

# **The Ministry of Education of Azerbaijan Republic**

## **Securities market of Republic of Azerbaijan and its development perspectives**

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## **Abstract**

The graduation work includes 3 chapters, results and literature list. The first chapter touches on the theoretical issues of the formation of the securities market.

In the second part of the work the current situation of the securities market in Azerbaijan analysed. Investigation also includes the primary and secondary securities market in Azerbaijan and types of securities in Azerbaijan.

The third and last part is concerned with the formation of the securities market in the Republic of Azerbaijan, the privatization of the securities market in Azerbaijan and the ways to improve the securities market in the Republic of Azerbaijan.

In this work schemas and tables were used to define the status of the securities market, and statistical data and data of several organizations were used.

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## **Introduction**

Actuality of the issue. First, the formation of financial markets depends on the establishment of economic and legal reforms and market infrastructure. The emergence of a mechanism for converting savings into investment and investment is carried out by a variety of people becomes an urgent matter.

Basically, the financial market and its components act as an economic mechanism, enabling efficient redistribution of capital resources between economic activity issues. Under current reform conditions, the development and improvement of all divisions in the financial market plays an important role. This is because financial markets play an important role in the revival of the real sector as a cash flow transition in the economy parallel to the banking system.

The existence of the problem of directing oil revenues to other sectors in the petroleum sector gives special importance to the development of the country's financial market. It is possible to successfully establish the financial market by establishing market infrastructure through financial and legal reforms.

One of the most important parts of the market infrastructure is the securities market. The securities market is one of the most important options to finance the economy together with the state budget and the banking system. It encourages the mobilization of market capital, redistributes the financial resources between the various fields and areas of the economy in favour of dynamically developing production, in a positive and profitable way.

One of the main tasks that the economy faces in the transition countries and in the republic is the problem of mutual debt problems as well as the solution to the problem of noncompliance with companies. Because the existence of mutual debt problem creates new problems with it. Basic traders cannot be paid as other traders will not pay their debts. The state is unable to meet its budget plan due to lack of tax revenue and state aid to some sectors of the economy is delayed or is not generally supported. All this, in general, affects economic life and the state

loses its power in economic, political or other areas. In the modern world, appropriate measures are taken in the state and business circles on the possible ways to solve these problems. The government considers that the development of the securities market is more appropriate for solving these problems.

Therefore, the formation of this market will not only affect the resolution of these problems which have a significant impact on the country's economic development but will also attract more attention to economic issues and more efficient business activities. Despite this enthusiasm and the government's extensive reforms in this regard, there is still a lack of information in our country. Taking this into consideration, the main purpose of the thesis study is to examine and analyse the essence and main points of this field, to define the direction of development and to examine the characteristics of the formation of the securities market in our country and to explain its role in the economy.

## **CHAPTER I. Theoretical basis and principles of the formation of securities market**

### **1.1 Financial market, formation and theoretical foundations**

The financial market is a form and area of cash flow arrangements and is a combination of trade and trade relations in the field of financial relations. It is very important to collect financial resources to the national economy during the transition to a market economy. In modern conditions financial markets play an important role at both the macroeconomic and state levels, regardless of ownership. Therefore, the development of the market economy is not possible without the financial market. [Bayali Atashov-Financial Markets (2016)]

Firstly, it should be noted that the emergence of financial markets is objective and further developed in connection with the state and the state of enterprises in various institutional-legal forms. On the other hand, the intervention of the state

to the economy in the conditions of market economy and the interaction of state-owned enterprises also affected the financial market.

Finally, the financial market is a form of market where financial resources are traded. In other words, the financial market is a market that distributes cash among the economic subdivisions.

The purpose of the financial market is to mobilize funds efficiently and sell them to those who need financial resources. One of the main drivers of the financial market is the unequal distribution of financial resources. Because during this division one of the enterprises is being strengthened by financial resources and on the other hand the in some point entities meet lack of financial resources. Currently, the financial market plays an important role in ensuring that financial resources are facilitated from one business to another. Therefore, the financial market plays a role in guiding the cash flow of the mediator.

Financial markets have a great importance in the development of the economy. The role of the financial market is determined by its functions. In modern conditions, the financial market fulfils some functions. To transfer cash flow from one owner to another, it needs money. Express the economic relations related to the sale of temporary free cash and securities and the distribution of financial resources. Currently, most of the world's financial resources are distributed through the financial market.

In the market, the actual market prices of the assets offered are determined by the buyer in the direct discussion with the seller. It also determines the level and conditions of reimbursement of assets.

The financial market creates space, opportunity and conditions for investors to put money in the most efficient places. In the meantime, there is a chance to choose not only the country but the whole world. This allows companies to find the best price source.

One of the main functions of the financial market is to minimize the cost of financial resources (research and information costs).

Primary sellers of financial resources and final producers are divided into three groups: economic organizations (businesses and organizations), individuals and the state. The purchase and sale of financial resources is carried out in two ways: with the help of the direct seller and one or more mediators without financial assistance to the supplier's consumers.

First, credit institutions such as professional securities market participants, non-state pension funds, mutual funds, insurance companies act as financial intermediaries. The structure of financial markets for signs of attraction includes: debt and credit markets, securities markets, leasing and factoring markets, insurance market, etc. [ N. Novruzov, X. Huseynov – Finance, Baku – 2007]

The financial market is divided into two groups depending on where the resources are available. Local or national financial markets are based on local resources. In this case, resources of other countries are drawn, but their weight is insignificant. The sources of global financial markets come from the sources of residents of different countries.

According to the level of development, financial markets are divided to developed markets and emerging markets. In most cases, markets that are created or formulated are called emerging markets.

Advanced financial markets have the following capabilities.

1. High stability
2. Advanced infrastructure. An absolute security system, insurance system and a rating agency system that helps to reduce financial risk and credit bureaus, includes an audit and evaluation system that provides transparency in market issues, a stock market that promotes new market communication and competition.
3. An advanced legal framework that regulates transactions in the market.
4. The existence of the correct information system.
5. An advanced system to protect both buyers and sellers.
6. High liquidity and reliability of the majority of market instruments.
7. High reliability of financial intermediaries in the financial market.



8. Large amounts of financial resources for sales and market transactions.
9. High Market Efficiency.
10. High level of state control and regulation in the financial market.
11. Free flow of funds from one market to another. The functioning of the national market in the integrated global market system.

The following are typical for **emerging financial markets**.

1. Lack of stability. The exchange rate of securities, the interest rate is quite sharp and often falls.
2. Greater risk in developed countries, such as political risk, currency restriction, tax burden increase, privatization, illegal ownership etc. risks.
3. Infrastructure development is insufficient
4. It is in the process of establishing a legal framework that regulates transactions in the market.
5. Lack of information system
6. Most securities in the stock market have low liquidity and reliability.
7. Lack of confidence in dealers in the financial market.
8. A relatively small amount of financial resources available for sale.
9. Low market efficiency
10. The state control and regulation system in the financial market is in the process of establishment and this situation increases the risk of the transaction in the financial market.
12. Despite the inadequacy of financial resources, the introduction of financial markets in other countries is complicated by high risk.

**Participants** of financial markets:

1. Investors - are institutions and organizations that use excessive financial resources and invest.
2. Depositors - real persons who make different savings for specific purposes by reducing personal consumption.

3. Borrowers - Businesses and organizations that do not have adequate financial resources, as well as government authorities.

In addition to the above, there are various intermediary institutions and specialized finance and credit institutions that are subject to the financial market and there are intermediaries working as a sub-organization.

1. Brokers. They act as the real vehicle that generates income in the form of a commission acting on the income of the investor or the borrower. They may be individuals and legal entities.

2. Dealers. They work freely and, in some cases, make direct agreements with other intermediaries, even investors and debtors. [Richard A. Brealey, Stewart Myers, Franklin Allen - Principles of Corporate Finance]

Specialized financial and credit institutions. Here are investment banks, financial companies, insurance companies and so on. They act as investors, borrowers and mediators.

Thus, as the financial infrastructure expanded, significant progress was made in the formation and development of financial markets. Therefore, the financial market issues that mediate between different property enterprises play a leading role in the completion of the economic resource turnover and help in achieving commercial success. The basis of the financial market is the redistribution of capital among lenders and debtors with the help of intermediaries between supply and demand.

The following markets have an important place in the formation of financial markets in general. Debt market, capital market, foreign exchange market, money market, insurance market, securities market, financial leasing market, etc. These markets are an integral part of financial markets.

In developed countries, the financial market is believed to be the instrument of the money market if the maturity is less than one year. Long-term instruments (more than five years) belong to the capital market. Certainly, there is a middle border area between one to five years, which is also a medium-term vehicle.

In Azerbaijan, the distribution of financial instruments for a long and short period is slightly different. Short-term instruments are generally used for vehicles with a maturity of more than six months.

Therefore, it is not always possible to define the boundaries between short-term financial instruments and long-term financial instruments as the boundaries between the money market and the capital market. However, this division is deeply economic. Therefore, capital market instruments are linked to the deposit and investment process, whereas money market instruments primarily serve to provide liquidity to state institutions and enterprises.

Money market instruments include treasury bills, bank acceptances and deposit certificates from banks. Stock tools include long-term bonds, stocks, long-term loans. It should be noted that cash and cashless money are sold only in the money market. The capital market is divided into credit market, capital and stock exchange, respectively. This section represents the nature of the relationship between buyers and issuers of financial instruments traded in this market.

If an equity-based instrument is used as a financial instrument, these relations are the subject of property relations, and in the remaining cases they are credit relations.

Capital market is the form of relation or circulation that occurs in the process of securing the capital of a debt. It is known that credit repayment is a cash inflow paid for a certain period of time. The source of capital is, above all, free financial resources and the savings of businesses, organizations and citizens. Businesses and organizations place their financial resources on a variety of lending institutions with interest-based instruments. Capital market participants are as follows:

1. Loan institutions where businesses collect free cash and pledge to lend money.
2. Investors who have free cash (financial resources).

3. Businesses and organizations, citizens and also government agencies that receive loans for specific purposes.

The role of the mediators here is not great, because the participants are in direct contact with each other.

The role of the credit market in the formation of financial resources of enterprises is doubled. For example, an entity with free financial reserves obtains interest income by placing or lending to a bank or other credit institution. On the other hand, the credit institutions involved in these funds increase their reserves. [Richard A. Brealey, Stewart Myers, Franklin Allen - Principles of Corporate Finance]

The property issue is determined by the legislative law as well as the founding documents of the organization. The cash market is represented by cash in circulation and other short-term capital instruments (bills, checks, etc.) that perform its functions. In most cases, the foreign exchange market includes foreign exchange and interbank markets.

The cash market plays an important role in ensuring the existing liquidity of economic assets. This market is also called the money market and in turn has several segments. The main sections of the money market are as follows:

1. Discount market
2. Eurobond market
3. Interbank credit market
4. Deposit certificates market

First of all, it should be said about the discount market as a general feature of the market where the bill is bought and sold. Its importance is to ensure a steady stream of money. The discount market operator is a Central Bank and commercial banks.

An important part of the money market is the interbank loan market, where commercial banks lend each other. Interbank loans are presented in the form of

funds sold by commercial banks at the central bank, which exceeds the statutory reserves established by law.

The "REPO" agreement reflects the sale of the securities upon their return. The essential condition for implementing such an agreement is the existence of an advanced state securities market and the existence of a well-documented circulation system of securities, that is, the existence of a deposit form.

When the "REPO" agreement is reached, the party selling the securities receives money, which can be used for various purposes: completion of the liquidity shortfall, and can be used to carry out an active transaction in another segment of the financial market. Purchases should be made on or after a specified date. The euro market is a part of the money market, where it is traded in short-term financial instruments nominated in euro. Eurobond is the money placed by European banks in the national currency of the country in banks of another country. Eurobonds are a common understanding of currencies that move outside the issuer. It is widely used in international markets for loans, deposits and other transactions. These currencies are primarily US dollars, British pound sterling, euros and other currencies accepted by everyone.

Examples of instruments traded on the Eurobond market may be syndicated loan for 3 to 6 months by one of the eurozone banks by bank syndicates of some countries. Developed countries also have a deposit certification market. Deposit certificates indicate a large amount of time deposits in banks and are considered to be securities. The term of circulation of certificates of deposit is usually not more than one year and may be viewed as money market securities. The financial market is often viewed as a securities market. All subjects mentioned by the financial market are the participants of this market. Unlike the loan capital market, mediators play a great role here. As seen from the name of the securities market, it is the principal brokerage securities to collect financial resources. Securities are legitimate art, which confirms the debt obligation or property right, giving the holder dividends or interest income. The world's

securities market is one of the important attributes of the market economy. It is impossible to speak of the existence of a highly developed market economy in a state without a securities market. The securities market consists of the mutual relations between the demand for cash and the offer.

Further information on the securities market will be discussed in more detail. The financial market of the Republic of Azerbaijan has been fully formed in 1995. In 1998 there were 4 exchanges in our country. In 1998, there were 79 commercial banks, a large number of insurance companies, credit unions, and investment funds, which operated 547 joint-stock companies, branches and regions. [E.N. Quliyev, Z.M.Məmmədova, T.İ. İmanov -ORGANIZATION AND ADMINISTRATION OF THE FOND WORK -2017]

Over the last five years, our country has established a regulatory framework for the financial market and its constituent parts, several laws and decisions have been adopted. Among them are the laws "On the National Bank", "On Banks", "On Joint Stock Companies", "On Securities", "On Currency Regulation" as well as a number of Decisions of the Cabinet of Ministers of the Republic of Azerbaijan.

Since 1998, quantitative and qualitative changes have occurred in the financial market of the Republic of Azerbaijan. Among the recipients of financial resources, the share of enterprises and organizations increased and the share of the state began to decline. Due to the relative decrease in the cost of funds withdrawn, it was possible for them to purchase for multilateral institutions. However, Azerbaijan's current financial market belongs to the emerging financial market.

One of the main problems of the financial market in Azerbaijan is the insufficiency of the resource base. The main role in the primary market of financial resources lies with commercial structures. It carries out savings activities, accumulates earnings and creates various reserve funds, but the commercial structures of the Republic of Azerbaijan have limited free funds.

## **1.2 Securities market, function and duties**

It is important to understand the essence of securities in order to understand the essence and content of the securities market. Because the main tools of this market are securities. In this respect, legal and legal regulations in the securities sector are defined in our republic. Thus, in the Law of the Republic of Azerbaijan dated July 14, 1998, On Securities, the securities are defined as follows: The Securities are document certifying its owner's property and non-property rights and the possibility of granting these rights in compliance with the established form and mandatory requisites." In the Republic Settlement Law (Chapter 1, 2000, Chapter IV, Article 987): "Securities are any documents that certify their conformity to a defined form that cannot be used without this document or which cannot be transferred to another person. When the securities are transferred to another, all the rights granted to it are passed." Bonds, stocks, bills, checks, deposit certificates, options, futures, etc. are examples of securities . Our legislation divides securities into two parts, both emission and non-emission securities ("Securities Act", chapter I). Emission Securities - Securities that are placed in issue and whose securities have the same volume and term of validity within a single issue irrespective of the time of their receipt. Despite this diversity, the basic qualities are the same for all securities: Trading; Similarity; Risk.

Liquidity is the ability of the securities holder to buy and sell less of the market price and minor sales costs without great losses. The risk is likely to be the result of the market conjecture, which is related to investments in securities and is essential to them. It should be noted that as securities' profitability increases, their risk levels are also increasing.

The circulation and liquidity of securities clearly indicate that securities are a special commodity and therefore have their own market. The specific organization of this market, the participants, the rules of business, rules of conduct, etc. available. Securities market is one of the key elements of the

effective functioning of the financial market, and is an area where the flow of funds is actively operated and invests in different sectors of the economy.

Depending on the validity period of the securities, the financial market is divided into the equity market where the short-term securities include long-term securities and long-term securities. That is to say, the securities market acts as money and capital market.

The Civil Code of the Azerbaijan Republic describes the totality of legal and economic relations between subjects (article 992-1), which deals with the issuance, circulation, payment, possession, dealing with transactions and other transactions. The purpose of the market is to mobilize free financial resources and to redistribute them through a variety of transactions that the market participant has with securities. The existence of this market is important for all market-oriented economies. The securities market is actively involved in commodity and money circulation. On the other hand, issuance and market placement are the most effective way to mobilize free cash and direct social and economic development. As a result, the turnover of temporarily free cash flows intensifies, favorable investment climate in the country, which leads to economic growth. The prerequisite for the formation of this market is the organization of control over the operations of securities, emitters, investors, the developed regulatory and legal framework that regulates the movement and infrastructure of securities, and securities transactions.

During the involvement of free funds, mediators in the market accelerate this process. However, sometimes the appeal to the mediators increases the costs associated with capital funding. If the borrower has the opportunity to apply to the lender directly, this will reduce the cost of collected resources. This creates conditions for securitization of the financial market. At this time, low-liquid assets are converted into securities.

Securities provide cheap and fast funding. For example, the enterprise needs financial resources. At this time, he can apply for bank loans or may issue



a bond. In the first case, the bank acts as a mediator and receives a payment for its services. In the second case, the entity sells the bonds directly to the investor, which reduces the costs of funding. The role of the securities market in the economy is associated with a number of factors. First, as we say, this market creates a low cost of funding resources. Secondly, securities enable the transformation of non-performing assets into current financial assets. Examples include mortgages and guaranteed bond issuance.

The securities market, which is a part of the financial market, is a concept that reflects the relationships that arise during the issuance and placement of securities and the professional participants in the market for subsequent circulation of securities. Property relations and lending relationships are shaped by specific financial instruments in the stock exchange. It should be noted that the securities market is an alternative source of financing the economy together with the state budget and the banking system. [Richard A. Brealey, Stewart Myers, Franklin Allen - Principles of Corporate Finance - 1980]

The state budget, the banking system and the securities market are always closely related, complement each other and compete for more resources. The reason for loyalty and competition is that the dynamics of all three channels take place in the same direction, thus increasing the taxes and expanding the state budget, limiting the source of the banking system and the securities market by reducing the cash flow of cooperatives and the population.

The stock market, which encourages capital to take action, enables the redistribution of resources between various areas and areas of the economy, in favor of a potential and profitable, dynamically evolving production. The investor invests in real money to generate income. Only profitable businesses can do this. The economic role of the securities market is reflected in its functions as well as its aims and objectives.

The main purpose of determining the necessity of the securities market is to mobilize free financial resources and to redistribute them through market

transactions with the securities market participants. In other words, the securities market temporarily mediates the transfer of free cash from investors to issuers of securities. The realization of this objective defines the obligations of the securities market. These include:

- Mobilize free funds temporarily for concrete investments.
- Formation of market infrastructure in compliance with world standards.
- Development of secondary securities market.
- Transformation of property relations.
- Improvement of market mechanism and management system.
- Providing real control over stock capital based on state regulation.
- Investment risk reduction.
- Development of pricing.

Therefore, as shown, the fulfillment of the above-mentioned tasks generally contributes to the redistribution of investments. Capital flows into areas that provide high profitability through the securities market. On the other hand, it has a great feature of the stock market investment process by providing access to securities. [Richard A. Brealey, Stewart Myers, Franklin Allen - Principles of Corporate Finance -1980]

Structural changes in the economy are made through cooperation with the stock transactions and through the state. State policy is implemented through the securities market. For example, the privatization of enterprises in Eastern European countries and Russia in the 1990s and the transformation of companies into shares.

The fulfillment of the above-mentioned duties is related to the fulfillment of certain functions of the securities market. Each function has its own content. Functions include:

The function of the division refers to the redistribution of enterprises, population and state between regions and regions through the circulation of securities.

- Risk insurance function. This function is possible as a result of the formation of derivative securities, ie futures and options. This function ensures that capital is protected and increased.

- The regulatory function relates to the organization of various transactions in the community through specific stock transactions. For example, the volume of money circulating in securities transactions is regulated. This is the macroeconomic aspect of the regulatory function.

- The accounting function is the information function of the securities market, that is, the market generates information on the purposes and subjects of the market and informs the participants.

- Control function. This includes implementing the control over the observance of legislation by market participants.

- Demand balancing function with supply. It provides the balance between demand and demand with securities transactions in stock exchange. This creates conditions for the formation and dynamics of market prices.

- Motivation function. The essence of this function is to encourage individuals and legal entities to become members of the securities market (for example, the right to participate in business management, the right to earn income, equity capital, or ownership of the property).

- Commercial function. As in other markets, the securities market also creates profit and maximize conditions.

The first three functions can be linked to the specific characteristics of the securities market. The rest can be defined as universal functions. There are also auxiliary functions in the securities market. These concerns privatization, crisis prevention management, restructuring the economy, balancing money circulation,

and the use of securities in the anti-inflation policy. [Bayali Atashov-Financial Markets (2016)]

An efficient functioning securities market is an important macroeconomic function that enables redistribution of investment resources and focuses resources on the most profitable and promising areas. Therefore, it acts as one of the possible financial channels for the transfer of investments. At the same time, the securities market allows investors to sustain and increase their savings.

The components of the securities market are classified by different types. The basis of the market is the trading methods used by the market. First of all, the securities market can be divided into national, regional and international markets for geographical indications. The stock market can be classified according to the type of securities: stock market, bond market, derivatives market, etc. There are several kinds of diversity in the structure of this market:

a) Primary and secondary (second) market. The primary market securities are bought and sold by the buyers for the first time in the first stage of the purchase process. Here is the initial placement of securities issued by companies, central government and municipalities.

In the secondary market, previously issued securities are traded in circulation, changing their ownership in purchases or other transfers during the entire duration of the securities valuation. The purpose of this market is to create conditions for the sale of securities and other transactions after initial placement of securities.

b) Organized and unorganized market. Securities traded on the organized securities market are traded by market participants on the basis of strict rules, with professional support to other market participants - licensed professionals. In non-organized markets, market participants do not have to obey single rules.

c) Traditional and computerized market. The traditional securities market is traditionally traded as it appears. A single computer network that connects trade members in a computerized market. New computerized markets act as distributed

electronic exchanges. Under such markets, foreign exchange trading may traditionally be done not only by telephone, but also by private computer systems. The largest scale of such systems has been the NASDAQ Automatic Assessment System since 1971. It is a complex and extensive electronic network that covers the whole country, allowing its subscribers to sign their transactions directly from workplaces through multiple terminals. In addition, a large-scale market process was created in a computerized market without direct intermediaries. Examples include electronic trading systems such as INSTINET, POSIT and Crossing Network.

## **CHAPTER II. Actual situation and procedural analysis of the securities market in Azerbaijan**

### **2.1 Situation and analysis of the securities market in the Republic of Azerbaijan.**

Securities market is classified according to different types of property. An example of this can be shown below.

According to the demand nature, the financial market is divided into the debt market and the stock market. The debt market consists of a market that reflects the debt relationship between the issuer and the investor and the purchase and sale of securities. The division of the financial market into the debt market and the stock market is directly related to the fact that securities are debt and equity securities.

Such securities are called debt securities if securities are issued for the purpose of repaying interest for a certain period of time. Debt securities may include promissory notes, bonds, deposit certificates and collateral. The debt market consists of a market for buying and selling these securities.

The securities that give the property rights to the enterprise's assets are considered share securities and the most obvious example is share. When dealing with the debt market and stock market issuers, it is established that debt securities

have some advantages. First of all, it is explained to him that debt securities are less risky, and in case of force majeure, the entity pays debt securities relative to other securities. Depending on the entity's financial performance, borrowing costs must be paid first. [E.N. Quliyev, Z.M.Məmmədova, T.İ. İmanov - ORGANIZATION AND ADMINISTRATION OF THE FOND WORK -2017]

In general, if we compare securities to the risk level, we see that securities with higher yields are more risky.

The financial market is divided into the money market and the capital market. The money market usually deals with securities trading up to 1 year. The main instruments of the money market include treasury bills issued by the government, short-term bonds and other securities issued for one year. The equity market consists of a securities market traded over 1 year. These instruments include all securities issued for more than a year, including shares, bonds, promissory notes, privatization checks, and other securities. The capital market mainly serves long-term investment goals.

Securities market is divided into primary and secondary markets for sale by the market. The primary market is intended for sale of newly issued securities. This market is usually intended to be sold to the first owners of shares issued when the stock market is created. The primary market participants are securities issuers and investors.

The primary market acts as the main regulator of the economy. It defines the amount of savings and investments in the country, creates conditions for proportional development of the product, and acts as the criterion of maximization of profits in the country. In the primary market, the initial placement of securities issued by corporations, central government and bankers takes place. However, circulation through the repeated purchase and sale of previously issued securities in the second market.

The activity of the primary market necessarily requires the existence of the secondary market. The secondary market involves the purchase and sale of

securities issued earlier (in the primary market). The main subjects of this market are mediators, not emitters, but for the purpose of earning certain profits. Intermediaries deal with the purchase and sale of securities by acquiring a difference in securities. In the secondary market, new investors are dealing with the purchase of securities, on the basis of which the smaller owners are buying their shares by larger investors. The second market does not affect the amount of investment and savings in the country, but reallocates these funds. In addition, the secondary market provides liquidity for securities. From this point of view, it is possible to show that the main function of the second market is the balancing and liquidity of the securities market.

The second market consists of a market that is organized and unorganized. Traditionally, the organized market is traded commercially, and an unorganized market is traded on a stock exchange. In the organized market, vendors deal with purchasers, and they are essentially concluding different deals and offers. The organized markets include 7 stock exchanges operating in the United States, 8 stock exchanges in Japan and Germany, the London Stock Exchange and other exchanges. The Baku Stock Exchange has been established in Azerbaijan since 1999. The development of the stock market depends on the level of dehumidification in the country and the specific weight of equity in GDP. So, in order to revive the stock market in Azerbaijan, first of all, it is necessary to accelerate the privatization.

Large-scale application of new information technology and computer technology in stock trading creates a basis for distinguishing traditional and copolaged segments of the securities market.

When the buyer needs immediate purchase of securities, he / she uses the securities market's cash market. The Cash Cash Market is also called market or spot market. Deals are held within 1-2 business days. Transactions with a maturity of more than 2 days are held in the securities market.

In addition, the initial market value of newly issued securities is determined, the investment risk is assessed, the state registration of the issue and the registration of the results of the issue, the appointment of a remanent holder and the storage of securities takes place. The functions of the primary market are as follows.

- Securities issuance
- Securities placement
- Securities accounting
- Ensuring balance between demand and supply

The duties of the primary market are as follows:

- Involvement of Temporary Free Resources
- Financial market activation
- Inflation weakening

In the initial market stage, financial resources are mobilized by securities issuers. The amount of funds raised from the placement of the initial placement requirement depends on the subsequent business reputation of the issuer. Therefore, the issuers are primarily engaged in the issuance and placement of securities by highly reputable banks, including investment banks, and specialized lending institutions (insurance companies, investment and pension funds, etc.). As a result, placement of securities becomes easier and more complicated. Guaranteed placement of securities is called underwriting. [M.M. Sadiqov-SECURITIES AND OPERATIONS ON THEM (2007)]

According to the AR Securities Act, no later than 30 days after the initial placement has ended, the issuer is obliged to submit a report on the emission to the registrar. The report should include the following information:

- Date of commencement and completion of placement
- The actual cost of placement
- Number of securities placed



- Total amount and types of funds invested in placed securities

The purpose of the second market is to create conditions for the sale of securities and other transactions after their initial placement with securities.

These are the functions of the second market.

Meet retailers and buyers at retail level (at the initial placement stage, this happens at the wholesale level). As a result, the purchase of one or more securities is possible. Balancing the supply at a certain price level

The second most important task of the second market is to redistribute capital to the benefit of the most profitable productions and to attract investments for the development of agrarian subjects. Other tasks of the second market are as follows:

- Strengthening financial activity of legal and natural persons
- Development of new forms of financial activity
- Development of the securities market infrastructure
- Compliance with accepted rules and standards

## **2.2 Current status of the Azerbaijan securities market**

At present, the securities market of our republic continues to evolve despite some shortcomings. Taking into account that the basic legislative, regulatory and organizational-legal base for the formation of this market in Azerbaijan was created in 1999-2000, and measures taken over the past 10 years can be called a successful period for the development of the securities market. During this period, many normative-legal documents were adopted, new regulators and other bodies were established, and many projects were implemented. But in general, the creation of the securities market in Azerbaijan coincides with the end of the 19th century and beginning of the twentieth century. The first shares in our country were issued with the approval of the Charter of Baku Trade Bank in 1913. The main shareholders of this bank are the chairman of the well-known businessmen

of Azerbaijan H. Z. Tagiyev, Asadullayev, M. Nagiyev, M. Mukhtarov and others. In the first two decades of the twentieth century, a number of joint stock companies functioned in Baku. Among them are "Petroleum Products Joint-Stock Company", "Bul-Bul oil and trading joint-stock company", "Balakhani-Zabrat Oil Production Joint-Stock Company" and others.

In the pages of the Kaspi newspaper of 1900, articles on promotional reform published interesting information confirming the vast exploitation of this valuable paper at that time. At that time, Baku Trade Bank and other banks operating in Baku issued bills and interest bonds. It has been widely used in billing process and debt relationships. The bill market was also developed during the Democratic Republic of Azerbaijan, but was restricted during Soviet rule. The main securities in circulation in Soviet Azerbaijan were government bonds and promissory notes (commercial loans). Having gained independence, our republic began to focus on building and developing the securities market, which is the key part of the system, in transition to market economy.

In this connection, many laws, decrees were adopted at different levels and various bodies were created. There was a need to use international experience to accomplish all of this. It should be noted that in the world practice three models of market development are distinguished:

Non-bank model (US) - non-bank organizations dealing with securities in the role of mediators;

Bank model (Germany) - banks act as mediators;

Joint Model (Japan) - both banks and non-bank organizations act as mediators.

[E.N. Quliyev, Z.M.Məmmədova, T.İ. İmanov -ORGANIZATION AND ADMINISTRATION OF THE FOND WORK -2017]

Although the stock market of our Republic corresponds to the German model in the first years, it is now closer to a mixed model. On December 15, 1992, the Law on Entrepreneurship was adopted to determine the principles of

entrepreneurship in the country, the rights and obligations of the business entities, the form and methods of its protection and recognition by the state, and the interaction of entrepreneurs with state bodies. On June 12, 1994, the Milli Mejlis adopted the Law "On Joint Stock Companies" in order to ensure the establishment and operation of joint-stock companies in the territory of the Republic and ensure legal provision of their activities. On September 29, 1995, "State Program on Privatization of Public Property in the Republic of Azerbaijan in 1995-1998" was approved. On September 24, 1996, the "Regulation on the sale of state-owned enterprises to the ATC" was approved. On November 29, 1996 the Statute on the Rules of Transformation of State Enterprises into Joint Stock Companies was approved. Additionally, in 1996, the Cabinet of Ministers adopted a "Regulation on Issuance, Placement and Circulation of the T-bills" that provided the initial conditions for the formation of the bond market in the country. Then, on May 14, 1997, the regulations on "State privatization options" and "Specialized Check Investment Funds" were approved. On July 14, 1998 the Law of the Republic of Azerbaijan "On Securities" was adopted. Since September 18, 1997 National Depository Center (closed joint-stock company) has started its activity.

On December 30, 1998, the "Decree on the establishment of the SCS" was signed. On July 26, 1999, the Decree on "Providing SSC activities and approval of the Statute on SCS" was signed. Thus, in the republic the basis of the state regulation and control of the stock market has been laid. Since 2006, the SCS has its Nakhchivan Autonomous Regulatory Office. In 2000, the Baku Stock Exchange (BSE) was established. Moreover, many projects have been implemented by the state with the help of foreign organizations in connection with the development of the stock market in our country. The implementation of the project "Technical Assistance for the Development of Baku Stock Exchange and SSC", funded by the International Finance Corporation, started in 2002. The total amount of this project was € 320,000. The project was implemented by Atos

KPMG Consultancy. The main directions of this project were: analysis of normative-legal acts on issuance of securities, encouragement of initial placement of securities, organization of training courses, and conducting retraining courses in Amsterdam.

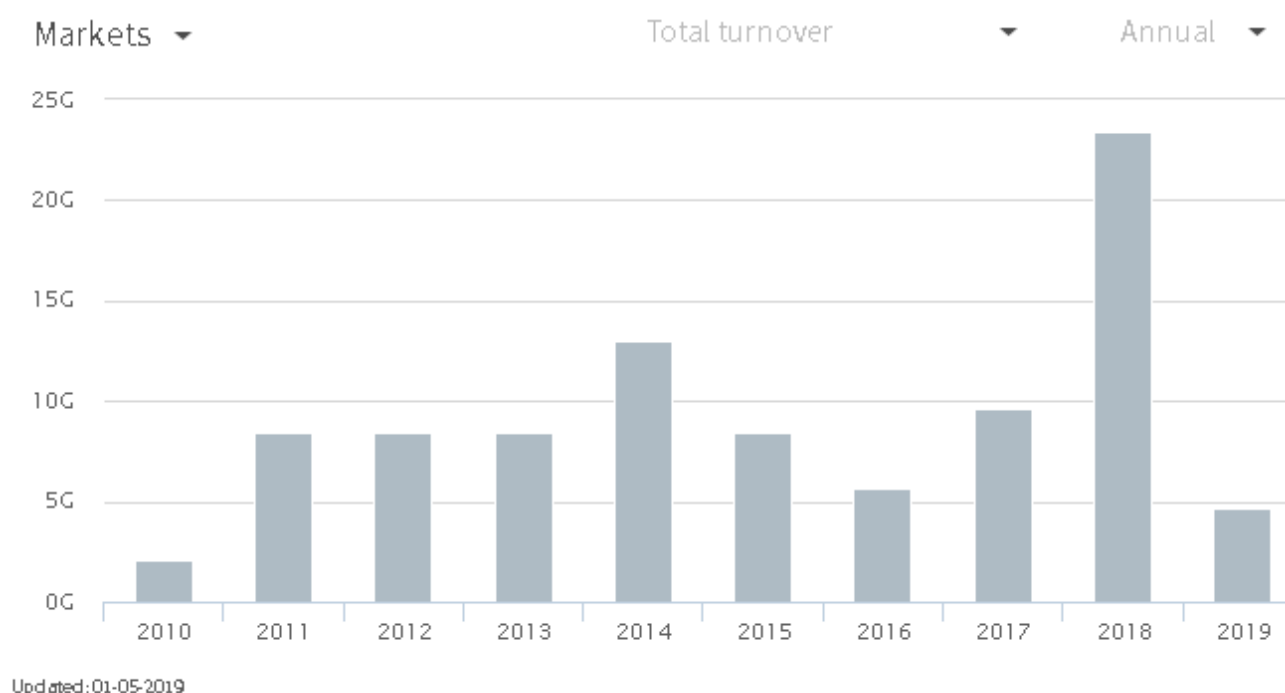
The opening of the Azerbaijan Corporate Governance Project (AKIL) was officially announced at a conference in Baku in May 2003. The Azerbaijan Corporate Governance Project (AKIL) was implemented by the International Finance Corporation (IFC) with the noble support of the Swiss State Secretariat for Economic Affairs (SECO). The main objective of the project was to improve corporate governance practices in joint stock companies, including commercial banks. To achieve these goals, the project was planned to operate in four main areas: work with stock societies; work with the government of Azerbaijan; cooperation with Azerbaijani educational institutions; and public awareness campaign. In 2004, the FIRST multi-donor program was issued. The main objective of this program is to provide technical assistance to government agencies that govern the financial sector in developing countries. FIRST projects are funded by the World Bank, the Canadian International Development Agency, the UK Department for International Development, the International Monetary Fund and other donor organizations. A decision was made to implement a technical assistance project "Support for the creation of non-bank corporate bonds market" by the FIRST program and on 14 July 2005 the Technical Assistance Grant Agreement was signed between the SCS and British Emerging Market Economies Limited. In 2005, a large-scale project on "Corporate Governance Development" was launched in different regions with the participation of 35 joint-stock companies led by SCS, BFB and International Finance Corporation in Baku.

In 2007-2008, these normative-legal acts were adopted: Action Plan for 2008 on implementation of the National Strategy for Increasing Transparency and Anti-Corruption of the SCS; Rules on issuing international identification

numbers to securities issued in the Republic of Azerbaijan; Rules for Reporting by Professional Participants of the Securities Market; Rules for Keeping Bookkeeping in Credit Institutions. On May 15, 2007, the Baku Stock Exchange (BSE) and the Warsaw Stock Exchange (VFB) signed a memorandum of long-term cooperation. According to the signed memorandum, the parties intend to cooperate in the exchange of information and experience for the development and integration of the stock markets of both countries.

The most remarkable measure of the stock market development in 2007 was the establishment of the Public Fund of the Association of Participants of the Stock Market of Azerbaijan (AFBIA), a market self-regulatory organization.

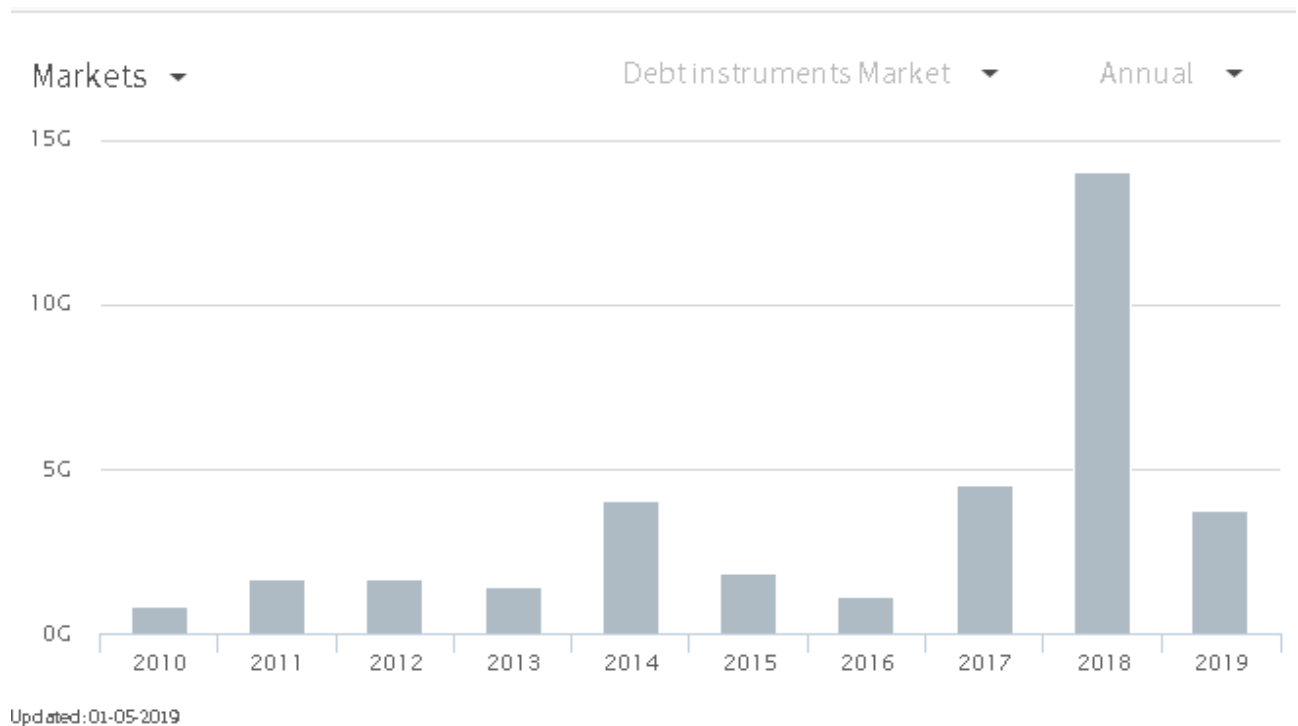
Following graph shows total turnover of BSE for the last decade.



Till the 2015-2016 currency crises there is upward trend, but total turnover sharply decreased to 5.6 billion AZN in 2016. After 2016 market goes in positive direction, even last year - in 2018 total turnover reached to its highest level (23.45b AZN). From January till May total turnover for 2019 is just 5.6 b AZN.

As illustrated in the following graph Debt instruments market has key role in total turnover of Baku Stock Exchange which 14b AZN of last year's peak

is result of this market.



(source: bse.az)

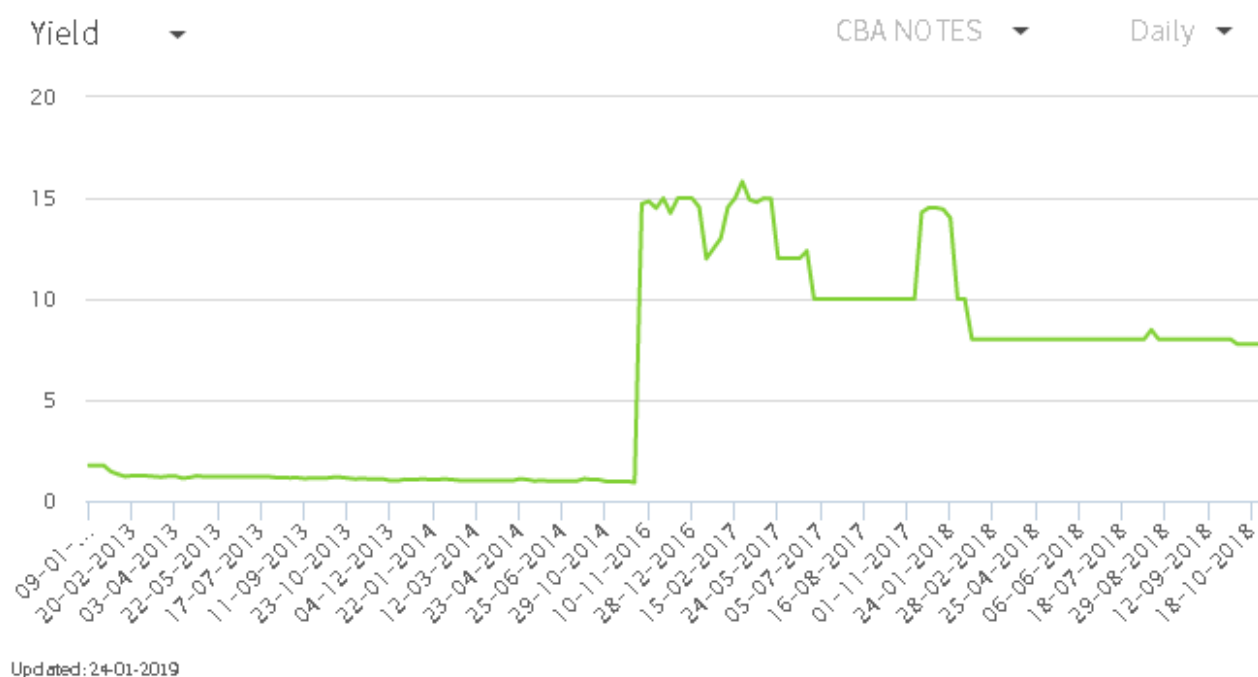
Second key role in total turnover belongs to Derivatives market which scored 8.5b AZN last year according to the official website of BSE.

Table below defines share of BSE members in total turnover. In which we conclude that "Paşa Kapital İ.Ş." QSC is a key player of market. Table shows results for 2019 (January-May).

Rank #	Name	Annual turnover
1	Paşa Kapital İ.Ş." QSC	• 2,549,317,421.98
2	AzFinance İ.Ş." QSC	• 839,790,173.53
3	"İinvest -AZ İ.Ş." QSC	• 567,027,867.98
4	"Xalq Kapital İ.Ş." QSC	• 564,163,765.93
5	"Unicapital İ.Ş." ASC	• 491,601,692.25
6	"PSG Kapital İ.Ş." QSC	• 59,315,013.70
7	"BTB Kapital İŞ" ASC	• 21,386,938.53

(source: bse.az)

Another graph describe Yield of Central Bank's notes across 5 years period.



(source: bse.az)

As seen from trend line there is break at the eve of devaluation of our national currency. After devaluation yield of COBs fluctuate for 2 years period. Now it seems yield line return back its constant trend again and there is less fluctuation in this market.

### **2.3 Regulation of Azerbaijan securities market.**

Securities market regulation is a key component of market management. The regulation of the market is done in two ways, both internal and external. In its activities, the local regulation ensures that any area of the securities market is subject to its own normative documents, contracts and other internal normative documents describing the activities of the site, as well as separate sections. The external regulation reflects the fact that the state is subject to normative documents of the state within the framework of international agreements in its operation.

In world practice, two models are used to regulate this market:

1. State regulation of the securities market.
2. The organization of the market by professional participants.

State regulation is basically based on normative legal regulations. Legislative laws include laws, decrees, orders and other legal documents of the governing bodies.

The main documents on the regulation of the securities market in the Republic of Azerbaijan may include the Civil Code of the Republic of Azerbaijan, "On Securities", "Joint Stock Companies", "Investment Funds" and the Regulatory Documents of the State Securities Committee (SCS). These normative documents are as follows: Regulation on Trading in the Securities Market by Credit Agencies (03. 11. 1999), Regulations Regarding Securities Exchange by Professional Participants in the Securities Exchange (08. 11. 1999), Republic of Azerbaijan and Regulation on the Regulation, Regulation and Circulation of Municipal Securities (09.02.2002), Advertising Rules for the Securities Market of the Republic of Azerbaijan (10.05.2002), Regulations on the issuance of foreign issuer securities in the Republic of Azerbaijan (06/09/2000) Of the Republic of Azerbaijan, the elimination of violations of the securities market Regulatory Regulations on the Protection of Investor and Investor Rights (22. 11. 2000), Rules of Circulation of Futures in the Republic of Azerbaijan (08 th. Trade Rules



for Making (26 07.2002), Rules on the Securities Market Dealer Operations (12. 08. 2003), Brokerage and Dealer's Internal Accounting Rules in the Securities Market (05/05/2004), the use of storage, use and service information in the Securities Market (05. 10. 2004), Manipulation Prevention Rules in the Securities Market

(08. 12. 2004), Regulation on Professional Securities Management in the Securities Market (25.03.2004).

In accordance with the Civil Code, the state regulation of the securities market consists of the following (Article 1078-40):

Acceptance of normative legal procedures regarding the control and regulation of the securities market, determination of the requirements and activities of the market participants for the market participants, registration of securities issuance, granting of special permission for professional activity in the securities market;

Protection of the rights of investors and securities holders in the securities market, implementation of state control on the activities of securities market participants, taking appropriate measures to bring in persons who violate market legislation;

To take necessary measures to increase the professional level of the securities market participants, to define market development trends, to create a healthy competitive environment in the securities market;

Determining requirements for closing agreements with securities, determining the rules for deletion and repayment of debt obligations of legal entities and individuals and regulating the debt obligations marketed by securities;

Preparation of measures for the integration of the securities market of the Republic of Azerbaijan into the global financial market and submitting it to the relevant executive authority for approval, carrying out appropriate measures, loading of assets with liabilities and registration and accounting of real estate mortgages with them;

Carrying out of the relevant state registries related to securities (state register of securities issuance, state register of promissory notes and checks, official register of securities with securities, state registry of property mortgaged with securities, etc.), determination of insurance standards in insurance market, determination of the rules for information disclosure and the organization of the system;

Regulation of activities on issuance and delivery of securities (certificates) of securities, issuance of binding instructions to market participants in the manner prescribed by the legislation, establishment and regulation of funds used for market development;

Taking measures to prevent manipulations with prices in the market.

In essence, it can be shown that in the world practice state regulation of the securities market is carried out by different bodies depending on different models. For example, in the British model, state regulation of the market is only regulated by the government securities market through the Central Bank. In the German model, the central role in the state regulation of the stock market belongs to the Central Bank (Bundsbank), the Federal Securities Commission, and the special bodies of separate territories. Government regulation in the United States is carried out by the Securities Commission.

The main bodies of state regulation of the securities market are the Republic of Azerbaijan are the FIMSA, the Central Bank. The Central Bank gives commercial banks the right to operate on the securities market and oversees that activity as well as acts as a senior agent for placement of government securities. However, the responsibility for their issuance and timely withdrawal is on the Ministry of Finance.

The main body carrying out the state regulation till 2016 was the SCS. This body was established on the basis of the Decree of the President of the Republic of July 26, 1999. As noted in the decree, the SCS possesses superior authority in the field of securities operations, including the stock market, with other central

and local executive authorities, and oversees their activities in this area. The SCS Charter states that the committee operates in cooperation with the relevant executive authorities of the Republic of Azerbaijan, the Central Bank of the Republic of Azerbaijan and other credit organizations, local self-governing bodies, legal entities and individuals operating in the securities market. The Committee is a legal entity, has an independent balance, cost estimates, public ownership of operative management, and settlement accounts in banking offices. The Committee is subject to the President of the Republic of Azerbaijan. Now Properties of Committee is under FIMSA from 2016. The main tasks are:

- Ensure the development and implementation of state policy in the securities market, including the securities market, public administration and regulation, control;

- market organization and development, creation of favorable investment climate;

- control over the activities of issuers, professional participants and stock exchanges in the market; creating a healthy competitive environment in the market;

- ensuring the protection of market participants, including investors, shareholders and other securities owners. [Law of the Republic of Azerbaijan on Securities Market]

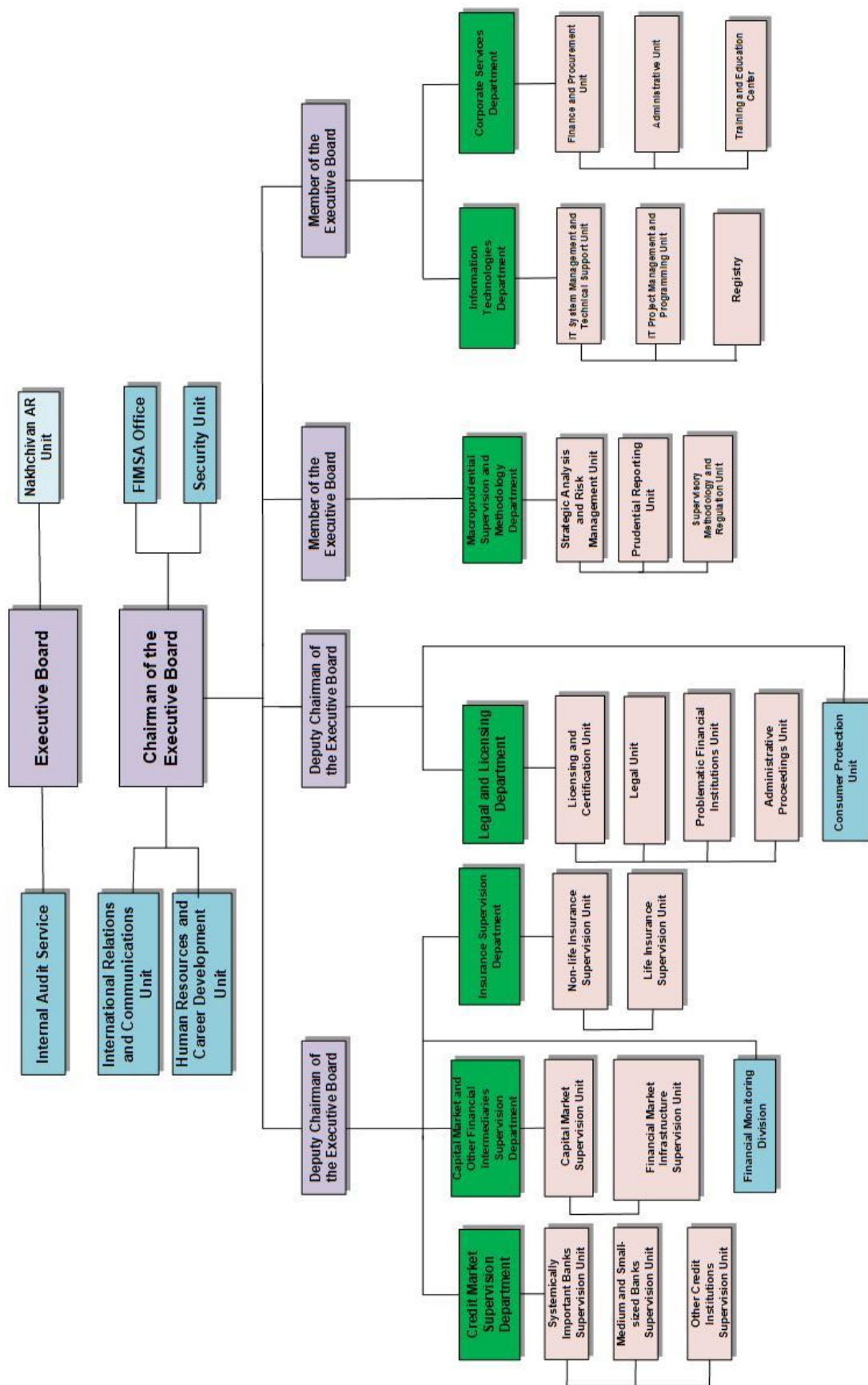
“Association of Participants of the Stock Market of Azerbaijan” Public Union was established in 2007. The founding meeting of the "Association of Participants of the Stock Market of Azerbaijan" Public Union (AFBIA) was held on May 22. Founders of the association are the National Depository Center, the Baku Stock Exchange (BSE), Share Trade Center “Azerintertreyd”, Standard Capital, Unlbank, ADB Broker, Texnika Capital Management and Azerigazbank. The main purpose of the association is to inform the public of the investor's awareness, to create conditions for the effective operation of the professional securities market participants, to protect the interests of investors and other

participants in the securities market. This organization ensures that the professional participants of the securities market are determined on the basis of ethical norms and comply with these standards. The Union operates on a public basis and funded by members of the organization. The members of the organization will increase the activity of the association by paying 500 manat per year. The proceeds will be directed to the enlightenment. [Law of the Republic of Azerbaijan on Securities Market]

For the purpose of Licensing, regulation and supervision of the securities market, investment funds, insurance, credit organizations (banking, non-bank credit organizations and postal communication operator) and payment systems in accordance with the Decree of the President of the Republic of Azerbaijan dated February 3, 2016, as well as to ensure transparency and flexibility of the control system on these areas, Financial Market Supervisory Authority (FIMSA) of the Republic of Azerbaijan had been established. The Financial Market Supervision Authority is the first-ever legal entity to provide effective functioning of financial markets, as well as to protect the rights of creditors, investors and insured persons. Our country, which is an integral part of the world economy, responds quickly to the processes taking place in the global economic arena, in the face of the Azerbaijani economy, such as ensuring the sustainability of the financial sector and strengthening control measures in this area. Ensuring the flexibility and transparency of the country's securities market, investment fund, banking and insurance activities, as well as payment systems, as well as improving regulatory and supervisory systems in these areas are part of those assignments. Organizational chart of Authority is following. [fimsa.az]

# Financial Market Supervisory Authority of the Republic of Azerbaijan

## ORGANIZATIONAL CHART



## **CHAPTER III. Formation and development features of the Azerbaijani securities market**

### **3.1 The features of the securities market in the Republic of Azerbaijan and its integration into the global financial market.**

It has been widely used in billing process and debt relationships. In Soviet Azerbaijan, the main securities in circulation, as well as in the whole of the CIS, were state bonds. The Baku Securities Exchange, which was established in 1991 during the early years of our independence, became the first stock exchange in the newly established securities market of the Republic of Azerbaijan. Baku Interbank Currency Exchange closed-type joint stock company was founded on June 21, 1993 by five largest banks of the Republic of Azerbaijan. These banks are the National Bank of the Republic of Azerbaijan, Industrial Investment Joint-Stock Commercial Bank, Agrarian-Industrial Stock-Commercial Bank, International Bank of the Republic of Azerbaijan and Joint Stock Savings Banks. The state securities market has started operating after the decision of the Cabinet of Ministers of the Republic of Azerbaijan "On the issuance of State Short-Term Bonds". [ N.Novruzov, X.Huseynov – Finance, Baku – 2007]

It should be noted that the short-term state securities market, which constitutes an important part of the securities market in our country, began operating in September 1996, and 13 auctions on placement of short-term state bonds were carried out in 1997-98. According to official data, the liberalization of the state securities market was completed in 1997, and the government amended the Regulation on the Circulation of Short-Term Government T-bills. For this change, non-resident organizations are allowed to participate in the market. At the same time, the laws "On Securities" and "On Joint Stock Companies", which can act as a legislative base of the securities market, have been passed.

Creation of the securities market in the independent Republic of Azerbaijan is one of the most important events in our new economic history

since the existence of this market is one of the important financial infrastructures of each country, which brings Azerbaijan closer to the world economic system. It is known from the world practice that the securities market is the basis of the market economy, and on December 30, 1998, it was issued a decree on the establishment of the State Securities Committee under the President of the Republic of Azerbaijan. On July 26, 1999, the signing of the Decree of the President of the Republic of Azerbaijan "On Providing the Activity of the State Securities Committee under the President of the Republic of Azerbaijan" has played a very important role in the formation of the organized securities market in the country. [ N.Novruzov, X.Huseynov – Finance, Baku – 2007]

With the organizational support of the Committee, the Baku Stock Exchange (BSE) was established on February 15, 2000. The founders of the stock exchange are several large banks and financial institutions. There are also Istanbul Stock Exchange. The main functions of the BSE are the organization of trading on all types of securities stipulated by the legislation of the Republic of Azerbaijan.

In addition, the BSE is able to provide its members with the services of registering for all depositors, including depositors, as well as government securities. Securities and cash flows of tradesmen are carried out on the principle of "counterparty payment" (CPA).

The Committee has developed a short-term program to develop the securities market in the Republic of Azerbaijan. In this program, the state of the securities market in the Republic of Azerbaijan is based on state policy aimed at the creation and development of civilian market infrastructure, methods of implementation of the set tasks, institutional investors 'system and protection of investors' rights, training of securities market specialists, development of international relations, creation of open information system in this field issues were covered.

Taking into account the current state of the economy according to the program, the policy of the state in the securities market provides for the following main objectives:

- Formation of the organized securities market in the Republic of Azerbaijan;
- Creating conditions for investment of the country's domestic financial resources into the real sector of the economy;
- Creating a favorable investment climate to attract foreign investment;
- Securing financial stability and security in the securities market;
- Creating conditions for the integration of the Azerbaijani securities market into the global capital markets.

In order to achieve the above-mentioned objectives, the following functions are mandatory:

- Legislative function (implementation of the securities market development program, preparation of legislation and normative-legal acts ensuring the development of the securities market);
- Administrative function (regulation of the securities market and implementation of control over market conditions for market participants);
- Establishment of the information system in the securities market and ensuring transparency for investors;
- Formation of a system of protection of rights and interests of securities issuers, professional participants of the securities market, investors;
- Minimizing risks that may arise during transactions with securities;
- Development of cooperation with financial institutions of international and foreign countries;
- Accession to international settlement and clearing systems on securities;



- Prevention of illegal activities in the securities market;
- Establishing healthy competition environment for market participants;

Economic reforms in the country, strategic privatization have contributed to the development of the securities market. Currently, there are government short-term bonds, privatization shares and options, stocks of joint-stock companies, deposit certificates of credit institutions, promissory notes and futures.

In the Republic of Azerbaijan the securities market can be divided into four areas:

- government securities market - state short-term bonds;
- debt obligations and promissory notes market;
- state privatization shares (checks) and options;
- corporate securities market:

With the development of the securities market in Azerbaijan constantly working with foreign and international organizations, international experience is being studied. In this regard, in 2004, TACIS European Experts Services provided foreign experts with a legal framework for the securities market in the country and gave recommendations. The second part of this project is dedicated to the preparation of the technical assignments of the new project on development of the securities market in the Republic of Azerbaijan. This project is valued at 1,300,000 (one million three hundred thousand) euros, with a maturity of 24 months.

One of the main activities of the project is the organization of the securities market participants, the development of the effective tax regime in the market, stimulating the creation of new financial instruments. All these measures will give impetus to the institutional development of the securities market in the Republic of Azerbaijan. In addition, the European Bank for Reconstruction and

Development (EBRD) has provided technical assistance to the State Committee for Securities (SCS) in the amount of 49,820 euros for legal advice by foreign experts. Experts from the British Securites Research Associated LTD have analyzed and provided recommendations on "Securities" and "Joint Stock Companies" for providing legal services to the SCS with the choice of the EBRD. Along with all these relations, there are a number of problems that prevent the Azerbaijani Securities Market from integrating into the world financial market, which forms part of its global financial market. Examples of this are the low level of professionalism of the Securities Market, as an objective result of not fully elaborating the program on creation and improvement of the Securities Market in Azerbaijan. This, as a problem, manifests itself in the following areas: There is no system developed and standardized during the privatization of enterprises. It is no secret that today, stock companies that arise as a result of privatization in Azerbaijan often do not meet the requirements set by investors; lack of skilled multilateral mediators capable of performing mediation activities with emitters and investors, as well as professional consultants. Professional participants should analyze the situation in the market, such as in the US, Canada, the UK, and Japan, and make suggestions for eliminating these or other problems in the world practice; large-scale realization of companies and businesses' bonds is characterized by its low level.

In the Western countries, the main part of the Securities Market (70-95%) is made through the issuance of bonds by corporations and companies. In this case, the first-class market is based on stocks in these countries, and investment banks are the main intermediaries of placement.

In Azerbaijan, however, this market does not exist. Investment banks do not act as the main institution for bond placement in the first-tier market.

In general, there are two types of investment banks in the world practice: investment banks specializing in securities placement (USA, Canada, England, Japan), medium-term and long-term loans (Western European countries and

EEA). However, as a result of the internationalization of production and capital, many investment banks carry out both primary and secondary operations, depending on the nature of the state regulation in the securities market.

It should be noted that stock exchanges have several markets. In the future, in the economy of Azerbaijan both large stock-corporate sector and small joint-stock companies will create several markets within the stock exchange. Strong and large corporations and enterprises will be traded on the stock market and the shares of small and medium-sized enterprises will be traded on the II and even III level markets, depending on their financial condition and low competitive ability of these securities.

The main reason for the lack of such a structure of the Baku Stock Exchange is the low volume of securities issue, as well as the lack of different classification and modification opportunities compared to the securities of western countries.

Another downside of the securities market in Azerbaijan is the lack of a legal and regulatory framework for shares. Developing the Securities Market in Azerbaijan and its integration into the world financial market and at the same time to establish and maintain a normative-legal basis that can meet world standards to address problems in the financial market.

In the future it is supposed that financial transactions with financial futures will be carried out in the stock market in Azerbaijan. New financial instruments will be available in the securities market. First, the types of state debt securities will expand. In the near future, the following may occur:

- Public debt securities with different maturity terms for the population;
- Issuance of securities for the purpose of financing certain programs and projects. As a result of such securities, it may participate in the implementation of the results of the programs and projects;
- Issuance of securities secured by land and real estate;

- Expansion of debt securities to be traded in foreign markets;
- The new large group of emitters - municipalities can be connected to the market;
- They can also use debt securities for the mass of the population to take advantage of the municipalities involved.
- Another major sector of the market - the corporate bond market will be formed;
- Most privatized large manufacturing enterprises will issue bonds to attract financial resources;
- New regulations will always be used to eliminate gaps in existing regulations;

The formation of the stock market in Azerbaijan has faced a number of problems that should be eliminated by obstacles and problems for the development and availability of the market. The main solutions to the problems of stock market development in Azerbaijan can be mentioned as follows:

- Removal of external factors that negatively affect (revitalization of production areas, establishment of social stability, etc.);
- The purposeful redirection of the securities market is primarily aimed at reducing the state's financial resources through the Securities Market and redistribution of large-scale stocks for the purpose of redevelopment and development of production in Azerbaijan for free cash flows;
- Improving legislation and monitoring compliance with it;
- Increasing the role of the state in the stock market. To do this, the development and current regulation of the securities market, the selection of the stock market model, and the long term business concept and policies of the economy and the budget through the issuance of securities, the securities and stock markets that can combine the resources of the public and private sectors

with the aim of forming the securities market, a strong Commission should be established;

- Investor protection problem. To do this, the state or partial state or partial state protection system should be formed. Depository and clearing, as well as intermediary networks for the purpose of protecting interests of issuers and registering securities' movements;

- Implementation of the principle of transparency of the information: expansion of publications on the activities of these securities issuers, introduction of accepted rating appraisal of issuers-companies, development of a network of specialized publications (identifying specific areas of investment), commonly accepted indicators for valuation of valuable securities market system creation and so on;

- Attracting external assistance to develop the securities market: Developing the education system in this area;

**The main development prospects of the Securities Market will be as follows:**

- Diversification and centralization of capital;
- Internationalization of the market;
- Increasing organizational level and expanding state control;
- Computerization of the securities market;
- Innovations in the market;
- Securitization;
- Interaction with other capital markets.

The concentration and centralization tendencies of the capital have two aspects related to the securities market. On the one hand, the market is always attracted to new participants, and this activity becomes their main activity, on the other hand, the process of separation and selection of the cutting edge market professionals takes place. It occurs on the basis of the increase of their

personal capital (the concentration of capital), and the transformation of the larger securities market structures (consolidation of capital). As a result, trading systems that serve the majority of all transactions in the market are formed. At the same time, the securities market will attract large public capital reserves.

During the internationalization of the securities market capital markets go beyond the borders, and the world securities market is formed. In relation to national markets are in II degree. Securities market begins to bear global character. Trading in such a global market is steadily increasing. The basis of this market is the securities of transnational companies.

Reliability and confidence in the securities market are directly linked to the level of organizational level and strengthening of state control by the investor. The importance of the securities market is that its collapse is the direct collapse of economic development.

The government should always maintain the confidence in the securities market that people who invest in securities will believe that they will not lose these savings within any government action or speculative factors. Therefore, all market participants are interested in the proper organization of the market and strong control over the state, which is its main contributor.

Computerization of the securities market is the result of the introduction of computers into all human activity fields in the last decade. Without computing, the existence of a modern Securities market was impossible. Computerization serves as a basis for more accurate and accurate execution of all transactions and at the same time the introduction of innovations in the market. Innovations in the securities market are:

- new tools of the existing market;
- new trading systems for securities;
- new market infrastructure;

The new instruments of the securities market include various types of securities, the creation of new securities, their types and forms. New trading systems include direct communication between the buyer and the vendor, complete and automated trading, with modern communications. The new market infrastructure includes new information systems, clearing and settlement systems.

Securitization is a tendency for cash to move from traditional forms to securities. It also tends to move from one type of securities to the mass of large investors

The development of the securities market is characterized by the combination of activities of various types of capital markets. On the one hand, the securities market attracts equity. On the other hand, through the mechanism of securities, it directs capital to other markets, thereby creating conditions for their development.

Today, one of the main problems that pushes the development of the securities market in Azerbaijan is the creation of low-level investment activity of entrepreneurship subjects. This has occurred for several reasons.

Firstly, it is primarily related to the current problems in the economy of Azerbaijan and the low investment attractiveness of the private sector. Secondly, the problem of low investment activity is widening with the deepening of non-payment. Thirdly, the existing problems in the banking system are related to the fact that real sector participants are not able to benefit from the credit resources at the proper level.

Most of the financial resources are invested in the securities market primarily in the corporate securities market. Today, most of the securities market in Azerbaijan relies on short-term government bonds. This, in turn, hinders the proper and proper allocation of financial instruments. The main characteristics of our country's stock market are:

- Small-sized and non-liquid;

- Not being "properly compiled" at macroeconomic level (uncertainty between the stock market participants and others)
- Poor development of trade technologies, regulated and informal infrastructures;
- Separation of the state regulatory system, duplication of many regulatory functions in separate governing bodies, preparation of a unified regulation concept;
- Poor stock market information system;
- Stabilization of the investment crisis;
- Elimination of speculative turnover;
- Short-term government bonds have a dominant position in the market structure and so on.

However, despite all these problems, this new market structure for our country will develop in the future with high rates.

### **3.2 Development perspectives of the securities market in the Republic of Azerbaijan**

As a result of the recent work on transition to market relations in the economy, the country's economy has seen a great deal of growth in various sectors: inflation rate decline, annual growth of gross domestic product and industrial production, stability of national currency, privatization of small and medium enterprises, increasing the flow of foreign investments, the creation of a national banking system, and so on. At the same time, short-term government bonds, state-owned privatization shares (checks), state-owned privatization options, stocks of joint-stock companies, deposit certificates and promissory notes of credit institutions were issued. The foregoing has given impetus to the formation of the organized securities market in the Republic of Azerbaijan. The most important thing in the development of the financial market in our republic was the State Program on Development of the Securities Market in the Republic



of Azerbaijan for 2011-2020, approved by the Decree of the President of the Republic of Azerbaijan dated May 16, 2011. The assignments for this program include:

- Improving the stock market's ability to trade basic and derivative financial instruments by improving the stock market's legal and organizational best practices, and the introduction of the new trading system;
- Simplify registration and registration of securities and their rights;
- Creation of a single central depository system for government and corporate securities;
- Optimization and automation of securities foreclosure procedures;
- Expansion of regional coverage of financial intermediation services and access to these types of services;
- Formation of the necessary normative-legal base regulating the activity of investment companies and promoting their activity;
- Formation and promotion of the necessary normative-legal base regulating the activity of investment funds and other collective investment schemes (real estate investment funds, etc.);
- Creating an alternative exchange trading platform for small and medium-sized enterprises, increasing their funding capabilities and promoting them;
- Creation and automation of the accurate, complete and timely disclosure of information on the securities market;
- Developing and submitting a new draft law in line with international best practice on securities market;
- The creation of an optimal issuance and registration system of Securities, the introduction of the International Securities Issuance System (ISIN codes);
- Creating a system for effective protection of investors' rights;

- harmonization of professional activity licensing procedures in the securities market with international practice;
- Organizational and functional strengthening of SCS and development of human resources;
- Strengthening the capacity of the refresher courses under the SCS, improving the training programs and ensuring their effectiveness;
- implementation of specialized training programs for professional participants of the securities market;
- Organization of local and international conferences, seminars and conferences on capabilities of Azerbaijani capital markets, etc.

The following tasks are envisaged for the implementation of these tasks:

Integration of securities, trading and depository systems with electronic payment systems and transition to the application of automated trading mechanisms, launching a repo trading platform with corporate securities, and thereby creating opportunities for new group financial instruments trading in the stock exchange;

During the period, the Baku Stock Exchange plans to put into operation a new platform for trading currency and commodity-based derivatives. The new system will offer individual and institutional investors the opportunity to conclude deals on currency trading as well as precious metals and other commodities, provided that the liquidity is provided by relevant market makers in the BSE. Formation of necessary technical and legal base for use of liquidity-backed corporate bonds and bonds of Azerbaijan Mortgage Fund as a repo subject of the Baku Stock Exchange trading platform and repo operations with corporate securities have been started.

Within 2014, the World Bank's "Capital Markets Modernization" project has been integrated into the securities market for integrated trading, accounting and control systems. As a result of the procurement process, "Korea Stock

Exchange" was declared a winner. The contract was signed with the company in January 2015. In the course of the period, a new approach to transactions on securities concluded in organized securities with securities has begun to simplify and optimize trade and post-trading architecture of the securities market. The new settlement system ensures the implementation of blocked trading practices and transaction processing on the principle of direct processing of securities during settlement and clearing operations with securities. Thus, based on the new settlement system, the primary market transactions and government securities, such as blocking securities and cash flows before trading, blocking pre-trading with securities and primary market prices on corporate securities, and securities and cash on-the-job basis.

A comprehensive Action Plan for creating a single central depository system for government and corporate securities has been prepared and discussed with stakeholders (Ministry of Finance, Central Bank, Baku Stock Exchange, National Depository Center, brokers and other partners). The plan envisages the implementation of legal and organizational measures on the organization of the central depository system on the basis of the National Depository Center. In this connection, amendments and additions to the "Depository Performance Standards" by the Resolution of the CMB dated May 11, 2012 have been incorporated into the State Register of Legal Entities of the Republic of Azerbaijan. At the same time, the central depository system of other depository banks in the country is expected to provide activity based on the principle of membership;

In accordance with international best practices, the legal basis of the Central Securities Depository's securities placement function was reflected in the draft law "On Securities Market".

In parallel, this function, implemented by the SCS at the moment, was drafted on May 29, 2012 by the Action Plan for the transfer to the National

Depository Center. The implementation of the legal and institutional measures envisaged in accordance with the said plan was commenced;

The regional coverage of securities trading platforms is expanded through the automation of securities trading, accounting and registration processes. The branch of the National Depository Center in Nakhchivan Autonomous Republic has joined the automated central depository system, trainings have been conducted to increase the professional skills and knowledge of the branch employees for the use of the remote access system. In parallel, awareness-raising activities are being undertaken in order to encourage people to use the capacities of the securities market, especially in the regions;

The legal basis of the investment companies' activity is reflected in the draft law "On Securities Market" prepared in accordance with Article 5.1 of the State Program. In 2012, a list of required normative legal acts was defined and their preparation was initiated to formulate the legal framework and to complete the regulatory framework. An international expertise was involved in the process of "Capital Markets Modernization" Project;

A regulatory legal framework has been set up to regulate the companies managing investment funds. At the same time, the Regulations of the State Committee for Securities dated 07.05.2012 No. 07 "Rules on Implementing Asset Management in Securities Market" were approved and the companies performing professional activity in the securities market, management mechanisms, as well as mechanisms for the proper implementation of international experience in these companies;

The draft law "On Securities Market" reflects investment companies 'hold-up functions, as well as investment funds' depository functions as a professional type of activity. At the same time, the list of normative-legal documents on regulating the activities of investment companies that keep securities and registry functions has been defined and their preparation has been started;

In addition to the normative documents approved for this purpose since 2011, the Decree No. 15 of the SCS dated November 23, 2012 has adopted the Rules of "Opening, Execution and Transfer of Money Accounts by the Deposit Fund of the Investment Fund" and thus , deposit funds have been established by the depository of the investment fund, as well as money accounts opened for investment funds, as well as the opening, closing and management of such money accounts, depending on whether the Republic of Azerbaijan has entered the Interbank Accounts System. In accordance with the Resolution No 18 of the SCS dated December 12, 2012, amendments were made to the Rules on the formation of capital of the investment fund, requirements for the composition, structure and management of the Fund's assets, the requirement to invest at least 25% of the investment fund's assets in the territory of the Republic of Azerbaijan exception for index funds. These changes, along with stimulating the creation of investment funds, contributed to the expansion of investment opportunities of index funds created in the Republic of Azerbaijan. Considering the amendments and supplements to the legislation on commercial secrets with the relevant Decisions of the SCS dated September 6, 2012, No. 14 and dated October 30, 2012, "Requirements for investment funds and manager's reports, as well as their presentation Making and Disclosure "has been amended. According to the amendments, the obligation to disclose information about shareholders (shareholders) in the reports applies only to stock investment funds and managers, whose securities are offered by mass offering. As of May 11, 2012, the CMB has amended and supplemented the "Depository Performance Standards" in order to ensure compliance with the new regulatory framework of the depository and registry functions, as well as the amendments to the CMB's judgment of 11 May 2012 07 "Rules of keeping the register of securities holders" have been approved and included into the State Register of Legal Acts of the Republic of Azerbaijan.

Advanced international experience on alternative exchange trading systems, which provides access to long-term financial resources on favorable terms for small and medium-size enterprises, has been studied, and the development of a new Trade Platform Technical Instruction has been started. In parallel, within the framework of the Listing Advisory Program, implemented by the Baku Stock Exchange, informative measures are being planned on the stock market opportunities for small and medium entrepreneurs;

A draft concept of "Automated Disclosure of Information System" was developed, which envisages the automation of the data disclosure system. The "Rules of Securities Trading with Securities Name", which determines the type, content and timeliness of information required for disclosure of securities transactions, have been approved and entered into force on August 26, 2011. The automated disclosure module of the Baku Stock Exchange website has been put into operation. In general, a special component has been envisaged in the Capital Markets Modernization Project, which is being implemented with the support of the World Bank to create a single platform for disclosure of information on the securities market, which has just started to be applied in international practice;

A draft law "On Securities Market", which meets modern, international standards, provides extensive capitalization opportunities for the economy and ensures a reliable management of risks. The draft law was widely used in technical assistance, with discussions and consultations with experts from the World Bank, as well as experts from state-owned securities market regulators in the European Union. On this basis, the IOSCO Principles of the International Standards of Securities Market Regulators, as well as the relevant EU standards, have been reflected in the draft law, taking into account national characteristics. Legal, linguistic, financial and other necessary expertise of the draft law will be made.

To prepare companies for access to the capital markets by the Baku Stock Exchange "Listing Advisory Program" developed and started to implement.

Within the framework of the program, the Baku Stock Exchange identified a list of potential companies that could tradeable securities, regularly held meetings with them, explaining the advantages of using the stock market as an alternative source of funding. For this purpose, on October 5, 2012 an international conference on "Formation of capital markets - trends, challenges, opportunities" was held. At the same time, the analysis of key problems that hinder the trading of companies at the stock market and the preparation of proposals on it have also been started;

Also, new financial instruments will be introduced in the market, including derivative markets (futures and options), professional cadres in the securities market, and the development of the relevant direction in higher education institutions to create a scientific and practical base for the securities market, exchange and exchange of electronic information and other modern technologies will be ensured. The main goal is to ensure the formation of a stock market that can successfully invest in the economy and redistribute the economy, encourage investment activity, and strengthen the country's position in the global investment market. To achieve this goal, the following activities will be undertaken:

- expansion of the state securities market;
- improving the mechanism of attracting new funds to the corporate securities market, providing favourable conditions for securities management, stimulating the work of professional participants in the securities market;
- improvement of legislative and judicial protection of investors' rights;
- improvement of stock market financial instruments to reduce long-term investment risks, attract new investors;
- elimination of existing barriers to promote corporate paper offer;
- Further development of trading systems in the stock market;

- accelerate the stock market infrastructure, which ensures the flow of capital and the reduction of investment sources;
- improvement of stock market regulation mechanisms.

Azerbaijan's participation in the world capital market requires the development of legal and economic mechanisms regulating the relations of our republic with major capital exporters. The main burden here is the Azerbaijani state. Thus, the state should use all the available opportunities to attract foreign investment to the economy of the republic, as well as take complex and systematic measures to improve the investment climate in the country.

First, a complete economic system should be formed in Azerbaijan to achieve a strong foreign investment flow, including an advanced financial market. Taking into consideration the experience of the countries taking the lead in the world economy, it is possible to say that Azerbaijan's foreign economic activity and its effective relationship with the foreign investor should be based on the following general principles: (P. T. Hasanov "The conceptual bases of the market-based model of socio-economic development of the Republic of Azerbaijan" - 1998).

- national economy should be open system;
- Mechanism of regulation of economic activity in the country must comply with international law and world practice;
- The structure of the economy and foreign trade relations should be shaped in accordance with the country's economic potential;
- favourable conditions should be created for the application of progressive forms of foreign economic relations;
- foreign economic relations, political, psycho-ethnic and other. conditioned by factors of economic efficiency and necessity rather than factors;
- be in the economic organizations meeting the national interests of the country and must actively participate in their work;



- foreign economic relations should always consider their strategic goals and achievements in scientific and technical progress, and promote the use of resources;

- the country's economic security should be ensured.

To accelerate the integration of the financial market into the international system, foreign investments should be encouraged in the country. Nevertheless, our state has many advantages to attracting foreign companies to the country, as follows:

1) In addition to having a favourable geographical position, Azerbaijan has an advanced international transport network (air, water, railway, motor roads, oil and gas pipelines), which facilitates intensive contacts with foreign countries;

2) Azerbaijan has strong natural-economic potential (rich mineral resources, productive land, favourable natural and climatic conditions, plentiful and cheap labour force, etc.);

3) There are several industrial enterprises, production facilities and infrastructure facilities in Azerbaijan with a modern technical and economic base;

4) There are strong scientific potentials and qualified personnel reserves in Azerbaijan;

5) Realization of economic reforms (privatization and decentralization of property, liberalization of prices, liberalization of foreign economic relations, creation of market infrastructure) in the country related to transition to market relations;

6) undertaking organizational and managerial work on attraction and protection of foreign investments in the country, liberalization and development of foreign economic relations, and adoption of certain other legal and regulatory acts and their implementation;

7) Establishment of enterprises dealing with economic activity jointly with foreign business circles in the country;

8) The Republic of Azerbaijan has already signed agreements on interstate economic relations with many countries, joining several international treaties and agreements, accession to several international and regional economic associations and organizations, etc.

However, the analysis also indicates that, despite some positive changes in the system of relations established recently with foreign investors, the current advantages and capabilities are not fully and effectively used.

We noted that one of the most important factors influencing the creation of a favorable investment climate in our country is the introduction of a system of preferential tax and customs payments. As you know, customs-tariff policy is one of the instruments of economic policy implementation and the application of these privileges in the future would have a positive effect. However, it would be more expedient to use a flexible, multidimensional, but well-defined tariff system based on the structure of the market, the current state of the economy, the supply and the offer, taking into account the obligations of foreign trade regimes and international organizations.

Foreign investors with more than 30% share in leading economies are exempt from taxes within 5 years, paying 50% discount on the next 5 years. Organizational measures taken to increase the interest of foreign investors in the economy of Azerbaijan are of great importance.

Thus, the prospective development of the securities market in Azerbaijan depends on the work of many government agencies, the legislative base, the activity of individuals and other factors. The most important organizational work has been done in the market, the market infrastructure has been created from scratch, and a normative-legal basis has been created that is in line with international standards and highly appreciated by international financial institutions experts. The main purpose of the SCS is to minimize the risks in the securities market along with the transparency of the market processes. Specific attention was paid to the actions aimed at protecting the rights of investors, the

disclosure of information in the securities market, the prevention of price manipulation, and the prevention of transformation of the country's stock market into speculative bargains in the normative-legal basis created for this purpose.

## **Conclusions and suggestions**

By summarizing analyzes related to the securities market, it can be concluded that the securities market is to act as a component of the financial market, to organize the movement of financial resources, to ensure their proper orientation, to act as the main tool of the state's financial and monetary policy, plays an important role in development. In particular, the development of this market is very important for countries with a market economy.

At present, more than half of the world's goods and services are produced by large corporations (stock companies). Most of these corporations are established in the form of stock societies, both open and closed. Joint-stock companies carry out their activities based on the equity capital formed from the sale of shares. This means that the stock market - the securities market should exist for the realization of the shares. In the market, the founders form the charter capital and start operating with the proceeds from the sale of shares in this market. As a result, these enterprises are involved in meeting public needs by producing or servicing products. Both founders, the public and the state benefit from it.

The expansion and development of the securities market leads to the creation of a favorable investment climate in the country and to a more rapid realization of the above.

On the other hand, the securities market plays an important role in ensuring the continuity of production and other economic relations by solving the problems of debt and repayment. In this area, the main instruments are transactions with promissory notes and bills, which are already part of the securities market, as we already mentioned. If there is a need for financial resources to meet certain needs of a particular economic entity, the securities market provides opportunities for such entity to continuously fulfill its obligations by paying the bill or issuing its bonds, and ensuring the continuity of the entity's activities.

The existence of this market is of particular importance to the state. This is mainly related to the public debt. When budget funds and other means are insufficient during the performance of its functions, the state pays its turn to its turnover with the release of various securities (treasury bills, short-term bonds, etc.).

In addition, it is important to note the situation of the production-economic background in any country by studying the situation in the securities market. For example, it is possible to estimate the profitability of stock companies operating in the country, and hence the economic situation in the country, by studying the volume of shares and transactions with them in the stock market, the market price and demand for them.

As a result, we also saw that, as a country of market economy, the formation of this market in Azerbaijan was one of the most important events. Because of the extensive public property privatization process, entrepreneurship development, establishment of stock societies, the development of debt relations and other economic processes, the existence of the securities market was crucial. In particular, the issue of privatization checks and options played an important role in the privatization of public property related to the transition to a market economy. As a result of measures undertaken by the state in various periods of our independence, our securities market has already been formed. Various laws and other legal acts have been adopted, such as the SCS, the National Depository Center, the Baku Stock Exchange, the SCS Territorial Administration for the Nakhchivan Autonomous Republic, the Association of Participants of the Azerbaijan Stock Market Public Association, the FIMSA, and many projects have been implemented. Nevertheless, some deficiencies still remain in the stock market of our republic.

In my opinion, the following measures may help the development of the securities market in our country and elimination of existing shortcomings:

1. The development of the securities market is closely linked to the development of various sectors of the economy and the development of the stock market in the international arena. In this regard, the measures taken should be aimed at integrating the stock market of the republic into the international financial markets system.

2. It would be more appropriate for the stock market to be regulated by both the state and the more professional market participants.

3. Information provision should be brought to a high level - the securities market should provide full information about the risk and potential return on investment.

4. Implementing the preparation of tax incentives that are necessary to improve taxation, to be applied in world practice and to create an enabling environment for investment growth.

5. Establishment of various divisions in the regions such as the National Depository Center, organization of stock exchanges in the republic's large investment and banking systems. Stimulation of creation of investment funds.

6. Expansion of the Central Bank's monetary and credit policies as well as promissory notes that play an important role in the financing of commercial banks as a means of payment and cashless settlement. First of all, the enlightenment work should be strengthened.

7. Attraction of foreign capitals to our republic, development of oil and non-oil sector, issuance of eurobonds for financing large-scale projects of state importance, as well as provision of state and non-state securities to the world's most developed stock markets.

8. Wider use of foreign experience in corporate governance.

9. Issuance of government securities for different segments and different investor classes, expanding the Central Bank's operations with government securities in the open market

10. Reforms in the pension system, taking measures to attract the attention of institutional investors and so on.

Implementation of these measures will allow us to develop even more advanced and affordable securities market in our country and accelerate the rate of growth of the economy. Thus, the stock market formed in our country can become the largest and most developed stock market in the region. Because of this, there are various spheres in the republic, which create conditions for perspective and highly profitable investments such as extensive economic potential and extraction and processing of non-oil natural resources, tourism, agriculture and agrarian industry.

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