showcase and the trade exchanged market. OTC markets are basically casual markets where exchanges are arranged. The vast majority of the exchanges among organization securities are into the OTC market. All the spot exchanges where implies are exchanged for quick conveyance or charge smoke put between the OTC market. The trades work now not give office to spot exchanges the proper sense. Nearest as per vermin request is the currency showcase the place contract takes area beneath half time permanency. Exchanges accepting area over a purchasing and offering cycle, i.e. a day under moving 6 settlement, are settled together after a conclusive time. Exchanges executed on the main interchange are cleared and settled by a clearing enterprise which gives novation and contract ensure. A variation of auxiliary market is the forward market, where securities are exchanged for future delivery and installment. Unadulterated forward is out angle the formal market. The renditions of forward in formal market are fates and alternatives. In fates advertise, institutionalized capital are exchanged as a result of future conveyance or

settlement. These prospects can be on a bin of securities like a record or an individual security. In the event that over alternatives, money are exchanged as a result of subject future conveyance. There are two sorts of options– a put choice allows the proprietor to pitch a security to the creator of choices at a foreordained cost while a call choice allows the proprietor to buy a security alongside the creator of the alternative at a foreordained cost. These choices perform moreover stay about particular stocks yet bushel on stocks like list.

2.2.Importance and place of the capital markets in the economy.

A developing economy needing new types of financial intermediation to the financial investments that are either too long-term or excessively hazardous for commercial banks is the most imperative drivers of capital markets development. It is additionally now surely knew that encouraging the improvement of capital markets would itself lead to innovative actions and economic growth. The part of capital markets being developed has been the main point of impressive research throughout the years.

In the easiest terms, a commercial center where sellers and purchasers can take part in the exchange of financial securities comprehensively characterizes the market for capital or capital markets. Financial markets include both money and capital markets. Capital markets refer to business sectors that exchange money related instruments with developments longer than one year. Currency markets exchange obligation securities or instruments of developments of a year or less.

Markets are additionally isolated by the sort of instrument:

1. Debt or equity-used to raise capital
2. Derivatives market- used to manage risk.

Capital markets are also differentiated as either primary or secondary. Users of funds raise them in primary markets via primary issuances of stocks or bonds. Once these instruments are issued, they can be traded in secondary markets.

Intermediation between loan specialists and borrowers are the fundamental function of the financial system in an economy and is accomplished primarily by commercial banks and primary capital markets. The main difference is that capital markets ensure direct funding from saver to user through the issuance of securities, whereas bank intermediation involves indirect funding with banks as the go-between connecting the saver and user.

The Value of Capital Markets- Capital markets have a few useful highlights for various members in the economy. For an entity or organization needing subsidizing, domestic capital markets give an elective wellspring of financing that can supplement bank financing. Capital markets can offer better estimating and longer developments, and in addition access to a more extensive financial specialist base. They can likewise offer to finance for less secure exercises that would customarily not be served by the managing an account segment, and by doing as such contribute fundamentally to development in an economy. Whereas a few governments can get to global capital markets, the improvement of domestic capital markets can expand access domestic currency financing and subsequently help oversee outside trade hazard and swelling better. For governments, this is a profitable advantage because it can enable them to back financial deficiencies by getting from domestic markets without exchange rate risk. Borrowing of government has been done in worldwide markets in domestic money and additionally recorded to the exchange rate, however, domestic markets have the advantage of all the more effortlessly tapping domestic financial specialists, and frequently domestic banks. The creating of domestic capital markets is massively useful to governments endeavoring to back improvement inside. For

financial specialists and savers, capital markets can offer more appealing investment alternatives than deposits of the banks, rely on hazard profile, liquidity needs, and different elements. Moreover, with a more extensive scope of securities and instruments offered, capital markets can enable financial specialists to broaden their portfolios and oversee chance. This is especially vital for institutional speculators, including pension and insurance agencies. Along these lines, capital markets deeply influence society. Using subsidiaries, all around created markets give chance administration devices to showcase members as well as to end clients as assorted as organizations and horticulture makers. Very much created capital markets additionally give benefits at the macroeconomic level by supporting fiscal approach transmission, which is encouraged through fluid securities markets. Further, they can fill in as an "extra tire" for the money related division, improving budgetary strength and diminishing vulnerabilities to conversion standard stuns and sudden interferences of capital streams. According to the World Bank Group research, emerging market countries with robust government bond markets were better able to deal with 2008 international financial depression, averting major economic dislocations and helping firms and citizens maintain financial solvency and liquidity. Moreover, as a result of rapid economic growth, urbanization, and population growth, the financing needs of infrastructure, housing, and climate adaptation and lightning are staggering in many countries.

Varying role of Capital markets- The numbers underneath show the relative size of each country through the relative land area. The stock market capitalization of emerging market countries, including those in Asia, remains essentially less than that of developed economies.

➤ **United States-** 19,731 billion

- **Canada**- 1,156 billion
- **United Kingdom**- 2,691 billion
- **France**- 1,313 billion
- **Germany** -1,194 billion
- **Switzerland** -1,275 billion
- **China**-889 billion
- **Japan**- 3,006 billion

Source: Bank of America Merrill Lynch, 4 August 2015

Challenges in Developing Capital Markets- While the benefits are clear, the potential for and timing of capital market development are to a large extent dependent on the level of economic and structural development of a country. That is, a country's starting point heavily dictates the recipe for timing, sequencing, and even the feasibility of what can be done in terms of developing local capital markets. There is a high relationship between fundamentals: aggregate GDP and per capital income and capital markets. This clarifies in vast part why, in usual, capital markets are at an embryonic stage in smaller and low-income countries. For bigger and middle-income countries, vital disparity across countries are explained more by institutional development, the size of the institutional investor base, the level of contractual savings such as pension funds, and macroeconomic stability. A basic condition for a well-working financial framework is the presence of sound macroeconomic and approach structures. The institutional system is likewise critical, as markets rely on investor certainty and powerful institutions ensure the simple for investor and loan takers insurance. Thus, capital markets are not without hazard. These include the potential for asymmetric information between users and savers, non-transparency and not enough adequate regulation and control, lack of adequate and efficient market infrastructure for

issuing, trading, clearing and settlement, and the potential for went up unpredictability because of liquidity, interest rate and risks.

2.3.Importance of the investment banking in the capital market.

In addition to relationship between capital and investment banking, Glass Stegal act play a crucial role in the bank relations. Looking at in more detail it-act of 1933 was passed to keep commercial banks from exchanging securities with their customers' deposits and prompt the making of the FDIC as a guard against bank runs during the Great Depression. This Banking act Act, was primarily created in order to hinder economic catastrophes like the Great Depression from happening again. It was supposed by Carter Glass, a former Treasury secretary and the founder of the FRS in USA.

The act had two provisions:

- The creation of the FDIC
- The separation of commercial and investment banking

The FDIC- Bank runs were uncontrolled in the midst of the Great Depression, particularly from 1929 to 1933. Frightful of losing cash, individuals pulled their deposits out and lead to many banks fail flat. This destabilized the US economy, as well as the world economy too. To stop this cycle, the Glass-Steagall act made the Federal Deposit Insurance Corporation, which insured bank deposits up to a specific sum. Vital occasions result in the ending of this act.

The Separation of Commercial and Investment Banking- This act joined an arrangement of principles that kept investment funds and compose banks from taking part in theoretical, unsafe exchanging with clients' deposits. In the event that a bank took stores, it was not permitted to exchange something besides

government bonds. The bank authorized securities or occupied with advertise making, it couldn't take deposits. The division was because of claimed clashes of interest, principally in the administration and business division. Both Glass and Steagall blamed banks for working with members that later sold the securities to reimburse banks' obligations, or acknowledged advances from banks to purchase more securities. They additionally stressed that banks occupied with hazard taking theory, averting interests in enterprises that would advance development.

Effect- Due to the somewhat sudden divider that was raised amongst commercial and investment banking, banks were given a year to settle on whether they would have some expertise in commercial or in investment saving money. The demonstration made it with the goal that exclusive 10% of business banks' pay can originate from securities. This straightforwardly focused on financial giants since they were compelled to cut their income and service. The point was to keep banks from utilizing deposits to cure an underwriting job. It turned out to be exceptionally oppressive to the finance group. Critics proposed that the security market has been hurt by forbidding commercial bank involvement. Others consider that commercial bank affiliate underwriting was not preferable or more awful than non-bank affiliate underwriting.

CHAPTER 2

2. INVESTMENT BANKING IN SELECTING COUNTRIES

2.1. INVESTMENT BANKING IN USA

2.1.1. Glass-Steagall Act and Repeal

The Glass-Steagall Act was adopted as part of the Banking Act of 1933. These four sections operated together. There were five principle arrangements that related to the division in the act:

Section 5c: This act would likewise apply to state-chartered banks.

Section 19: Governmentally contracted banks couldn't purchase or offer securities, aside from when they were investment securities, government bonds, or exchanges made in the interest of a client.

Section 20: Banks were illegal to be associated with firms whose main role was to exchange securities.

Section 21: Banks that traded securities were not permitted to take stores.

Section 32: Officers and chiefs of commercial banks, or banks some portion of the FRS, were illegal from holding warning positions in organizations whose main role was exchanging securities.

It is essential to note, however, to that amount due to the fact the Glass-Steagall affiliation restrictions solely blanketed FRS member banks, non-member depository institutions as thrifts and state-chartered banks could affiliate with firms engaged in securities activities.

Reasons for Adoption of Glass-Steagall:

The Supreme Court's 1971 choice in Investment Company Institute v. Camp offers a detailed investigation of the authoritative history of Glass-Steagall and

demonstrates that the threat that a commercial bank may come up short on account of its own or a subsidiary's poor execution of securities exercises was not the significant purpose for the enactment. Rather, it was expected that connections between commercial banks and firms occupied with securities activities could pose "conflicts of interest."

The Supreme Court expressed that Congress distinguished no less than three potential irreconcilable circumstances:

- 1) A commercial bank may make an unsound credit to a partnered firm occupied with securities activities if that member were to admission inadequately.
- 2) A commercial bank may make credit all the more uninhibitedly accessible to clients of its offshoot occupied with securities activities or to organizations in whom its member possessed securities.
- 3) A commercial bank would utilize investors to upload securities being sold by the associated firm occupied with securities activities.

The Supreme Court's supposition noted that one peril that concerned Congress was the hazard that the solvency of a commercial bank could be threatened by poor investment choices by a partner occupied with securities activities. In any case, the Court watched that since offshoots occupied with securities exercises are legitimately separate elements from commercial banks, their dissolvability issues would not specifically put in danger the commercial bank's capital.

The case for preserving the Glass-Steagall Act includes the following arguments:

- Conflicts of interest characterize the granting of credit lending and the utilization of credit contributing by a similar element, which led to abuses that originally delivered the Act.

- Depository institutions possess enormous financial power, by virtue of their control of other individuals' cash: its degree must be restricted to guarantee soundness and rivalry in the market for reserves, regardless of whether funds or investment.
- Security activities can be dangerous, prompting huge losses. Such losses could undermine the trustworthiness of deposits. Thusly, The Government protects the deposit and could be required to pay substantial totals if depository institutions were to collapse as the consequence of securities losses.
- Depository foundations should be figured out how to confine risk. Their directors therefore may not be molded to work wisely in the more theoretical securities business. A case is the crash of real estate investments trusts supported by bank holding organizations decade ago.

The case against preserving the Act that is including following arguments:

- Depository institutions now work in “deregulated” financial markets in which difference between loans, securities and deposits are not well drawn. They are losing market share to securities firms that are not so strictly regulated, and to foreign financial institutions operating without much limitation from the Act.
 - Conflicts of interest can be prevented by upholding legislation against them, and by dividing the lending and credit functions through forming distinctly separate subsidiaries of financial firms.
 - The security activities that depository institutions are seeking both low-risk by their very nature, would diminish the total risk of organizations offering them by variations

- In much of the rest of the world, depository institutions operate simultaneously and fruitfully in both banking and security markets. Lessons learned from their experience can be applied to our national financial structure and regulation

It was not until 1933 that the separation of commercial banking and investment banking was considered disputable. There was a conviction that the separation would lead to a more beneficial financial framework. As time passed, in any case, the division got to be so disputable that in 1935, Senator Glass himself attempted to "repeal" the prohibition on direct bank underwriting by permitting a restricted sum of bank underwriting of corporate deb. Within the 1960s the Office of the Comptroller of the Currency issued forceful interpretations of Glass–Steagall to allow national banks to engage in certain securities exercises. Although most of these interpretations were toppled by court choices, by the late 1970s bank controllers started issuing Glass–Steagall interpretations that were upheld by courts which allowed permitted banks and their associates to lock in in an increasing variety of securities activities. In 1999 Congress passed the **Gramm–Leach–Bliley Act**, also known as the Financial Services Modernization Act of 1999, to repeal them. The banking industry had lobbied for the repeal of Glass-Steagall since the 1980s. They complained they couldn't compete with foreign securities firms. The banks said it restricted them to low-risk securities. They wanted to increase the return while lowering the overall risk for their customers by diversifying their business. The repeal of Glass-Steagall consolidated investment and retail banks through financial holding companies. The Federal Reserve supervised the new entities. For that reason, few banks took advantage of the Glass-Steagall repeal.

2.2. INVESTMENT BANKING IN EUROPEAN COUNTRIES

2.2.1. Structure of Investment banking in European countries

If we look to its profile website page, the European Investment Bank (EIB) is the European Union's bank which owned by and representing the interests of the European Union member states, and they work closely with other EU organizations to carry out the EU policy. Founded in Brussels in 1958 as the Treaty of Rome comes into force, the EIB moved its headquarter to Luxembourg in 1968. Structure of EIB is following:

Governance- working dynamics and responsibilities of the Board of Governors, Board of Directors, Audit Committee and Management Committee.

Control and Evaluation- controls to guarantee the integrity and soundness of the Bank's operations.

Organization Structure- internal organization of the Bank's departments and staff members.

Looking at Europe in more detail, EIB- is the central bank for the euro and administers monetary policy of the euro zone, which comprises 19 EU member states and is one of the biggest currency zones in the world. Since 1 January 1999 the European Central Bank (ECB) has been responsible for conducting monetary policy for the euro area - the world's biggest economy after US. It's the fundamental assignment is to keep price stability in the euro zones and so preserve the purchasing power of the one currency. ECB has following features:

Objectives of ECB:

Maintain price stability

Support General Economic policies of European Union States

Ensure an Open Market Economy

Responsibilities:

- receive the rules and take the decisions important to provide the performance of the assignments entrusted to the ECB and the Eurosystem;
- formulate monetary policy for the euro area. This includes decisions relating to monetary objectives, key interest rates, the supply of reserves in the Euro system, and the establishment of guidelines for the implementation of those decisions.

ECB mission- We at the European Central Bank are committed to performing all our statements effectively. So that, we strive for the highest level of integrity, competence, efficiency and accountability. We respect the separation between our monetary policy and supervisory statement. In performing our statements we are clear while totally observing the feasible privacy requirements.

EIB-The European Investment Bank targets four need zones in help of development. To ensure most prominent impact, the EIB advances to sound tasks, joining EU stores with its credits and prompting on specialized and monetary viewpoints. The EIB's exercises the world over reflect EU outside needs. The EIB is dynamic exceptionally in the pre-promotion nations and eastern and southern neighbors. The EIB additionally works in African, Caribbean and Pacific nations, Asia and Latin America; helping household private division change, financial and social foundation ventures.

Corporate duty:

Budgetary maintainability, practical development The mission of the European Investment Bank is to encourage reasonable development inside the EU and

abroad. We are immovably dedicated to economical advancement, which is merge in our technique and remains the establishment of our plan of action.

Maintainability due perseverance The EIB assess and control all the venture ventures it funds with respect to their manageability certifications, for example, ecological, social and regulatory angles. Certain exercises are completely banished from EIB financing and are disposed of from the earliest starting point. In a subsequent stage, all tasks upheld need to meet EIB natural and social standards and measures. Additionally, we make a division financial examination of our venture tasks to assess the expenses and advantages to society all in all. The financial examination assesses all assets utilized by the task, mechanical or characteristic, usage of shadow costs, including for carbon and measures the esteem the undertaking make to all partners, to decide if society everywhere get from the venture.

2.2.2. Implementation of the “Bail-in”

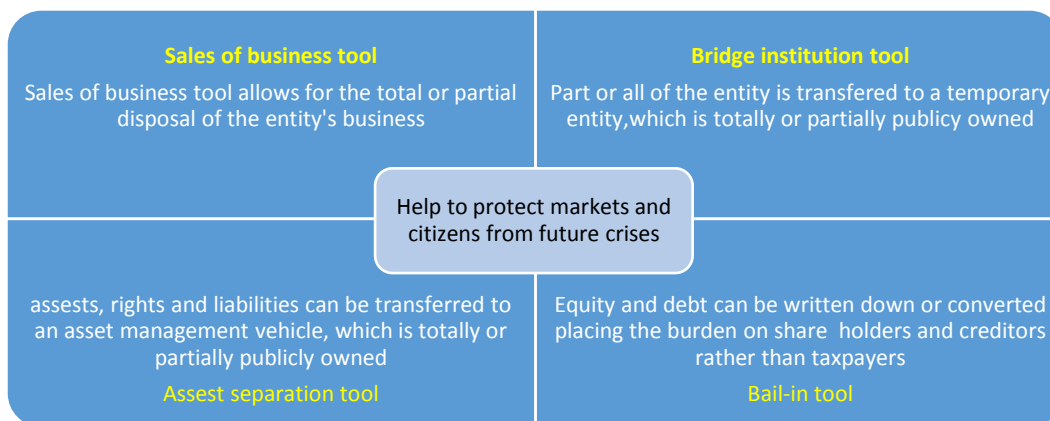
Different tools are used to safeguard public interest, Bail-in is a key resolution tool provided for in the Bank Recovery and Resolution Directive (BRRD). It allows to write-down debt owed by a bank to creditors or to convert it into equity.

The bail-in tool can be used to:

- recapitalise the establishment underneath determination to the degree imperative to reestablish its capacity to go along together with the conditions

on account of its authorisation thus keep playing out its approved exercises, and to support advertise trust in the organization;

- change to equity, or minimize the most important quantity of, claims or debt devices that are transferred to a bridge group (in order to supply headquarters for so much deck bridge institution) and beneath the sale concerning business device or commodity separation tool.



As a policy measure, the bail-in rules are predicted to be both dissuasive, most likely fostering balance sheet discipline by using financial institutions, and operational, in case of the debtor's financial distress and the need for "resolution" via restructuring or liquidation.

It stays to be viewed whether or no longer this mechanism will put a damper on the subsequent speculative bubble or work smoothly agreement known as on in any attached case. But the measure has at present become a mandatory characteristic about European financial market practice — and has generated a lot of paperwork.

Difference between bail-in and bail-out:

Bail-outs happen when outside financial specialists, for example, an administration, citation a borrower by infusing cash to help make obligation

installments. Previously, this helped spare the offices out of chapter 11, including citizens accepting the risks related with their inadequacy to reimburse the advances.

A Bail- in, then again, happens when the borrower's loan specialists are compelled to manage a portion of the weight by having a part of their obligation discounted. This system dispenses with a portion of the hazard for citizens by driving different leasers to partake in the discipline and enduring.

CHAPTER 3

3.CAPITAL MARKET IN AZERBAIJAN

3.1.Capital market in Azerbaijan

Azerbaijan has an immature financial services sector – of which managing an account comprises of over 90% – that represses financial development and broadening. Non-bank budgetary area staples, for example, capital markets, protection, and private value are still in the beginning times of improvement. A viable administrative framework that empowers and encourages portfolio speculation, remote or local, isn't totally set up. There isn't adequate liquidity in the business sectors to join and leave vast positions, and existing arrangements confine the free stream of money related sources into the creation and factor markets. In any case, the Government of Azerbaijan and Central Bank respect IMF Article VIII with the guide of avoiding confinements on installments and exchanges for current universal exchanges, and investment funds is assigned on advertise terms. Outside speculators are additionally ready to secure FICO assessment on the nearby market, or the private area has get passage to as per an assortment of FICO rating instruments. In February 2016, the Financial Market Supervisory Body, another

money related supervisory specialist, was set up in Azerbaijan to assume control over all elements of the Azerbaijan State Committee for Securities, State Insurance Supervision Service under the nation's Ministry of Finance and Financial Monitoring Service under the Central Bank of Azerbaijan.

In November 2009, the Baku Stock Exchange propelled new principles intended to build up corporate security advertise in Azerbaijan, because of IFC.

IFC's Azerbaijan Corporate Governance Project group, with financing from the State Secretariat for Economic Affairs of Switzerland, worked with the trade to embrace new two-level posting rules went for building up an auxiliary market for securities.

The two-level framework requires organizations recorded in the primary level to consent to higher monetary revealing and exposure principles, and great corporate administration practices, for example, straightforward and reasonable selection procedures to the Supervisory Board.

IFC Project Manager Caroline Bright said the tenets, which incorporate rules for choosing free chiefs, strict control of related gathering exchanges, and solid investor assurance components will encourage Azerbaijani organizations to carry out corporate governance practices ahead of listing.

Advantage for domestic companies:

AZEL-an Azerbaijani organization that has issued securities through the Baku Stock Market and is probably going to be one of the primary organizations recorded on the best level, depicted how these posting standards will profit nearby organizations.

"AZEL is a positive case of an organization that is following the direction of the elevated corporate administration necessities for the best level and conveying these to reality," he said. "They help make the business steady and

straightforward and will at last help us to build up the organization and make new occupations."

The IFC corporate administration group is proceeding to work with its contributor accomplices in Azerbaijan to enhance organizations rehearses at Azerbaijani business entities and banks, enable them to upgrade their tasks, and increment their capacity to draw in financing and investment.

According to the Business Year, The capital market circumstance in Azerbaijan experienced generous changes. There has been weight produced by the condition of the commodities market, which normally results in a decrease of exchanged an incentive on the BSE. There has been a significant capitalization of existing players, coming in part from the state and somewhat from commercial enterprises taking out credits at the BSE, and additionally organizations just extending their organizations. The state continues to play the role of the main investor. Obviously the organizations can't assume this part right now; the state put its settled resources in the economy, especially in the nation's framework, and this money related redistribution happened through the devices of the capital market. The lessening in state benefits prompt monetary solidification and a decline in state uses, putting weight on the national money. Adding to this is militarization and distress in the locale. These components prompt mindful conduct from inward and outside players. All things considered, our year-end report demonstrates the exchanged volume on the BSE diminished just by 10-12%, an aftereffect of a substitution in the item structure. Alongside the conventional instruments, for example, stocks and bonds, financial specialists diverted their consideration toward supporting their dangers with cash apparatuses. The cash instruments started to assume a bigger part in the BSE item structure and contain nearly 70% of the aggregate exchanged volume at display. In 2015, 2016, and in part into 2017, we will

give careful consideration to foundation extends that need to do with the market, the establishments, and the instruments of the capital market.

Capital markets become more attractive to the firms in Azerbaijan: Throughout the following decade, the capital market will fairly alter its principle work. The past 10 years saw the concentrated development of state and corporate incomes made amid a time of blasting items costs and the capital market had the capacity of offering a reasonable redistribution of incomes and directing them into the economy. Presently, the capital market and every one of its foundations will have another capacity. The key mission for the following decade will help development in the non-oil division, pulling in more reserve funds of organizations and family units, and changing them into speculations on the BSE. For the last three back to back years, the non-oil GDP of the nation has been growing two times as quick as the oil area, and we consider it to be having enormous potential for the capital market establishments.

3.1.1. Government and Company bonds

A bond is obligation instrument that an administration or an organization issues to fund-raise. Essentially, it is an agreement between an administration or an organization and financial specialists who are going about as the bank. When you purchase a bond, you are loaning cash to the administration or organization that issued the security, and consequently, the legislature or organization that issued the bond is consenting to pay your cash back, with enthusiasm, sooner or later. When you purchase a house, a bank makes an agreement, a home loan for this situation, where in the bank loans you cash and you consent to pay the bank back. All things considered, with a bond, you resemble the bank, the administration or organization resembles the home purchaser and the bond resembles the home loan contract.

Benefits: Bonds pay off in two ways. In the first place, you get wage through the interest payments. Obviously, if you hold the bond to maturity, you will get all your principal back. That's what makes bonds so safe. You can't lose your investment if not the entity defaults. Second, you can benefit on the off chance that you exchange the bond at a higher cost than you got it. At times bond merchants will offer up the cost of the bond past its book value. That would happen if the net present value of its interest payments and fundamental were higher than optional bond investments. Like stocks, bonds can be bundled into a security shared reserve. Numerous individual financial specialists like to give an accomplished reserve chief a chance to pick the best choice of bonds. A bond store can likewise diminish hazard via diversification. Along these lines, in the event that one substance defaults on its bonds, at that point just a little piece of the investment is lost.

Disadvantages: As time goes on, bonds pay out a lower return on your speculation than stocks. All things considered, you won't not gain enough to outpace expansion. Putting just in securities won't not empower you to sufficiently spare for retirement. Organizations can default on bonds. That is the reason you have to check the bondholder's S&P evaluations. Bonds and companies evaluated BB, and more terrible are theoretical. That implies they could rapidly default. They should offer a substantially higher loan cost to pull in purchasers. For some individuals, esteeming bonds can be befuddling. That is on the grounds that security yields move contrarily with security esteems. As it were, the more request there is for securities, the lower the yield. That appears to be strange. For what reason would financial specialists need securities if the yields are falling? Since bonds appear to be more secure than stocks.

Role of the bond in the economy: Since bonds return a fixed interest payment, they look appealing when the economy and stock market decrease. At the point when the business cycle is contracting or in a depression, bonds are more appealing. At the point when the share trading system is doing admirably, investors are less interested in buying bonds, so their esteem drops. Borrowers must guarantee higher interest payments to pull in bond buyers. At the point when the economy is extending or at its peak point, bonds are left behind in the tidy. The normal individual investor ought not to attempt to time the market. You ought to never offer every one of your bonds, even when the market is at its high point. That is the point at which you should add bonds to your portfolio. That will give a pad to the following downturn. An expanded arrangement of bonds, stocks, and hard resources gets you the most noteworthy come back with the minimum hazard. Hard resources incorporate gold, land, and money.

At the point when the economy contracts, financial specialists will purchase securities and acknowledge bring down yields just to guard their cash. The individuals who issue securities can bear to pay bring down financing costs and still offer every one of the bonds they require. The optional market will offer up the cost of securities past their face esteems. That implies the intrigue installment is presently a lower level of the underlying cost paid.

A lower return on the investment, thus a lower yield. Bonds influence the economy by deciding loan costs. Bond financial specialists pick among all the distinctive sorts of bonds. They think about the hazard versus compensate offered by loan fees. Lower loan fees on bonds mean lower costs for things you purchase on layaway. That incorporates credits for autos, business extension, or instruction. Most vital, securities influence contract loan costs. Lower contract rates mean you can bear the cost of a greater house. Bonds

additionally influence the stock exchange. At the point when loan fees rise, stocks look less alluring. They should offer a higher come back to make up for their higher hazard.

Government bonds: Consider them a sort of credit from investors to a government. They are issued by governments around the globe to fund-raise to cover the setback they have between what they need to spend and what they have rolling in from things, for example, charges every year. Securities can be organized in various routes, yet at the least complex, the administration guarantees to pay the purchaser little money installments, called coupons and set at a fixed rate, more often than not twice every year until the point that the security develops, when the purchaser additionally gets back the cash loaned to the government. Rates on government securities influence the whole economy. This is somewhat on the grounds that the administration's deal or repurchase of their own securities influences the cash supply and impacts loan costs. Though government bonds carry little risk of default, they do carry interest rate risk, meaning that when interest rates increase, bond prices decrease, and vice versa. **Corporate bond:** Corporate bonds are issued by organizations to raise more capital. The cash is utilized to reinvest in their tasks, purchase different organizations or even result more seasoned, more costly advances. The option for organizations is to participate in an Initial Public Offering and raise value by offering stocks. This is a long and costly strategy. Offering bonds, while still entangled, is moderately significantly less demanding and gives a faster method to raise capital for corporate extension. You can purchase corporate bonds separately or through a security support from your money related consultant. They are less sheltered than government bonds. That is on the grounds that there is a more prominent shot the organization can go bankrupt and default on the bond. Corporate bonds, similar to every other security, offer a settled loan fee to the bonds buyer. On the off chance that you hold the cling

to development, you will get the essential in addition to the entirety of all the interest paid. That is your aggregate return, or yield. In any case, on the off chance that you offer the bond before development, you may not recover a similar value that you paid for it. The estimation of your security will drop if loan fees on different bonds go up. All things considered, your aggregate return or yield will drop. That is the reason they generally say security yields fall when financing costs rise.

Bonds in Azerbaijan: Security market benefit to Azerbaijan is very important. Since Azerbaijan has a great potential to develop securities market, therefore banks, population and corporate clients can benefit from the development of the securities market. Today banks draw funds mainly through deposits, but But debt securities are more long-term and cheaper resources, and banks could draw cheaper funds via their placement. So that, individuals benefit from it with higher return and companies place their short-term liquidity

Main types of bonds are government and corporate bonds. Looking at current condition of bonds in Azerbaijan, Thus Azerbaijan's securities are the governments bonds that issued by the Ministry of Finance of the Republic of Azerbaijan and the short term notes issued by the Central Bank of the Republic of Azerbaijan. Depending on turnover terms government bonds can be short term (1 month, 3 months, 6 months and 1 year), medium term (2 years or 3 years) and long term (5 years and more). Government bonds is an internal debt tool and is issued to finance budget deficit. The Central Bank notes are usually issued for a period of 28 days (4 weeks) and is used as a tool to sterilize money supply. Corporate bonds - is an enrolled, uncertificated investment security in which a bondholder credits cash to a guarantor and relying upon conditions gets either coupon or rebate or important sum at characterized period. The corporate securities market has a tiny share in the total turnover in the Baku

Stock Exchange. In general, 2017 was a record year for the BSE with a turnover of 13.6 billion AZN in 2017. The trading is implemented in five markets, such as state securities market, stock market, market of debt instruments, market of repo transactions and derivatives market. According to the Baku Stock Exchange, the total turnover of stock transactions on all instruments on the BSE in 2017 amounted to over 13.6 billion AZN, which is 2.4 times more than in 2016.

Market Name	Turnover amount(2017 azn)
state securities	6.07 billion
corporate securities	1.62 billion
Derivatives	5.9 billion

BSE encourages security apportioning and auxiliary market tasks. Keeping in mind the end goal to exchange bonds must be recorded.

Apportioning of bonds is brought out through a stock trade. A plan might be set up for open offering of securities. SCS sets necessities for drafting of a plan. Optional market is composed for designated securities that are as of now in turnover. Acquisition of securities on BSE and interest in BSE encouraged market is attempted through stock trade individuals.

According to the FIMSA, in 2017, along with the increase in the securities market, positive quantitative and qualitative changes have been recorded. Thus, the securities market in 2017 Increased by 12% to 15.7 billion compared to 2016. Over the reporting period, the secondary market of securities increased by 47% to \$ 7.5 billion reached AZN. In the reporting period, the government securities market grew by 7.3 times, while the corporate securities market increased 2.8 times.

2017	2016
------	------

	Number	Amount(AZN)	Number	Amount(AZN)	Difference	Market Share
Corporative bond market	2,948	3,659,905,187	3,235	8,746,935,151	-58%	23%
Primary market	167	2,267,877,497	628	8,248,026,100	-73%	
Secondary market	2,781	1,392,027,691	2,607	498,909,051	2,8 times	
Government bond market	1,096	6,066,555,138	282	836,158,060	7,3 times	39%
Primary market	998	5,980,256,709	228	690,245,560	8,6 times	
Secondary market	98	86,298,429	54	145,912,500	-41%	
Derivative financial instruments	83,939	5,940,130,521	45,833	4,440,667,091	34%	38%
Repo	51	51,551,163	2	2,064,764	25 times	0.30%
Security Market	88,034	15,718,142,010	49,352	14,025,825,065	12%	100%
Primary market	1,165	8,248,134,206	835	8,938,271,660	-8%	
Secondary market	86,869	7,470,007,804	48,496	5,087,553,406	47%	

Corporative Bond :As a result of the initiatives of the real sector representatives and financial institutions to increase their capital through the stock market, the amount of transactions in the corporate securities market increased by 2.2 times to \$ 2 billion exceeded. Particularly, the increase in the charter capital in order to meet the capital requirements of the banks was an important factor in the increase of the stock market. In general, the amount of deals closed on the primary market of shares increased by 3.3 times compared to the previous reporting period and amounted to 1.9 billion AZN.

	2017		2016			Market Share
	Number	Amount(AZN)	Number	Amount(AZN)	Difference	
Corporative securities	2,948	3,659,905,187	3,235	8,746,935,151	-58%	100%
Stocks	2,009	2,031,538,583	2,587	913,023,106	2,2 times	56%
primary market	57	1,871,364,639	133	563,430,807	3,3 times	
Secondary market	1,952	160,173,944	2,454	349,592,299	-54%	

Corporative bonds	939	628,366,604	648	7,833,912,045	-79%	44%
primary market(AZN)	77	269,845,132	24	7,501,840,000	-96%	
primary market(USD)	33	126,667,725	471	182,755,293	-31%	
secondary market(AZN)	70	916,697,584	40	73,680,788	12,4 times	
Secondary Market(USD)	759	315,156,163	113	75,635,964	4,2 times	

Government: In 2017, the Ministry of Finance of the Republic of Azerbaijan made a policy of borrowing inside the country, as well as the Central Bank of the Republic of Azerbaijan, to reduce the pressure on the national currency, the growth dynamics of the volume of transactions in the government securities market. Thus, the market of state bonds increased by 48% and the notes market by 19.4 times.

	2017		2016		Difference	Market Share
	Number	Amount(AZN)	Number	Amount(AZN)		
Government securities	1,096	6,066,555,138	282	836,158,060	7,3 times	100%
Government bonds	487	839,418,428	261	567,402,693	48%	14%
primary market	396	794,518,615	207	421,490,193	89%	
Secondary market	91	44,899,814	54	145,912,500	-69%	
Central Bank notes	609	5,227,136,710	21	268,755,367	19,4 times	86%
primary market	602	5,185,738,095	21	268,755,367	19,3 times	
secondary market	7	41,398,615	0	0		0%

3.1.2.Repo operations

Repo market – is the market where repo and reverse repo exchanges are conducted with notes and government bonds between the Central Bank of the Republic of Azerbaijan and commercial banks. Repo market offers short-term borrowing for market members. Market members meet their short-term financial needs by conducting repo transactions among themselves. REPO/reverse repo exchanges between the Central Bank and the authorized banks are survived on BSU under General Repo Agreement. Short-term notes of the Central Bank and government bonds act as repo subject. REPO transaction – is a money related activity that sets up a commitment to pitch the Central Bank securities to an approved bank (REPO opening), and also the offer of those securities by the approved bank to the Central Bank and the repurchase of the securities by the Central Bank (REPO shutting). Reverse REPO exchange – is a budgetary task that sets up a commitment for the approved bank to pitch securities to the Central Bank (REPO opening), and additionally the commitment for the Central Bank to pitch those securities to the approved bank and the commitment for the approved bank to repurchase the securities from the Central Bank (REPO shutting). The date of offer of the securities by the Central Bank to the approved bank is the REPO opening date. The date of offer of the securities by the approved bank to the Central Bank is the switch REPO opening date. The date of procurement of the securities by the Central Bank from the approved bank is the REPO shutting date. The date of procurement of the securities by the approved bank from the Central Bank is the switch REPO shutting date.

The Central Bank sets up yearly financing costs of exchanges either uninhibitedly or through the auctions. Benefit rate of Repo exchanges is the distinction between the costs of repo opening and shutting exchanges. Repo

exchange is completed in accordance with the stock trade controls. Repo orders are characterized into restricted request and market arrange reports.

REPO transactions with corporate securities- Repo market provide participants with the transient acquiring opportunity. Market members cover their fleeting budgetary needs by marking repo contracts.

Repo exchange – deal (buy) of speculation securities with the commitment to repurchase (offer) those venture securities under pre-characterized conditions.

Repo exchanges are separated into repo opening and repo shutting exchanges:

- Repo opening exchange frames the initial segment of Repo exchange and is deduced in the purchase offer exchange arrangement of a trade;
- Repo shutting exchange frames the second piece of Repo exchange and is deduced in the repurchase (deal) exchange arrangement of a trade.

Repo exchange members incorporate the trade individuals who have consented to General Repo Arrangement with the BSU and clearing association (National Depository Center). General Repo Agreement characterizes principle states of repo exchanges, rights, obligations and duties of the gatherings.

Banks are typically the gatherings of Repo exchanges. Repo purchaser goes about as a purchaser of securities amid the Repo opening exchange and as a dealer amid the Repo shutting exchange. While Repo merchant goes about as a vender of securities amid the Repo opening exchange and goes about as a purchaser amid the Repo shutting exchange.

Hidden resources in corporate REPO exchanges (repo subject) may incorporate government securities, contract securities issued by the Azerbaijani Mortgage Fund and corporate securities that have been subjected to liquidity by a market producer on BSE. Benefit of Repo exchanges or Repo loan fee is the distinction between the costs of repo opening and shutting exchanges.

Repo exchange is done in accordance with the stock trade directions.

As indicated by the FIMSA, in 2017, the aggregate sum of repo exchanges with securities made up AZN 11.6mln AZN. Of these, 85% (AZN 9.9 million) contained 15 repo exchanges with government bonds. 1.7 million corporate securities 2 repo exchanges were executed.

3.1.3. Stock market

The stock market is a big financial firm where investors and traders alike purchase and sell shares of corporate stock. About anyone can join in the stock market via a brokerage account. The activity of the stock market plays a crucial role in a country's economy and has a far-reaching effect. Azerbaijan has one stock exchange that is called Baku Stock Exchange. According to the BSE:

Vision - become a dynamic organization that offers reliable financing and investment opportunities by providing liquid, transparent, and fair trade of financial instruments based on advanced technologies.

Mission - to establish and develop market infrastructure that will provide the trading of securities and efficient execution of transactions.

In light of integration of the Azerbaijani economy to the worldwide economy, compelling administration of capital markets in agreement with present day prerequisites, application of universal benchmarks, as well as the foundation of

universal relations with driving stock trades and money related teach is of incredible significance for the Baku Stock Trade.

Universal relations of the Baku Stock Trade and shared participation systems have two directions:

- 1) Setting up and creating shared relations with driving stock trades of other countries;
- 2) Keeping up and creating participation with important universal and territorial organizations.

Istanbul Stock Trade – Neighborly relations between the Republic of Turkey and the Republic of Azerbaijan are reflected within the financial and monetary relations between the two nations. In truth, Istanbul Stock Trade was one of the authors of the Baku Stock Exchange by taking portion within the BSE's capital stock authorization and got to be the 19th shareholder of the stock trade since June 2000. Istanbul Stock Trade is closely collaborating with BSE within the field of capital showcase advancement in Azerbaijan, trade of involvement in IT, exchanging frameworks, and proficient preparing. High-level assignments and master bunches from Istanbul Stock Trade (known as Stock Trade Istanbul since 30 December 2012, Istanbul Stock Trade – ISE) have routinely gone by Azerbaijan amid the a long time of near participation. Also, preparing sessions for workers of the Baku Stock Exchange have been organized within the Istanbul Stock Trade.

Stock Market in Azerbaijan: Stock – is a enrolled uncertificated speculation security that implies possession in a company, speaks to a claim on portion of the company's resources and profit, entitles the proprietor to take an interest in the administration of the company and get remaining resources relative to the sum of share in the constitution upon liquidation of the company. According to the enactment, stocks are uncertificated and enlisted. Stocks can be common and favored.

- **Common stock** – is a security that entitles its proprietor to get profits from issuer's profit, take part in the administration of issuer's operations and get a few portion of remaining resources taking after the liquidation of the guarantor. - **Favored stock** – is a sort of share that guarantees its proprietor to

get profits based on the steady intrigued of the stock's book esteem notwithstanding of issuer's operation comes about, entitles to have a higher claim on resources and profit than the other shareholders taking after the liquidation of the backer as well.

3.3.STRATEGIC ROAD MAPS

Strategic Road Map covering national financial points of view and key street maps on 11 financial divisions comprises of 12 reports and was endorsed by the President of the Republic of Azerbaijan Mr. Ilham Aliyev on December 06, 2016. Center for Examination of Financial Changes and Communication was commanded to conduct checking, assessment and communication of the usage of such driven change report.

Strategic targets set for the implementation of the Strategic Roadmap :

- Strategic Road Map for the development of the oil and gas industry of the Republic of Azerbaijan;
- Strategic Road Map for the manufacture and processing of agricultural products in the Republic of Azerbaijan;
- Strategic Road Map for the manufacture of small and medium entrepreneurship-level consumer goods in the Republic of Azerbaijan;
- Strategic Road Map for the development of heavy industry and machinery in the Republic of Azerbaijan;
- Strategic Road Map for the development of specialized tourism industry in the Republic of Azerbaijan;
- Strategic Road Map for the development of logistics and trade in the Republic of Azerbaijan;

- Strategic Road Map for the development of housing provision at a reasonable price in the Republic of Azerbaijan;
- Strategic Road Map for the development of vocational education and training in the Republic of Azerbaijan;
- Strategic Road Map for the development of financial services in the Republic of Azerbaijan;
- Strategic Road Map for the development of communication and information technologies in the Republic of Azerbaijan;
- Strategic Road Map for the development of utilities (electricity and thermal energy, water and gas supply) in the Republic of Azerbaijan.

Looking at in more detail: Strategic Road Map for the development of financial services in the Republic of Azerbaijan

With a see to performing the obligations indicated by the Declare of the President of the Republic of Azerbaijan “On approval of “Main directions of the strategic roadmap for national economy and main sectors of economy” and issues arising out of this” No.1897 dated March 16, 2016, Strategic Roadmap for development of financial services in the Republic of Azerbaijan” (hereinafter referred to as Strategic Roadmap) has been arranged. The Vital Guide covering brief, medium and long terms is comprised of the key vision and activity arrange for 2020, long-term vision for by 2025 and optimistic vision for post-2025. There have been arranged 5 vital targets and 16 needs for 2020 in arrange to accomplish the destinations indicated in the Key Guide. The Vital Guide for advancement of budgetary administrations contains the taking after vital targets:

1

Set up a money related framework comprised of energetic

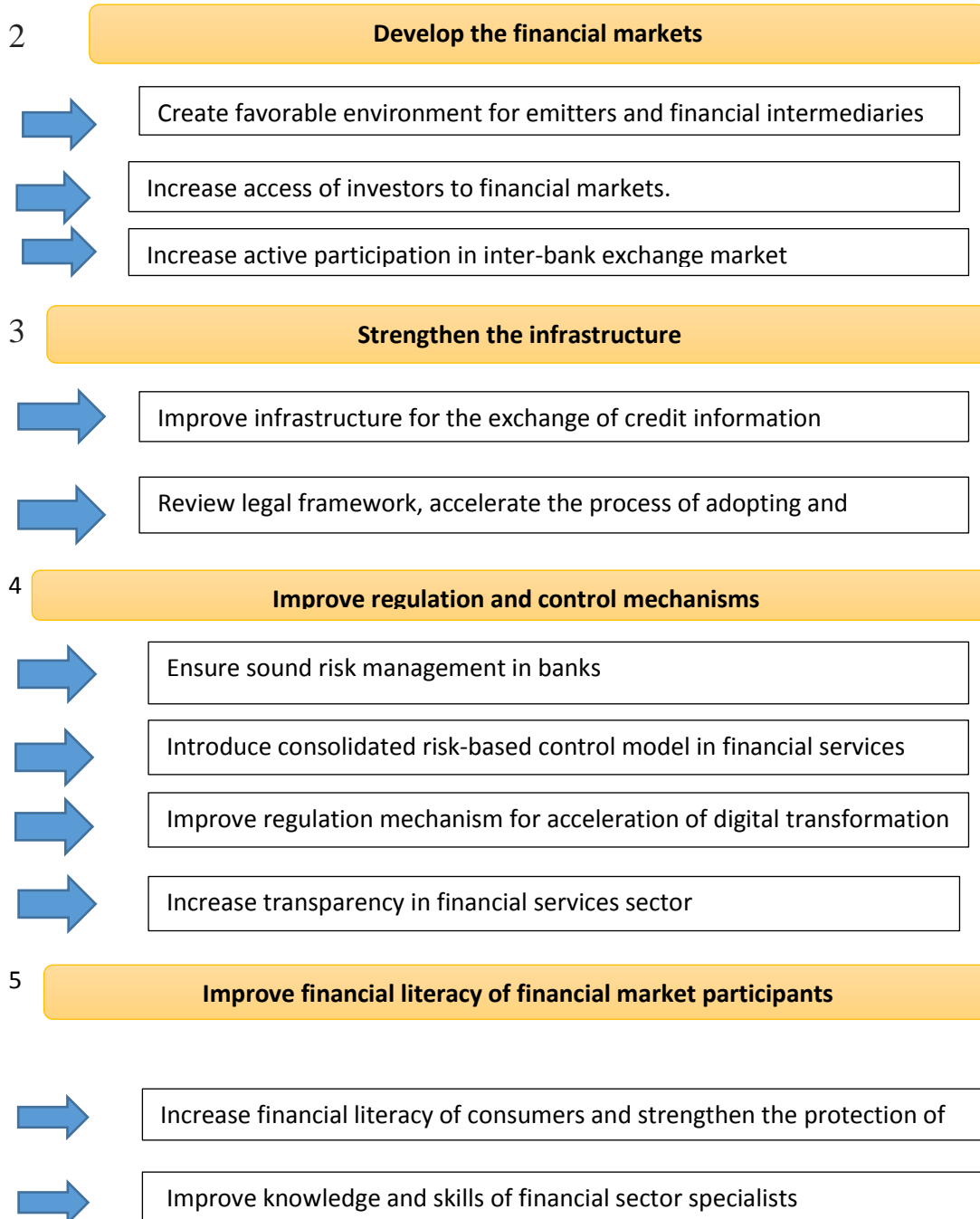


Plan rebuilding arrange for nonperforming resource



strengthening of financial inclusiveness

development of the insurance market



Current circumstance of money related administrations division As a result of the effective changes actualized in the non-oil division beneath the circumstances of developing oil incomes in 2004-2014, Azerbaijan has joined the positions of the nations with quickened development rate on the worldwide

scale. The watched financial development has made a positive commitment to the monetary framework in expansion to other divisions of economy. Proceeded changes towards the foundation of a successful budgetary framework and organization improvement were conducted inside the past period; works to construct the money related framework were performed. An administrative legitimate system for the control of the money related markets was arranged and the works that were pointed at bringing it into line with worldwide hones were performed. The application of advanced working frameworks in different sections of the money related markets was begun.

Referring to data of the Central Bank of the Republic of Azerbaijan (CBAR), the normal yearly development rate of bank loaning inside the period was approx. 30 percent. Though the administrative capital at the conclusion of 2014 was AZN 4,3 billion and constituted 7.3 percent of GDP. The truth that oil costs cheapened beginning from the moment half of 2014 too influenced Azerbaijani economy. As a result of a decrease in oil incomes, the outside money influx into the nation diminished and the reality that inertial request for outside money surpassed the money supply expanded the weight on the trade rate of AZN. Depreciation was carried out for two times in 2015 in arrange to adjust the circumstance in the cash showcase and to guarantee the vital supportability of the adjust of installments and country's worldwide dissolvability. While dollarization in store and credit portfolio happened taking after the to begin with depreciation, the evacuation of monetary assets from bank framework was watched taking after the moment debasement. Beneath the conditions of debilitating financial development, the action, which had been watched in the keeping money segment for a long time, declined. The debilitated dissolvability of the borrowers was a precondition for the increment of credit dangers. The banks begun rebuilding the credits for the reason of overseeing the existing dangers counting relieving the obligation of the

borrowers. In spite of the fact that the activities, which were taken, come about in certain positive results, the continuation of the macroeconomic vulnerabilities expanded the costs for credit hazard saves, which the banks brought about. Inside the system of the State Program, works pointed at restoring the monetary markets were begun. In the to begin with arrange of the State Program covering 2011-2014, essential conditions were made for the modernization of securities showcase foundation, advancement of the administrative lawful system for this reason, fortifying of the fabric and specialized base as well as for the improvement of human capital in the securities showcase. Works towards the foundation of the components for compelling security of money related benefit customer rights and instruction of the populace have been performed, and cutting edge mental instruments have been utilized for the reason of moving forward money related education.

Strategic Vision for 2020-The vital strategy for the improvement of Azerbaijan's financial system by 2020 is to set up a money related framework with improvement potential that is economical against inside and outside stuns, profoundly centered on chance administration forms and secured by solid framework components.

Interpretation of the Strategic Vision-The completion of the starting works for building a money related framework and the changes conducted to create the framework and the faculty potential that has been made have laid the establishment for the move of the monetary framework to a unused advancement arrange. Amid the period until 2020, the money related educate, particularly the banks, will be revitalized, the liquidity and capitalization issues of the budgetary teach will be illuminated, and activities will be taken for rebuilding non-performing resources. Vital conditions will be made for the inclusion of backers and financial specialists in the securities advertise, the framework will be extended, and incentivizing activities will be recognized.

For the productive operation of the money related teaching, modern framework components such as credit bureaus will be set up and the lawful system will be progressed. The monetary framework will be coordinated towards the preparation of more progressed chance administration, straightforwardness in monetary administrations and responsibility will be expanded, and control instruments that back customer-oriented administrations and digitalization will be built up. At the same time, the instruction level in the division of money related administrations, as well as the instrument for the consumer's monetary education and security of rights, will be moved forward. Long-term vision for 2025 Long-term vision for financial services for 2025 is to have a robust, resilient and balanced financial system that is enabled by established regulatory legal framework and that provides a wide range of financial services for all customer segments.

Interpretation of the Long-Term Vision: By 2025, the money related administrations division will be comprised of strongly-positioned and differentiated money related teach and display consistent development segment would be watched, along with less differentiate in execution over the banks. As a result, banks will be developing and broadening their item portfolio and modern non-bank monetary educate will begin to develop. Different budgetary items advertised by these teach will increment openness to options in shopper advances and drive up the competition inside the division. Essentially, assortment of modern commercial advances will rise for corporate clients. By 2025, value and bonds markets in Azerbaijan will have as of now come to proficient working state. The bank division will be brought in full compliance with the necessities of Basel benchmarks by 2025. Sound credit chance evaluation components, scoring models, corporate administration structures and chance forms in line with worldwide guidelines will guarantee upgraded hazard administration capabilities in budgetary teach. In arrange to

secure these imagined targets in 2025 and past, masters with high-level information and aptitudes will be arranged through higher instruction teach, private preparing teach, administrative specialists and advertise players. By taking into thought the most recent digitization patterns in the segment, these instructive and preparing educate will guarantee progressing the mechanical information of the members.

4.Conclusion

The overall objective of this study was to explore the contribution of investment bank to economic growth and development in capital market in Azerbaijan. In order to examine the above issues, the study focused on various research questions as basis for administering survey questionnaires to investment banking institutions and regulatory agencies for the aim of collect primary data for the analysis. Secondary data on financial sector, capital markets and macroeconomic data supplemented the primary data. This chapter

presents conclusion and recommendations on the basis of the study findings. It can be concluded from the findings of this study that the Azerbaijan capital market is still at the improvement stage and has play a moderate role in resource mobilization and long-term financing of the economy. This study found that the financial sector reform has led to more players in the capital market. The entry of more financial institutions in the financial sector set in motion a competitive banking environment. In addition, the financial resource mobilization has also shown some improvement as evidenced by increases in deposit growth. However, this deposit growth was not matched by increases in credit to the private sector. Looking at it in more detail, two extensively perceived elements of speculation banks: capital market intermediation and exchanging. These are particular and separate from the capacities commonly connected with business banks, which acknowledge deposits and make credits. Investment banks are basic operators of capital development and value setting. They likewise help to facilitate present and future utilization. Despite the fact that the elements of speculation managing an account and business keeping money are unique, the refinement amongst investment and commercial banks is more significant in the United States than in whatever is left of the world. In 1933, the U.S. Congress passed the Glass-Steagall Act. One of the primary arrangements of the Act made a legitimate refinement between the tasks of a speculation bank and business bank. Besides, it wound up illicit for any organization to perform both or for any holding organization to hold relate organizations of the two sorts. Speculation banks could never again acknowledge stores or make credits. In contemporary blended economies, the two governments and expansive organizations depend on venture banks to raise reserves. Verifiably, venture banks coordinate those offering securities with those speculators. For their part, investors are compensated as mediators. By coordinating makers with savers, monetary advancement turns out to be

more effective and organizations develop more quickly. The advertising rates of intrigue additionally decide that it is so productive to spare and that it is so costly to obtain. This helps organize the utilization of assets crosswise over time. At the point when loan costs are high, more cash is put something aside for future utilization. The inverse is genuine when rates are low. The all the more proficiently speculation banks build up advertising rates of premium, the all the more effectively assets can be facilitated amongst present and future needs. In Azerbaijan, Takes a shot at the renewal of money related markets have been propelled inside the system of the State Program. In any case, frail improvement of corporate administration benchmarks in the open business entities working in the nation and low straightforwardness have restricted the engaging quality of capital through the securities advertise. An essential piece of exchanges in the obligation securities showcase was led with corporate securities. The determination of liquidity and capitalization issues in 2016-2020, enhancing legitimate and administrative structures will make conditions for characterizing new focuses for the advancement of the budgetary framework in the period up to 2025. Amid this period it is wanted to manufacture a budgetary framework with sound banks, completely useful money related markets, hazard administration in light of Basel III guidelines, more proficient and digitized procedures and great staff. By 2025, the keeping money area will completely conform to the Basel III norms. Credit hazard appraisal systems, scoring models, corporate administration structures and hazard administration procedures to universal principles will improve chance administration capacities in monetary organizations. The presence of a credit agency that meets the Basel III benchmarks and giving amazing data will empower budgetary organizations to pre-assess potential misfortunes on non-performing advances and late advances and enhance guaranteeing and checking frameworks. Accordingly, the volume of a solid credit portfolio will

increment fundamentally and the offer of non-performing advances will diminish. An ever increasing number of remote speculators will be pulled in to the money related administrations segment in the long haul because of expanded straightforwardness in the budgetary markets and full part development. Outside interest in the money related division will to a great extent be stretched out by remote banks. The monetary area and the nation's economy, alongside the speculations of outside banks, will profit by bleeding edge involvement in the field of worldwide know-how, especially in the field of information preparing, chance administration and item range. The Azerbaijani saving money framework comprises of retail and corporate banks that offer an extensive variety of conventional saving money items. Corporate banks principally serve open establishments and huge private endeavors, and retail banks serve a substantial fragment of the populace. The quantity of foundations had some expertise in financing smaller scale, little and medium-sized undertakings is limited. Physical and legitimate substances' entrance to monetary markets in Azerbaijan is lower than in different nations. In spite of the fact that exchanging money markets is completed, exchanging volumes are small. While advance has been made through the measures actualized under the State Program for the Development of the Securities Market in the Republic of Azerbaijan in 2011-2020, it is imperative to proceed with the change work around there. In this manner, the way that potential speculators have restricted data about the capital market and money related instruments, the corporate administration's absence of excitement for straightforward responsibility for enlistment of securities, and carelessness, negatively affect the improvement of the securities showcase. Expanding the enthusiasm of organizations in posting organizations in Azerbaijan can quicken the advancement of budgetary markets. Consequently, the pertinent government organizations can expand the quantity of organizations recorded

on three targets (special activities, posting process, possession considering) by enhancing control and enactment. Existing enactment and controls don't make extra impetuses for organizations to be recorded, nor do they separate organizations that are recorded or not. Transitory monetary and non-money related rebates might be considered to urge organizations to join the listing. As a consequence of recharging of posting necessities under the "Capital Market Modernization" venture, the enrollment time frame was diminished from three to a month to maybe a couple weeks. Be that as it may, with encourage change of enrollment methodology, this procedure can be shortened. It is of specific significance to change the customary state of mind about keeping up full possession rights from the advancement of posting organizations on the share trading system. The current enactment underpins full possession, including restricting the security of minority investors' rights by allowing special rights to existing investors. Measures can be taken to fortify corporate administration, bookkeeping and money related control, and to ensure the privileges of remote and minority investors similarly. Moreover, the overwhelming shareholding privileges of existing investors might be wiped out (offering offers to investors before the share trading system is quoted). There is a need to decide the level of reference salary to decide the estimation of the securities issued by the organizations. Government securities is utilized as reference wage in global money related markets. For the development of the yield bend, government securities must have a customary emanation and market on a long haul spectrum. There is a requirement for organizations, particularly the saving money area to issue securities secured with money streams from advantages for viably deal with their benefits and access liquidity. Be that as it may, the issuance of this sort of securities requires change of the enactment. Expanding access to monetary markets for speculators notwithstanding the formation of a good situation for producers

and middle people, activities to distinguish motivators, framework upgrades, straightforwardness and liquidity bolster are of specific significance with regards to collaboration with private area agents keeping in mind the end goal to build the market access for investors. At the occasion, despite the fact that there is a low level of commission charges in the securities showcase (contingent upon the sort of money related instrument, 1-4 premise), there are few components advancing the cooperation of financial specialists, particularly institutional speculators, in the securities advertise. One of the essential elements adding to the cooperation of financial specialists in the securities showcase is advertise foundation. At display, interest for situation of remote speculators' assets in the National Depository Center for the task of the securities market of Azerbaijan lessens the engaging quality of the neighborhood advertise. Building up a connection between the National Depository Center and the worldwide industrialist may draw in outside speculators to nearby budgetary markets. In the meantime, the foundation of relations with worldwide station proprietors will empower remote securities to be utilized as insurance in residential money related markets, which can build the liquidity of the market by growing the scope of guarantee in nearby markets. Straightforwardness is an imperative factor that adds to financial specialist investment in the market. As indicated by posting level, universal bookkeeping principles have been connected in the real market portion, yet the request in different fragments is even lower. Low market liquidity lessens financial specialists' enthusiasm for the securities advertise. In this way, activities in the directed re-bazaar make up just 2% of the aggregate exchanging volume. Assurance of the estimation of offers is constrained, making it hard to decide the genuine estimation of the speculation.

5.Literature

- Giuliano Iannotta “Investment Banking”, A Guide to Underwriting and Advisory Services
- EIB, Shareholders, <http://www.eib.org/about/structure/shareholders/index.htm> (accessed March 14, 2018).
- EIB at a glance, <http://www.eib.org/about/index.htm> (accessed March 14, 2015)

- Jurgen F. Conrad Azerbaijan: Financial Sector Assessment No. 3 | December 2012
- Anzhela Kuznetsova, Galyna Azarenkova and Ievgeniia Olefir (2017). Implementation of the “bail-in” mechanism in the banking system . Banks and Bank Systems , 12(3), 269-282.
- The repeal of the Glass-Steagall Act, Cato Institute, Centre for Monetary policy and Financial Alternatives
- Deutsche Bank Guide to Investment Banking
- European Central bank: <https://www.ecb.europa.eu/home/html/index.en.html>
- Global Corporate & Investment Banking Practice ,September 2016 Global Corporate and Investment Banking
- Strategic road maps, Azerbaijan
- Baku Stock Exchange: <http://bfb.az/eng/>
- FIMSA: <https://www.fimsa.az/en/statistics>