

## REPUBLIC OF ARMENIA LAW

### Payment and Settlement Systems and Payment and Settlement Organizations\*

This Law aims at regulating and developing the payment and settlement systems, ensuring stability of the financial and banking system, and administering the activities of payment and settlement organizations in the Republic of Armenia.

#### Chapter 1. General provisions

##### Article 1. Scope of regulation

This Law shall regulate and administer: a) activities of payment and settlement systems and payment and settlement organizations (hereinafter referred to as PSS/PSO), b) licensing of PSS/PSO, and c) procedure and terms of oversight of PSS/PSO. This Law determines: a) infringement of laws and other normative regulations by PSS/PSO, b) making PSS/PSO accountable, and c) rules for settlement finality.

This Law shall not apply to PSS dealing with settlements of transactions by securities at stock exchange (including determination and offset of mutual liabilities (claims) arisen out of transactions at stock exchange).

##### Article 2. Legal framework for PSS/PSO

1. Activities of PSS/PSO shall be governed by the Republic of Armenia Civil Code, this Law, the Republic of Armenia Law on Central Bank, other laws and international agreements of the Republic of Armenia, and by normative regulations and other normative regulations of Central Bank of the Republic of Armenia (CBA), in cases and according to terms established under law.

2. Procedure of insolvency and bankruptcy of PSO shall be governed by the Republic of Armenia Law on Insolvency/Bankruptcy, except for cases provided for herewith.

3. Grounds and procedure of restructuring and liquidation of PSO shall be governed by this Law, the Republic of Armenia Civil Code and relevant laws and normative regulations governing activities of any given PSO.

##### Article 3. Basic definitions

For the meaning of this Law and other normative regulations adopted pursuant to this Law,

a) *payment and settlement system (PSS)* is entirety (generality) of payment instruments, of common rules, procedures and supportive technical and program facilities for implementation of clearing, transfer of funds and execution of final settlement, which is used to provide a payment to a beneficiary.

Rules for PSS operation are considered a component of regulation of PSS activities, which are subject to approval by a management body of PSS operator;

b) *payment and settlement organizations (PSO)* are parties established by Article 19(2) hereunder;

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\* AL-150, adopted on 24.11.2004; effective from 28.06.2005 (RAOB 2004/72(371), 28.12.2004).

Changes and supplements under RA Law on 'Payment and Settlement System and Payment and Settlement Organizations' (AL-179-S, RAOB 2005/66(438), 19.10.2005; AL-10-S, RAOB 2006/3(458), 18.01.2006) have been considered.

c) **payment document** is any paper or electronic communication, prepared and confirmed (verified) according to laws of the Republic of Armenia, normative regulations of CBA and banking rules pursuant to such normative regulations, that contains an instruction to a PSS participant on crediting, debiting or transferring funds;

d) **payment and settlement system operator** is a PSS participant which is responsible for PSS operation and which is authorized by other system participants to implement clearing and/or final settlement;

e) **payment instrument** is a message, document or arrangement submitted in a paper, electronic, voice format (or in whatever layout) which, irrespective of form and manner of use, application or execution, enables its holder and/or user to make payments;

f) **clearing** is a process that involves collection, reconciliation, grouping, exchange of payment and settlement documents, and calculation of positions of PSS participants, or part thereof, for final settlement;

g) **final settlement** is an action whereby monetary liabilities between two or more PSS participants, arisen in respect of transfer of funds, are being reimbursed;

h) **netting** is an offset of monetary claims or liabilities arisen out of payment and settlement documents submitted to each other by two or more PSS participants;

i) **resident and non-resident** are definitions stipulated by the Republic of Armenia Law on Currency Regulation and Control;

j) **processing** is a process that involves collection and maintenance of payment and settlement documents, including elaboration, transmission and, where appropriate, identification of participants, check of validity of a payment and settlement document (payment instrument), authentication of funds transfer, or part thereof;

k) **payment card** is an instrument of payment by means of debit card, credit card, electronic purse or any other card accepted in international practice, which is used to receive cash money or make a non-cash payment, and to perform other operations as established by an issuer of payment card;

l) **event of non-return** occurs when a payment and settlement document credited to PSS cannot be called back or altered, according to PSS operations rules;

m) **transfer of funds** is movement (transfer) of cash monetary assets or of ownership over non-cash funds, from a PSS participant to another, for payment;

n) **payment** is execution of monetary obligations by means of transfer of funds or delivery of a payment and settlement document that instructs a payment of monetary obligations or monetary assets;

o) **service of payment instrument** is provision of the payment instrument issuer's services, or part thereof, by that issuer or a third party who is authorized by the issuer or according to PSS operations rules;

p) **termination of payment and settlement activities** occurs when a PSS participant is disallowed rendering payment and settlement services under laws of the Republic of Armenia, and/or if so decided by an authorized body (revocation of license to a party rendering payment and settlement services, suspension of validity of such a license, suspension of activity of such a party in PSS, and any similar decision precluding PSS participant's service

in the payment and settlement area). For the meaning of this Law, for PSO engaged in other activities as well, termination of payment and settlement activities also occurs when the organization liquidates, or goes bankrupt or insolvent, as established by laws and other normative regulations, or when the authorized body makes any similar decision providing that the organization will not or cannot continue its normal business;

q) *temporary administrator* involves temporary administration, liquidator or receiver, liquidation committee or another party vested with such authorities, appointed as established by laws of the Republic of Armenia and other normative regulations, when an event of termination of payment and settlement activities of PSS participant occurs;

r) *intrabank PSS* is a payment and settlement system that involves only head-office and branch offices of any given bank or party rendering payment and settlement services;

s) *Armenian PSS* is the payment and settlement system that ensures execution of payments inside and outside the Republic of Armenia, the operator of which is a resident of the Republic of Armenia;

t) *overseas PSS* is a foreign or international payment and settlement system that ensures execution of payments outside the Republic of Armenia, the operator of which is not a resident of the Republic of Armenia;

u) *electronic money* is pecuniary value expressing a monetary claim against an issuer, which is:

- maintained in the electronic device;
- issued against monetary funds received, with a value not less than that of the electronic money issued; and
- accepted as a means of payment by parties other than the issuer.

## **Chapter 2. Payment and settlement systems**

### **Article 4. Payment and settlement system participants**

1. Armenian PSS participants may include CBA, banks, and overseas banks' branch offices, functioning in the Republic of Armenia (hereinafter referred to as banks), PSO, other parties authorized to render payment and settlement services under laws of the Republic of Armenia or international agreements, and Armenian non-resident organizations which are entitled to render payment and settlement services as established herewith, and/or similar services, in their home country.

2. Parties not specified in this Article shall not be allowed to create Armenian PSS or be participant thereto.

### **Article 5. CBA permission for creation and operation of Armenian PSS and for participation in overseas PSS; nullifying permission**

1. Armenian PSS shall be created and operate by a CBA Board permission that is issued as established herewith and by normative regulations of CBA. For creation of an intrabank PSS, a CBA permission is not required.

2. Banks and other organizations that are duly licensed to render payment and settlement services may participate in overseas PSS (hereinafter referred to as 'overseas PSS participants') by a CBA Board permission that is issued as established herewith and by normative regulations of CBA.

3. CBA Board may decide on the following criteria:

- a) number of PSS participants;
- b) value of an individual payment via the system;
- c) value of total payments;
- d) participants' capital to value of payments ratio; and
- e) item-list of PSS (in consideration of action and/or measures towards minimizing the risks pertinent to the systems).

Where these criteria are met, a permission established in paragraphs 1 and 2 herewith shall be issued as required by Article 7(4) or Article 8(5) hereunder.

4. CBA may change coverage of the criteria. CBA decisions that impose stricter criteria shall enter into force six months after the adoption of such criteria, unless CBA Board decides on another timing.

5. CBA Board may nullify its permission for creation and operation of Armenian PSS and for participation in overseas PSS, if Armenian PSS operator and/or participants, overseas PSS participant:

- a) have infringed the requirements of this Law and normative regulations of CBA; and
- b) in the event as established by Article 8(4) hereunder.

6. In case of noncompliance with the measures due to changes in criteria established under paragraph 3 herewith or PSS operations, the Armenian PSS operator [and a participant, if there is participation in an overseas PSS] shall duly apply to CBA for a new permission, within a weekly period upon entry of such changes into effect.

7. CBA Board may establish technical, security, software requirements as well as templates for system operations rules for PSS systems.

8. CBA shall run a register for permissions issued. CBA Board will determine the form and the way of running the register, and the nature of information and the list of general information contained therein.

#### **Article 6. Requirements to payment and settlement system**

1. For permission, as established under Article 5(1) hereinabove, PSS should:

- a) retain a PSS operator, with an executive management to meet qualification criteria set by CBA normative regulations;
- b) have an operations contract, as established under Article 7(1)b hereunder, duly signed between PSS participants; and
- c) meet technical, security, software, participation requirements and those of presentable to system operations rules.

#### **Article 7. Permission for creation and operation of payment and settlement system**

1. For permission for creation and operation of the Armenian PSS, the PSS operator shall submit the following documents to CBA:

- a) a letter of application to permit creation of PSS, or an executive management's decision on admittance to the system, for each PSS participant;
- b) a copy of operations contract(s) signed between PSS participants containing the system operator, system participant competences, obligations and responsibilities, and other provisions, as the participants will find appropriate;
- c) a CBA Board-defined reference containing information on the system participants, distribution of liabilities among participants, organization, management and activities of the system;

- d) principles for PSS operation, as approved by the executive management of the PSS operator, or other principles, unless otherwise approved under the contract for activity, provided for herewith. The principles shall contain system operations rules, envisaged functions and procedures, terms and conditions for organization and management, and terms and conditions for formation of a supervisory board, if any. Provisions of principles mentioned herewith shall be mandatory for all participants of the system;
- e) a CBA Board-defined economic plan for the system operation containing economic rationale for creation of the system, financial sources, income and expense estimate for the first three years, evaluation of potential risks pertinent to the settlements area and measures designed to prevent such risks; and
- f) a CBA Board-defined reference on managers of the PSS operator.

2. CBA shall issue permission, or refuse permission, for PSS operation within a two-month period upon receipt of all the documents listed in paragraph 1 herewith. Where permission is not refused by CBA within a two-month period, such permission will be deemed as issued.

3. CBA shall refuse a letter of application to permit creation of PSS, if:

- a) inaccurate or false data have been presented in documents; for the meaning of this Law, inaccurate or false are the data or documents which CBA Board has used to make a decision, which it would have not, had such documents or information been correct and/or accurate;
- b) documents have been submitted incompletely;
- c) technical, security, software, participation requirements or templates for system operations rules are not maintained in PSS operations principles;
- d) operation of such a system might be of detriment to the stability and/or liquidity and/or solvency of the financial system of the Republic of Armenia; and
- e) creation of PSS would result in worsening of financial condition of a participant bank and/or banks, as established by CBA Board-defined criteria.

4. For permission provided for in Article 5(3) hereinabove, the PSS operator shall submit to CBA: i) a reference on measures of criteria determined by CBA Board; ii) a letter of application for creation of PSS; and iii) the document mentioned in paragraph 1(c) herewith. Permission to be issued five days upon receipt of the documents to CBA shall be deemed as given, unless CBA notifies the PSS operator of noncompliance with the criteria as provided for in Article 5(3) hereinabove, or of incomplete information, within that period of time.

5. The PSS operator shall present the decision on change of the PSS operator or changes in operational policies to CBA, for consent.

CBA shall, in a two-month period upon receipt of application, give its consent, provided that such a consent will not run into conflict with the requirements of this Law, other laws, and regulations adopted pursuant to these laws, or that the given change will not be of detriment to the stability or security of PSS. The changes provided for herewith shall take effect upon issue of CBA's consent.

Where CBA does not refuse consent in a two-month period, the consent shall be deemed as issued.

6. The PSS operator shall notify CBA of change in composition of PSS participants within a five-day period upon making such changes.

7. CBA Board will determine the technical conditions and form of the changes, mentioned in paragraphs 5 and 6 above, reportable to CBA.

8. Permission for creation of the Armenian PSS is not limited in time.

**Article 8. Permission for creation and operation of overseas payment and settlement system**

1. For permission for participation in overseas PSS, banks, other organizations, duly licensed to render payment and settlement services (hereinafter referred to as ‘applicants’) shall submit to CBA:

- a) a letter of application for permission;
- b) economic rationale for participation;
- c) general description of an overseas PSS operation (operational purpose, geography, participants, payment instruments used, types of operations, rules of implementation of final settlements); and
- d) a reference containing an applicant’s liabilities, competences and evaluation of potential risks.

2. CBA shall, within a two-month period upon receipt of all the documents mentioned in paragraph 1 herewith, issue permission, or refuse permission, for an applicant to participate in an overseas PSS. Where permission is not refused by CBA within a two-month period, such permission will be deemed as issued.

3. CBA shall refuse a letter of application, if:

- a) inaccurate or false data have been presented;
- b) documents have been submitted incompletely;
- c) participation in such an overseas system might be of detriment to the stability and/or liquidity and/or solvency of the financial system of the Republic of Armenia.

4. In case of certain changes in an overseas PSS operations rules, participant in such an overseas PSS shall notify CBA of this in at least three-month period. CBA Board will determine the list of changes provided for herewith. CBA shall have the right to nullify permission for participation in an overseas PSS within a month upon such notification, if the change in the operations rules gives rise to grounds laid down in paragraph 3(c) herewith.

5. For permission to participate in an overseas PSS, provided for in Article 5(3) hereinabove, an applicant shall submit to CBA: i) a reference on criteria determined by CBA Board; ii) a letter of application for participation in an overseas PSS; and iii) the document mentioned in paragraph 1(d) herewith. Permission to be issued five days upon receipt of the documents to CBA shall be deemed as given, unless CBA notifies the applicant of noncompliance with the criteria as provided for in Article 5(3) hereinabove, or of incomplete information, within that period of time.

**Chapter 3. Non-return, maintenance of payment and settlement documents;  
Non-return of netting; Final settlement**

**Article 9. Non-return of payment documents**

1. Where a payment and settlement document has entered a PSS and qualified as non-returnable until termination of payment and settlement activities of a PSS participant, obligations established in the document shall remain in effect and are subject to unconditional execution by temporary administrator, according to PSS rules.

2. Where a payment and settlement document has entered a PSS and qualified as non-returnable after termination of payment and settlement activities of a PSS participant but upon the event of termination of PSS activities, obligations established in the document shall remain in effect and are subject to unconditional execution by temporary administrator,

according to PSS rules, provided that the system operator demonstrates that he/she has not known or could not have known about such termination of PSS activities.

3. An authorized body's decision on termination of PSS activities of PSS participant shall have no effect of recourse over those rights or liabilities of participant that are connected with execution of settlements and have arisen before the termination of PSS activities.

4. The event of payment and settlement document's entry to PSS and non-return of such a document shall be determined pursuant to PSS operations rules established in agreement with CBA. Where such rules lack, normative regulations of CBA will serve a source of adherence.

#### **Article 10. Non-return of netting**

1. Where a system executes netting pursuant to PSS rules, the resultant netting may charge the PSS participant with only one net liability to make a payment or only one claim to receive a payment in relation to another PSS participant (participants).

2. Where a system executes netting pursuant to PSS rules, and the payment and settlement document has entered the PSS and qualified as non-returnable until the termination of PSS activity of the PSS participant, the netting of such payment and settlement documents shall not be rendered void and re-settled.

3. Rules laid down in Article 9 hereinabove shall apply to the systems executing netting-based settlements.

#### **Article 11. Use of financial assets by CBA and firms executing clearing and final settlement**

1. Upon inception of the termination of PSS activity of the PSS participant, the latter's funds (money, securities) deposited to ensure performance of obligations in respect of payment and settlement documents at CBA, firms executing clearing or final settlement can be owned, disposed and used by CBA, firms executing clearing and final settlement, without any limitation (attachment), in order to execute final settlement of payments qualified as non-returnable according to Articles 9 and 10 hereinabove, to the extent required to execute such final settlement.

2. Provisions of this Article and Articles 9 and 10 hereinabove shall apply to PSS participants functioning on a CBA permission and to PSS participants in which CBA acts as a system operator and/or a settlement bank, pursuant to Article 7(1) and Article 8(1) herewith.

#### **Article 12. Maintenance of payment and settlement documents**

1. PSS participants shall maintain payment and settlement documents and data pertaining to payment and settlement services (including data on electronic carriers) and put them away as archives according to procedure and timeframe provided for by laws and other normative regulations of the Republic of Armenia, but not less than for a five-year period upon creation of such documents and/or data.

2. PSS participants shall maintain contracts, agreements, other similar documents and information on bank accounts, other payment and settlement services, and changes or supplements thereto according to procedure and timeframe provided for by laws and other normative regulations of the Republic of Armenia, but not less than for a five-year period upon termination of validity of such contracts, agreements and other similar documents.

3. PSS participant shall maintain the duplicates of the documents that are being taken from it.

4. Maintenance of the documents and information mentioned in paragraphs 1 and 2 herewith is responsibility of the head of organization.

#### **Chapter 4. Oversight of payment and settlement activities**

##### **Article 13. Oversight of payment and settlement activities**

1. CBA shall carry out oversight of PSS and activities of PSS participants in the territory of the Republic of Armenia.

2. CBA may demand information from the Armenian PSS operator and other participants, as well as overseas PSS participants relating to rendering payment and settlement services, even if such information constitutes a banking, commercial or another secrecy.

3. CBA shall carry out oversight of PSS and the parties provided for in paragraph 2 herewith through statements reported to CBA and on-site inspections.

4. Forms and terms and conditions of reporting to CBA by the parties provided for in paragraph 2 herewith shall be determined by normative regulations of CBA.

5. CBA shall conduct on-site inspection of the parties provided for in paragraph 2 herewith as required by the Republic of Armenia Law on Central Bank and normative regulations of CBA.

6. Central Treasury of the Republic of Armenia and CBA shall exchange information on payment and settlement services through a procedure established jointly by a Government-authorized body and CBA.

7. *[Rendered void by the Republic of Armenia Law on changes and supplements to the Republic of Armenia Law on PSS/PSO, 4.10.2005 (AL-180-S)].*

8. Provisions on CBA's authority of oversight of activities of PSS participants, as established herewith, shall not apply to Central Treasury of the Republic of Armenia.

##### **Article 14. PSS supervisory board oversight of activities of PSS participants**

To carry out oversight of activities of PSS participants, such participants may create a supervisory board consisted of representatives of the PSS operator and all PSS participants. Terms and conditions for creation and activities of the supervisory board shall be defined pursuant to the principles of PSS operations.

##### **Article 15. Liability for infringement of legislation by PSS participants**

1. For infringement of requirements of this Law and CBA normative regulations adopted pursuant to this Law, CBA may give a warning to the PSS operator and other participants, and charge these parties with an assignment to remedy infringement or adhere to the requirements of this Law and CBA normative regulations adopted pursuant to this Law. CBA assignment may stipulate a timeframe and definite measures, which shall be mandatory for any participant having received the warning.

2. Where PSS participant fails to fulfill or fails timely fulfillment of CBA assignment, as established by paragraph 1 herewith, CBA may disallow activity of the PSS participant (except for the operator) in the Armenian PSS; while in case of overseas PSS, CBA may nullify its permission for participation in such overseas PSS.

3. Repeated committing of the same infringement by the PSS participant within one financial year may provoke CBA to claim changing the Armenian PSS operator; where such a claim is not satisfied, CBA may terminate or nullify its permission for creation and activities of the Armenian PSS.

4. Triple committing of the same infringement by the PSS participant within one financial year may provoke CBA to penalize the PSS participant and/or operator at the rate of one thousand-fold of the minimum salary.

Quadruple and more committing of the same infringement by the PSS participant within one financial year may provoke CBA to penalize the PSS participant and/or operator at the rate of two thousand-fold of the minimum salary.

Amounts of penalty provided for herewith shall be charged to the benefit of the Republic of Armenia State Budget revenues.

5. The PSS participant and operator shall, in addition to liability as established herewith, carry responsibility under laws of the Republic of Armenia.

#### **Article 16. Release of information**

1. The Armenian PSS operator shall release information on PSS activities, as per form and frequency established by CBA Board.

2. Provisions established herewith shall not apply to Central Treasury of the Republic of Armenia.

### **Chapter 5. Payment and settlement services and organizations rendering such services**

#### **Article 17. Payment and settlement services**

1. For the meaning of this Law and other normative regulations of the Republic of Armenia, payment and settlement services involve:

- a) opening and running bank accounts;
- b) receiving/making payments in Armenian Dram and/or foreign currency from/to individuals and legal entities, using bank accounts;
- c) receiving/making payments in Armenian Dram and/or foreign currency from/to individuals and legal entities, without using bank accounts;
- d) issuing payment cards, checks, electronic monies and other payment instruments determined by CBA Board;
- e) servicing and marketing payment cards, checks, electronic monies and other payment instruments determined by CBA Board;
- f) processing;
- g) clearing;
- h) performing cash operations for the third parties; and
- i) other operations, as accepted in international practice, pertinent to parties rendering payment and settlement services in agreement with CBA.

2. CBA may establish normative regulations containing rules for rendering payment and settlement services and/or rules for circulation of payment instruments and/or forms for executing settlements.

3. The rules and forms for executing settlements, as mentioned in paragraph 2 herewith, shall be the same for parties holding the same type of license that render payment and settlement services.

#### **Article 18. Parties rendering payment and settlement services**

1. Parties entitled to render payment and settlement services in the Republic of Armenia are:
  - a) CBA, in compliance with the Republic of Armenia Law on Central Bank;
  - b) banks, in compliance with the Republic of Armenia banking laws and CBA normative regulations;
  - c) payment and settlement organizations, in compliance with this Law and CBA normative regulations;
  - d) Central Treasury of the Republic of Armenia, as required by the Republic of Armenia laws on the treasury system;
  - e) *[Rendered void by the Republic of Armenia Law on changes and supplements to the Republic of Armenia Law on PSS/PSO, 4.10.2005 (AL-180-S)]*;
  - f) other parties that are entitled to render payment and settlement services under laws of the Republic of Armenia and international agreements.

2. Parties not provided for in paragraph 1 herewith also may render servicing of checks, payment cards, electronic monies, and other payment instruments defined by CBA Board, (except for receiving/making payment in favor of the third parties, and/or marketing/distribution services), based on authority granted by the issuer of payment instruments or in pursuance of the PSS rules, as and when they duly notify CBA. Failure to notify CBA shall result in a responsibility under laws of the Republic of Armenia.

Parties mentioned above shall supply CBA, upon its request, with any information in connection with servicing and/or marketing/distribution of payment instruments, even if such information contains commercial or other secrecy.

#### **Article 19. Payment and settlement organizations**

1. A payment and settlement organization (PSO) is a legal entity having received a license as required by this Law and CBA normative regulations to render payment and settlement services. Types of licenses for payment and settlement services are:

- a) for implementation of money remittances; and
- b) for implementation of processing and clearing of payment instruments and payment and settlement documents.

2. For the meaning of this Law and other laws of the Republic of Armenia and normative regulations governing activities of PSO, types of payment and settlement organizations are:

- a) organizations implementing money remittances, whereby they receive payments and make payments without opening bank accounts, as well as render other payment and settlement services, as permitted by CBA Board, that are connected with any given type of payment and settlement service; and
- b) organizations implementing processing and clearing of payment instruments and payment and settlement documents for the third parties, as well as rendering other payment and settlement services, as permitted by CBA Board, that are connected with any given type of payment and settlement service.

3. PSO shall not carry out commercial, production and other types of activities, except for the cases envisaged by law and paragraph 5 herewith.

4. Rendering of payment and settlement services without a CBA license is disallowed, except for the cases stipulated by this Law.

5. PSO, as established by paragraph 2(a) herewith, may engage in foreign exchange dealer trading and foreign currency buy and sale transactions and deliver postal services, if these are appropriately licensed under laws and other normative regulations.

PSO, as established by paragraph 2(b) herewith, may engage in a business of creating, utilizing and servicing hardware and software systems, equipment and programs in relation to processing and clearing.

6. A word combination 'payment and settlement' can be only used by an entity that has received a license for payment and settlement activities. Parties not licensed to implement such activities are disallowed to use the word combination or derivatives thereof in advertisement, public offerings, and to enter into promotional activity.

7. PSO shall render payment and settlement services in conformity with the principles of operations approved by their top management.

8. In case of introducing supplements or changes to the said principles of operations, PSO shall submit a respective decision on such supplements or changes to CBA to seek consent. Within 15 business days upon receiving the decision, CBA shall issue consent or refuse to issue consent. CBA shall refuse issuing consent if it believes that the supplements or changes contain risks and/or run into conflict with this Law or other laws or other normative regulations adopted pursuant these laws. Where CBA fails to notify its consent or refusal within the timeframe specified, it shall be construed as issue of consent.

Changes provided for herewith shall take effect upon consent issued by CBA. CBA Board will determine technical conditions and form of reporting of supplements or changes to the principles of operations to CBA.

## **Article 20. Licensing payment and settlement organizations**

1. PSO shall be licensed as required by this Law and through procedure determined by normative regulations of CBA.

For licensing, founders of PSO shall submit to CBA:

- a) an application for receiving a license;
- b) PSO's by-laws, as approved under law, in three copies;
- c) an authorized body's decision of PSO on appointment of PSO managers;
- d) a reference on PSO participants and managers, as per format defined by CBA Board, including participant's and manager's name, address, citizenship, and passport details;
- e) PSO's principles of operations, duly approved by its top management, which contain types of and terms and conditions for payment and settlement services;
- f) in case of PSO engaged in processing and clearing of payment instruments and payment and settlement documents – a document that verifies the minimum statutory capital paid-up with one of banks operating in the Republic of Armenia;
- g) in case of PSO engaged in money remittances – a copy of contract on deposited monetary assets or securities with one of banks operating in the Republic of Armenia; or an irrevocable bank guarantee; and
- h) a document that verifies the paid state duty.

2. CBA shall initiate licensing, or refuse licensing, within a two-month period upon receipt of the documents and information, as established in paragraph 1 herewith.

PSO shall be licensed, if the following requirements have been satisfied:

- a) in case of PSO engaged in processing and clearing of payment instruments and payment and settlement documents – the minimum statutory capital has been fully paid-up; and in case of PSO engaged in money remittances – required monetary

- assets or securities have been deposited, or an irrevocable bank guarantee has been presented;
- b) place of business of PSO complies with the CBA criteria on technical adequacy, program and security requirements, and where PSO would be able to meet conditions, requirements and timeframe for implementation of payment and settlement services;
  - c) PSO managers meet the CBA criteria on qualification and professional integrity; and
  - d) grounds established by paragraph 5 herewith are missing.
3. Within a three-day period upon making a decision on licensing, CBA shall issue a license to PSO.
4. Upon entry of a decision on licensing into force, PSO shall be deemed as licensed.
5. CBA shall refuse licensing to PSO, if:
- a) inaccurate or false data have been presented;
  - b) documents have been submitted incompletely; are imperfect or run into conflict with laws of the Republic of Armenia and other normative regulations;
  - c) requirements provided for in paragraph 2 herewith have not been met; and
  - d) licensing that given PSO would contain risks, according to CBA-defined criteria.
6. Where CBA fails to refuse an application within a two-month period, PSO shall be deemed as licensed, provided that it ensures that the state duty had been paid.
7. A license to PSO is not limited in time.  
The PSO license shall not be commissioned to other parties for use; nor shall it be used as disposal or pledge.

The PSO license shall indicate the words ‘Central Bank of the Republic of Armenia’, the license number, date of issue, PSO’s name, location, place of business (if the activity subject to licensing is to be carried out only as and where designated by the license, according to the Republic of Armenia Law on Licensing), state registration number, type of activity for which the license has been issued, as well as term of validity of the license, CBA chairman’s signature and the CBA stamped seal portraying state Coat of Arms.

CBA shall run a register of the licenses issued. The register is open to general information. CBA Board will determine the form of the register, how it should be run and the information includable in the register.

#### **Article 21. PSO branch offices and representations; Registration**

1. PSO may open branch offices and representations in the territory of the Republic of Armenia or abroad, as required by this Law and normative regulations of CBA, which may function upon being registered at CBA. PSO’s overseas branch offices and representations shall be established in compliance with the laws of the host country and/or international agreements of the Republic of Armenia.
2. Procedure of registration of PSO branch offices and representations, the list of documents and information required for registration shall be determined based on normative regulations of CBA.
3. CBA Board shall satisfy, or refuse to satisfy, a PSO branch office’s or representation’s application for registration within a one-month period. Once an application is satisfied, CBA shall register the branch office or representation and issue a certificate of registration; once an application is refused, CBA shall notify the reason for refusal to PSO within a five-day period.

4. CBA may refuse an application for registration of the branch office or representation, if:
  - a) inaccurate or false data have been presented;
  - b) documents have been submitted incompletely; are imperfect or run into conflict with laws of the Republic of Armenia and other normative regulations;
  - c) PSO has committed three and more infringements of this Law and CBA normative regulations governing payment and settlement activities, within one year preceding the application and in the period of review of the application; and
  - d) place or conditions of business of the branch office of PSO do not comply with the requirements set by CBA normative regulations.
5. CBA shall remove the branch office or representation of PSO from registration:
  - a) based on a PSO application, within one week upon the application; and
  - b) in the event a license issued to PSO operates revoked.

## **Chapter 6. Regulation and oversight of PSO activities; Reporting and release of statements, audit opinion and information**

### **Article 22. PSO managers and professional criteria and qualification**

1. Managers of PSO include chief of executive body, his/her deputy, and chief accountant.
2. Managers of PSO cannot include:
  - a) persons convicted for a deliberately committed crime, with criminal record not removed or cleared off;
  - b) persons deprived by court of the right to hold positions in financial, banking, tax, customs, commercial, economic, and legal areas;
  - c) persons gone bankrupt and having outstanding debt (debt not forgiven);
  - d) persons with qualification or professional knowledge not complying with the CBA-defined professional integrity or qualification criteria; and
  - e) persons who have behaved in the past in such a way that makes CBA reasonably believe that the action of any such person as a manager of PSO may result in bankruptcy or worsening of financial condition of PSO.
3. CBA Board will define the criteria and procedure for qualification and professional integrity of PSO managers. CBA Board decision may stipulate that qualification and professional integrity examinations for PSO managers be conducted by other specialists.
4. A person may serve as manager of PSO upon being registered at CBA. For registration, any such person should hold a certificate of qualification and professional integrity for PSO manager. The registration provided for herewith shall be made within a ten-day period upon the application.

### **Article 23. Prudential economic standard and other requirements to PSO**

1. CBA sets a prudential economic standard of minimum statutory capital to PSO engaged in processing and clearing of payment instruments and payment and settlement documents. CBA Board will determine the ceilings, procedure of calculation and composition of components that participate in the calculation of the standard. The standard is mandatory and shall be the same for all PSO of the similar type.

Where CBA tightens the prudential economic standard, the new standard shall take effect six months after the official publication of a CBA decision. Where CBA eases the standard, that new one shall take effect upon the official publication unless otherwise scheduled by CBA.

2. An organization engaged in money remittances shall have the monetary assets or securities deposited or present an irrevocable bank guarantee.

CBA Board will determine the size of the amount deposited, types of securities, procedure and terms and conditions for depositing of the amount and securities.

Further, CBA Board will determine the minimum size of the amount deposited or the minimum amount of securities, as well as the coefficient that can be used in respect of each money remitter organization, based on the number and/or value, and/or geography of payment and settlement services rendered, and/or a payment instrument, used by that organization. The coefficient can be set for each money remitter organization or group of money remitter organizations.

3. The amount deposited, securities, and a bank guarantee are a means of warranty that can be used exclusively by CBA to repay the money remitter organization's liabilities in respect of the parties who have provided the money remitter with monetary assets, or on whose behalf the money remitter has received monetary assets in order to remit these. CBA Board will determine the procedure, and terms and conditions for repayment of liabilities

4. CBA may allow the money remitter organization to dispose the amount deposited or securities or bank guarantee, if outstanding liabilities, as provided for in paragraph 3 herewith are missing.

5. The amount deposited or securities or bank guarantee cannot be used for repayment of liabilities of the money remitter organization other than those provided for in paragraph 3 herewith. Where the money remitter organization goes liquidation (self-liquidation) under the law, the amount deposited or securities or bank guarantee shall not be included in the list of liquidation assets, as established by law.

#### **Article 24. Oversight of PSO activities**

1. CBA is exclusively authorized to exercise oversight of PSO in connection with rendering payment and settlement services. CBA shall exercise oversight as required by the Republic of Armenia Law on Central Bank and CBA normative regulations.

2. CBA staff shall carry out examinations and inspections in PSO pursuant to the Republic of Armenia Law on Central Bank and as per procedure, terms and conditions, event and frequency determined by CBA.

#### **Article 25. Bookkeeping and financial statements, Audit; Release of financial statements and auditor opinion**

1. PSO shall run their books in accordance with the Republic of Armenia Accounting Standards. PSO shall separately keep records of payment and settlement services, the procedure of which shall be determined by CBA Board in agreement with a Government-authorized body.

2. PSO shall prepare, release and submit financial statements and other CBA Board-defined statements to CBA, as established by laws of the Republic of Armenia and other normative regulations, as per procedure, and terms and conditions determined by CBA Board.

3. Each year, an independent audit firm, so chosen by PSO, will examine the area of activity of PSO.

4. PSO shall present an independent audit firm's opinion to CBA within a six-month period after the end of a financial year.

5. PSO shall release their annual financial accounts and auditor opinion within a six-month period after the end of a financial year, in the press with the issue number of at least 2000 copies.
6. PSO shall periodically release information on their activities, as per procedure and frequency determined by CBA Board.

## **Chapter 7. Infringement of laws and other normative regulations; Responsibility**

### **Article 26. Infringement of laws and other normative regulations by PSO**

CBA may call PSO to responsibility, if:

- a) PSO has rendered payment and settlement services by infringing laws and other normative regulations;
- b) provisions of principles of operation of PSO have been violated;
- c) the rules of accounting treatment, the procedure and terms and conditions for presentation and release of balance sheet, financial accounts and other statements have been violated, and/or such documents carry misstatements;
- d) PSO has failed to fulfill CBA assignment, as established hereunder;
- e) prudential economic standards for PSO have been breached; and
- f) PSO has failed to pay an annual state duty.

### **Article 27. Imposition of sanction to PSO**

1. For infringement of laws and other normative regulations, CBA may impose sanction towards PSO, as follows:

- a) warning and assignment to remedy infringement;
- b) penalty towards PSO or its manager;
- c) withdrawal of certificate of qualification for manager of PSO;
- d) suspension of validity of license; and
- e) revocation of license.

2. CBA shall issue warning and assignment to remedy infringement, if PSO

- a) has rendered payment and settlement services by infringing laws and other normative regulations adopted pursuant to such laws;
- b) has violated the rules of accounting treatment, the procedure and terms and conditions for presentation and release of financial accounts and/or other information;
- c) has input false or inaccurate data in the documents mentioned in point (b) hereinabove; and
- d) has violated the prudential economic standards set for PSO.

In its assignment that contains warning and instruction to remedy infringement, CBA may set a timeframe for fulfillment of that assignment and a requirement to take certain actions. The assignment that contains warning is mandatory for the party who has been given the assignment.

3. CBA may impose a penalty towards PSO, if it:

- a) has violated the prudential economic standards set for PSO; and
- b) has not fulfilled, or has failed to timely fulfill, the CBA assignment that contains warning.

4. CBA may withdraw certificate of qualification from managers of PSO, if they:

- a) have infringed the provisions of this Law and other normative regulations adopted pursuant to this Law, or the principles of operation of PSO;

- b) have taken action, ensuing from personal interest, that runs into conflict with the interest of their customers;
- c) have impeded the implementation of oversight by CBA; and
- d) have failed to take appropriate action to fulfill the CBA assignments.

5. CBA shall suspend the license to PSO, if it files an appropriate application to CBA or fails to pay an annual state duty.

A PSO's application for suspension of license may be refused if that is provided for by law or licensing procedures, or if such suspension would directly undermine the state and public security, financial system or public order, public interest, others' rights and freedoms, honor and good standing.

6. CBA shall revoke the license to PSO, if it:

- a) has committed infringement of the provisions of this Law and other normative regulations adopted pursuant to this Law, or the principles of operation of PSO, as a consequence of which the customers have suffered or could suffer financial or other losses;
- b) has repeatedly failed to fulfill the CBA assignments;
- c) has submitted false, distorted or inaccurate information to CBA in receiving the license;
- d) has terminated the activity of PSO pursuant to grounds required by law; and
- e) has two and more times within one year impeded the implementation of oversight by CBA.

The license to PSO shall operate revoked upon decision by CBA Board. Such a decision shall take effect upon being published via mass media.

7. CBA chairman decision may be additional sanction to PSO executive manager or chief accountant, imposable at the rate of three hundred-fold of the minimum salary. For each infringement, CBA may use any of the sanctions, as established by paragraph 1(a) and (c) herewith, and the said additional sanction. The penalty amount shall be charged by the court decision upon a CBA's claim, if a PSO manager does not agree to the imposition of the penalty.

8. The use of sanctions provided for herewith shall not exempt PSO from liability as provided for by laws, other normative regulations or contracts.

9. Sanctions, as laid down herewith, with regard to PSO and PSO managers shall be applied as required by the Republic of Armenia Law on Central Bank.

10. For the first case of committed infringements, as provided for in paragraph 3 herewith, a penalty shall be imposed towards PSO at the rate of fifty-fold of the minimum salary; for the second case – at the rate of one hundred-fold; for the third case – at the rate of two hundred-fold; and for the fourth and further cases – at the rate of five hundred-fold.

11. Liquidation of PSO shall be executed pursuant to the Republic of Armenia Civil Code, and as required by the laws and other normative regulations governing PSO activities.

Where PSO carried out other activities, as provided for in Article 19(5) hereinabove, along with rendering payment and settlement services, the termination of such other activities shall not serve a basis for liquidation of PSO.

## **Chapter 8. Final provisions**

### **Article 28. Licensing and manager qualification fee**

1. For issuing licenses or duplicates thereof, reformulating licenses, giving information from the registers of license to third parties, and/or participating in the qualification exams, a state duty is applicable (subject to be charged) as and to the extent required by the Republic of Armenia Law on State Duty.

2. For holding professional integrity and qualification exams at CBA, issuing certificates of qualification, recovering the lost certificates, CBA may charge a service fee, as and to the extent determined by CBA.

#### **Article 29. Entry into force**

This law shall enter into force six months after being published.

#### **Article 30. Transitional provisions**

1. Upon entry of this Law into force:

- a) organizations that have created PSS shall apply to CBA and receive permission within a six-month period, as required by this Law and CBA normative regulations pursuant to this Law;
- b) organizations that participate in overseas PSS shall apply to CBA and receive permission within a six-month period, as required by this Law and CBA normative regulations pursuant to this Law;
- c) organizations that have been licensed to render payment and settlement services prior to entry of this Law into force shall comply their activities with the requirements of this Law and CBA normative regulations pursuant to this Law. Before this Law enters into force, the licenses issued to such organizations will be reformulated. No state duty is applicable for reformulation;
- d) organizations that have carried out activities pertinent to those of PSO, as provided for herewith, yet have not been licensed to render payment and settlement services prior to entry of this Law into force, shall apply to CBA within a six-month period upon entry of this Law into force for being licensed as PSO. CBA shall license such parties, if the requirements and stipulations laid down herewith have been met; and
- e) parties being engaged in activities, as determined by Article 18(2) hereinabove, shall notify CBA within a three-month period upon entry of this Law into force, as required by this Law and CBA normative regulations. Failure to notify CBA will give rise to responsibility under the laws of the Republic of Armenia.

2. Failure to fulfill the requirements laid down in paragraph 1 herewith, the activities of PSS, the activities of PSO, and the participation in overseas PSS shall, upon completion of the set timeframe, be deemed as terminated, and PSO will be subject to liquidation.

R. Kocharyan,  
President of the Republic of Armenia

21, December, 2004, Yerevan, AL-150-S