

THE REPUBLIC OF ARMENIA**LAW****ON PAYMENT AND SETTLEMENT SYSTEMS AND PAYMENT AND
SETTLEMENT ORGANIZATIONS***Adopted November 24, 2004*

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 activities of payment and settlement systems and payment and settlement organizations, licensing, and terms and conditions for supervision of their activities, defines infringement of laws and other normative acts by payment and settlement systems and organizations, making payment and settlement systems and organizations accountable, and rules for settlement finality.

This Law shall not apply to payment and settlement systems dealing with settlements of transactions by securities at stock exchange (including determination and setoff of mutual liabilities (claims) arising out of transactions at stock exchange).

Article 2. Legal framework for payment and settlement systems and organizations

1. Activities of payment and settlement system and organizations 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 other normative acts of Central Bank of the Republic of Armenia (hereinafter Central Bank), in cases and according to terms and conditions established under law.

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

3. Grounds and procedure for restructuring and liquidation of payment and settlement organizations shall be governed by this Law, the Republic of Armenia Civil Code and applicable laws and normative acts governing activities of any payment and settlement organization of a relevant legal form.

Article 3. Main Concepts

Within the meaning of this Law and other normative acts adopted pursuant to this Law,

- a) **payment and settlement system** is entirety (generality) of payment instruments, 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 payment and settlement system operation are considered as a component of regulation of payment and settlement systems activities, which are subject to approval by a management body of payment and settlement systems operator;

- b) **payment and settlement organizations** are persons established by Article 19(2) hereunder;
- c) **payment document** is any paper or electronic communication, prepared and confirmed (verified) according to laws of the Republic of Armenia, normative acts of Central Bank and banking rules pursuant to such normative acts, that contains an instruction to a payment and settlement system participant on crediting, debiting or transferring funds;
- d) **payment and settlement system operator** is a payment and settlement system participant which is responsible for payment and settlement system 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 payment and settlement system participants, or part thereof, for final settlement;
- g) **final settlement** is an action whereby monetary liabilities between two or more payment and settlement system participants, arising 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 payment and settlement system 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, verification 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 set forth by an issuer of payment card;
- l) **event of non-return** occurs when a payment and settlement document credited to payment and settlement system cannot be revoked or altered, according to payment and settlement system operations rules;
- m) **transfer of funds** is movement (transfer) of cash monetary assets or of ownership over non-cash funds, from a payment and settlement system 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) ***servicing 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 payment and settlement system operations rules;
- p) ***suspension of payment and settlement activities*** is a deprivation, by law of the Republic of Armenia or by decision of the 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 payment and settlement system, and any similar decision precluding payment and settlement system participant's service in the payment and settlement area). Within the meaning of this Law, for payment and settlement organization engaged in other activities as well, suspension of payment and settlement activities also occurs when the organization liquidates, or goes bankrupt or insolvent, as established by laws and other normative acts, or when the authorized body makes any similar decision providing that the organization will not or cannot continue its normal business;
- q) ***interim administrator*** involves temporary administration, liquidator or receiver, liquidation committee or another party vested with such authorities, appointed according to laws of the Republic of Armenia and other normative acts, when an event of suspension of payment and settlement activities of payment and settlement system participant occurs;
- r) ***intrabank payment and settlement system*** 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 payment and settlement system*** 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) ***foreign payment and settlement system*** 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 persons other than the issuer.

CHAPTER 2

PAYMENT AND SETTLEMENT SYSTEMS

Article 4. Payment and settlement system participants

1. As an Armenian payment and settlement system participants may be the Central Bank, banks, and foreign banks' branch offices, functioning in the Republic of Armenia (hereinafter referred to as banks), payment and settlement organizations, other persons 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 set forth by this Law, and/or similar services, in their home country.

2. Persons not specified in this Article shall not be allowed to establish an Armenian payment and settlement system or be a participant thereto.

Article 5. Central Bank authorization to establish and operate the Armenian payment and settlement system and to participate in foreign payment and settlement system; withdrawal of authorization

1. Armenian payment and settlement system shall be established and shall operate by Central Bank Board authorization that is issued as set forth herewith and by normative acts of Central Bank. For establishment of an intrabank payment and settlement system, the Central Bank authorization is not required.

2. Banks and other organizations that are duly licensed to provide payment and settlement services may participate in foreign payment and settlement systems (hereinafter referred to as ('foreign payment and settlement system participants')) by a Central Bank Board authorization that is issued as set forth herewith and by normative acts of Central Bank.

3. Central Bank Board may decide on the following criteria:

- a) number of payment and settlement system 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) list of payment and settlement system (based on action and/or measures towards minimizing the risks pertinent to the systems).

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

5. Central Bank Board may withdraw its authorization to establish and operate the Armenian payment and settlement system and to participate in foreign payment and settlement system, if Armenian payment and settlement system operator and/or participants, foreign payment and settlement system participant:

- a) have infringed the requirements of this Law and normative acts of Central Bank; and
- b) in the event as set forth by Article 8(4) hereunder.

6. In case of noncompliance with the measures due to changes in criteria set forth under part 3 of this Article or payment and settlement system operations, the Armenian payment and settlement system operator and a participant, if there is participation in an foreign payment and settlement system shall duly apply to Central Bank for a new authorization, within one week period upon entry of such changes into force.

7. Central Bank Board may establish technical, security, software requirements as well as templates for system operations rules for payment and settlement systems.

8. Central Bank shall run a register for issued authorizations. Central Bank Board will determine the form and the order of running the register, and the content of information and the list of general information contained therein.

Article 6. Requirements to payment and settlement system

1. For authorization, as set forth under Article 5(1) of this Law, payment and settlement system shall:

- a) retain a payment and settlement system operator, with an executive management to meet qualification criteria set by Central Bank normative acts;

- b) have an contract, as set forth under Article 7(1)b hereunder, duly signed between payment and settlement system participants; and
- c) meet technical, security, software, participation requirements and requirements for system operation rules.

Article 7. Authorization to establish and operate the payment and settlement system

1. For authorization to establish and operate an Armenian payment and settlement system, the payment and settlement system operator shall submit the following documents to the Central Bank:

- a) a letter of application for getting authorization to establish a payment and settlement system, or an executive management's decision on admittance to the system, for each payment and settlement system participant;
- b) a copy of contract(s) signed between payment and settlement system participants containing the system operator, system participant competences, obligations and responsibilities, and other provisions, as the participants will find appropriate;
- c) reference defined by Central Bank Board containing information on the system participants, distribution of liabilities among participants, organization, management and activities of the system;
- d) principles for payment and settlement system operation, as approved by the executive management of the payment and settlement system 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 under this clause shall be mandatory for all participants of the system;
- e) economic plan defined by the Central Bank Board for the system operation containing economic rationale to establish 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) reference defined by the Central Bank Board on managers of the payment and settlement system operator.

2. Central Bank shall issue authorization, or refuse authorization, for payment and settlement system operation within a two-month period upon receipt of all the documents listed in part 1 of this Article. Where authorization is not refused by Central Bank within a two-month period, such authorization will be deemed as issued.

3. Central Bank shall refuse a petition to permit the establishment of the payment and settlement system, 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 Central Bank 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 payment and settlement system 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) the establishment of the payment and settlement system would result in worsening of financial condition of a participant bank and/or banks, as set forth by criteria defined by Central Bank Board.

4. For authorization provided for in Article 5(3) hereinabove, the payment and settlement system operator shall submit to Central Bank a reference on measures of criteria determined by Central Bank Board; petition to establish a payment and settlement system; and the document mentioned in part 1(c) of this Article. Authorization to be issued five days upon receipt of the documents to Central Bank shall be deemed as given, unless Central Bank notifies the payment and settlement system 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 payment and settlement system operator shall present the decision on change of the payment and settlement system operator or changes in operational policies to Central Bank, for approval.

Central Bank shall, in a two-month period upon receipt of application, give its approval, provided that such approval will not 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 payment and settlement system. The changes provided for herewith shall take effect upon issue of Central Bank approval.

Where Central Bank does not refuse the approval in a two-month period, the approval shall be deemed given.

6. The payment and settlement system operator shall notify Central Bank of any change in composition of payment and settlement system participants within a five-day period upon making such changes.

7. Central Bank Board will determine the technical conditions and form of the changes mentioned in parts 5 and 6 above for submission to Central Bank.

8. Authorization to establish the Armenian payment and settlement system is not limited in time.

Article 8. Authorization to establish and operate the foreign payment and settlement systems

1. For authorization to participate in foreign payment and settlement system, banks, other organizations, duly licensed to provide payment and settlement services (hereinafter referred to as 'applicants') shall submit to Central Bank:

- a) petition for authorization;
- b) economic rationale for participation;
- c) general description of an foreign payment and settlement system 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. Central Bank shall, within a two-month period upon receipt of all the documents mentioned in part 1 of this Article, issue authorization, or refuse authorization, for an applicant to participate in foreign payment and settlement system. Where authorization is not refused by Central Bank within a two-month period, such authorization will be deemed as issued.

3. Central Bank shall refuse petition, if:

- a) inaccurate or false data have been presented;
- b) documents have been submitted incompletely;
- c) according to the Central Bank guidelines participation in such foreign 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 foreign payment and settlement system operations rules, participant in such an foreign payment and settlement system shall notify Central Bank of this in at least three-month period. Central Bank Board will determine the list of changes provided for herewith. Central Bank shall have the right to withdraw authorization for participation in a foreign payment and settlement system within a month upon such notification, if the change in the operation rules gives rise to grounds laid down in part 3(c) of this Article.

5. For authorization to participate in foreign payment and settlement system, provided for in Article 5(3) hereinabove, an applicant shall submit to Central Bank a reference on criteria determined by Central Bank Board; petition for participation in a foreign payment and settlement system; and the document mentioned in part 1(d) of this Article. Authorization to be issued five days upon receipt of the documents to Central Bank shall be deemed as given, unless Central Bank 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 in a payment and settlement system and qualified as non-returnable until suspension of payment and settlement activities of a payment and settlement system participant, obligations established in the document shall remain in effect and are subject to unconditional execution by temporary administrator, according to payment and settlement system rules.

2. Where a payment and settlement document has entered in a payment and settlement system and qualified as non-returnable after suspension of payment and settlement activities of a payment and settlement system participant but upon the event of termination of payment and settlement system activities, obligations established in the document shall remain in effect and are subject to unconditional execution by temporary administrator, according to payment and settlement system rules, provided that the system operator demonstrates that he/she has not known or could not have known about such termination of payment and settlement system activities.

3. An authorized body's decision on termination of payment and settlement system activities of payment and settlement system 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 payment and settlement system activities.

4. The event of payment and settlement document's entry to payment and settlement system and non-return of such a document shall be determined pursuant to payment and settlement system operation rules established in agreement with Central Bank, or where there are no such rules, normative acts of Central Bank.

Article 10. Non-return of netting

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

2. Where a system executes netting pursuant to payment and settlement system rules, and the payment and settlement document has entered the payment and settlement system and qualified as non-returnable until the termination of payment and settlement system activity of the payment and settlement system 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 Central Bank and firms executing clearing and final settlement

1. Upon inception of the termination of payment and settlement system activity of the payment and settlement system participant, the latter's funds (money, securities) deposited to ensure performance of obligations in respect of payment and settlement documents at Central Bank, firms executing clearing or final settlement can be owned, disposed and used by Central Bank, 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 of this Law, to the extent required to execute such final settlement.

2. Provisions of this Article and Articles 9 and 10 of this Law shall apply to payment and settlement system participants functioning on Central Bank authorization and to payment and settlement system participants in which Central Bank acts as a system operator and/or a settlement bank, pursuant to Article 7(1) and Article 8(1) of this Law.

Article 12. Maintenance of payment and settlement documents

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

2. Payment and settlement system 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 acts 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. Payment and settlement system participant shall maintain the duplicates of the documents that are being taken from it.

4. Maintenance of documents and information mentioned in parts 1 and 2 of this Article is the responsibility of the head of organization.

CHAPTER 4

SUPERVISION OF PAYMENT AND SETTLEMENT ACTIVITIES

Article 13. Supervision of payment and settlement activities

1. Central Bank shall carry out supervision of payment and settlement system and activities of payment and settlement system participants in the territory of the Republic of Armenia.

2. Central Bank may demand information from the Armenian payment and settlement system operator and other participants, as well as foreign payment and settlement system participants relating to rendering payment and settlement services, even if such information constitutes a banking, commercial or other secrecy.

3. Central Bank shall carry out supervision of payment and settlement system and the persons provided for in part 2 of this Article through statements reported to Central Bank and on-site inspections.

4. Forms and terms and conditions of reporting to Central Bank by the persons provided for in part 2 of this Article shall be determined by normative acts of Central Bank.

5. Central Bank shall conduct on-site inspection of the parties provided for in part 2 of this Article as required by the Republic of Armenia Law on Central Bank and normative acts of Central Bank.

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

7. (Repealed, AL-180-N, 4.10.2005)

8. Provisions on Central Bank authority of supervision of activities of payment and settlement system participants, as set forth by this Article, shall not apply to Central Treasury of the Republic of Armenia.

(Article 13 amended AL-180-N, 04.10.05)

Article 14. Payment and settlement system supervisory board supervision of activities of payment and settlement system participants

To carry out supervision of activities of payment and settlement system participants, such participants may create a supervisory board consisted of representatives of the payment and settlement system operator and all payment and settlement system participants. Terms and conditions for establishment and activities of the supervisory board shall be defined pursuant to the principles of payment and settlement system operations.

Article 15. Liability for infringement of legislation by payment and settlement system participants

1. For infringement of requirements of this Law and Central Bank normative acts adopted pursuant to this Law, Central Bank may give a warning to the payment and settlement system operator and other participants, and charge these parties with an instruction to eliminate infringement or comply with the requirements of this Law and Central Bank normative acts adopted pursuant to this Law. Central Bank instruction may stipulate a timeframe and definite measures, which shall be mandatory for any participant having received the warning.

2. Where payment and settlement system participant fails to fulfill or fails fulfillment on time of Central Bank instruction, as set forth by part 1 of this Article, Central Bank may prohibit activity of the payment and settlement system participant (except for the operator) in the Armenian payment and settlement system; while in case of foreign payment and settlement system, Central Bank may

withdraw its authorization for participation in such foreign payment and settlement system.

3. In case of the same infringement by the payment and settlement system participant within one financial year, the Central Bank may demand changing the Armenian payment and settlement system operator; where such a demand is not satisfied, Central Bank may terminate or withdraw its authorization to establish and operate the Armenian payment and settlement system.

4. In case of same infringement by the payment and settlement system participant for three times within one financial year the Central Bank may impose a fine on the payment and settlement system participant and/or operator at the rate of one thousand-fold of the minimum salary.

In case of the infringement by the payment and settlement system participant for forth or more times within one financial year the Central Bank may impose on the payment and settlement system participant and/or operator at the rate of two thousand-fold of the minimum salary.

Amounts of fine provided for in this part shall be charged to the benefit of the Republic of Armenia State Budget revenues.

5. The payment and settlement system participant and operator shall, in addition to liability as set forth herewith, carry responsibility under laws of the Republic of Armenia.

Article 16. Release of information

1. The Armenian payment and settlement system operator shall release information on payment and settlement system activities according to form and frequency established by Central Bank Board.

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

(Article 16 amended AL-180-N, 04.10.05).

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 acts 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 Central Bank Board;
- e) servicing and marketing payment cards, checks, electronic monies and other payment instruments determined by Central Bank Board;
- f) processing;
- g) clearing;
- h) performing cash operations for the third parties; and
- i) other operations accepted in international practice, pertinent to parties rendering payment and settlement services in agreement with Central Bank.

2. Central Bank may establish by its normative acts containing rules for providing 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 part 2 of this Article, shall be the same for parties holding the same type of license that render payment and settlement services.

Article 18. Parties providing payment and settlement services

1. Parties entitled to render payment and settlement services in the Republic of Armenia are:

- a) Central Bank, in compliance with the Republic of Armenia Law on Central Bank;
- b) banks, in compliance with the Republic of Armenia banking laws and Central Bank normative acts;
- c) payment and settlement organizations, in compliance with this Law and Central Bank normative acts;
- d) Central Treasury of the Republic of Armenia, as required by the Republic of Armenia laws on the treasury system;
- e) [Repealed 4.10.2005 (AL-180-N)];**
- 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 part 1 of this Article also may provide servicing of checks, payment cards, electronic monies, and other payment instruments defined by Central Bank 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 payment and settlement system rules, as and when they duly notify Central Bank. Failure to notify Central Bank shall result in a responsibility under laws of the Republic of Armenia.

Parties mentioned above shall supply Central Bank, 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 18 amended AL-180-N, 04.10.05).

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 Central Bank normative acts to provide 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. Within the meaning of this Law and other laws of the Republic of Armenia and normative acts 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 Central Bank 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 providing other payment and settlement services, as permitted by Central

Bank 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 part 5 of this Article.

4. Providing payment and settlement services without a Central Bank license is disallowed, except for the cases stipulated by this Law.

5. PSO, as set forth by part 2(a) of this Article, may engage in foreign exchange dealer trading and foreign currency purchase and sale transactions and deliver postal services, if these are appropriately licensed under laws and other normative acts.

PSO, as set forth by part 2(b) of this Article, 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 organization" can be only used by an entity that has received a license for payment and settlement activities. Use of word combination or derivatives thereof in advertisement, public offerings, and to enter into promotional activity by persons not licensed is prohibited.

7. PSO shall provide payment and settlement services in conformity with the principles of operations approved by their high management body.

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 Central Bank for approval.

Within 15 business days upon receiving the decision, Central Bank shall issue approval or refuse to issue approval. Central Bank shall refuse issuing approval if it believes that the supplements or changes contain risks and/or run into conflict with this Law or other laws or other normative acts adopted pursuant these laws. Where Central Bank fails to notify its approval or refusal within the timeframe specified, it shall be construed as issue of approval.

Changes provided for by this part shall take effect upon approval by Central Bank. Central Bank Board will determine technical conditions and form of reporting of supplements or changes to the principles of operations to Central Bank. Technical provisions and form of submitting to the Central Bank amendments or supplements to principles of operation shall be established by the Central Bank Board.

(Article 19 supplemented AL-10-N, 15.12.05; AL-261-N, 13.11.07).

Article 20. Licensing of payment and settlement organizations

1. PSO shall be licensed as required by this Law and through procedure determined by normative acts of Central Bank.

For licensing, founders of PSO shall submit to Central Bank:

- 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 Central Bank 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. Central Bank shall initiate licensing, or refuse licensing, within a two-month period upon receipt of the documents and information, as set forth in part 1 of this Article.

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 Central Bank 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 Central Bank criteria on qualification and professional integrity; and
- d) grounds established by part 5 of this Article are missing.

3. Within a three-day period upon making a decision on licensing, Central Bank shall issue a license to PSO.

4. Upon entry of a decision on licensing into force, PSO shall be deemed as licensed.

5. Central Bank shall refuse licensing of PSO, if:

- a) inaccurate or false data have been presented;
- b) documents have been submitted incompletely; are imperfect or contradict laws of the Republic of Armenia and other normative acts;
- c) requirements provided for in part 2 of this Article have not been met; and
- d) licensing of relevant PSO contain risks, according to criteria defined by Central Bank.

6. Where Central Bank 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 transferred to other parties for use; nor shall it be disposed or pledged.

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, Central Bank chairman's signature and the Central Bank stamped seal portraying state Coat of Arms.

Central Bank shall run a register of the issued licenses. The register is open to general information. Central Bank 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 acts of Central Bank, which may function upon being registered at the Central Bank.

PSO's foreign 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 acts of Central Bank.

3. Central Bank 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, Central Bank shall register the branch office or representation and issue a certificate of registration; once an application is refused, Central Bank shall notify the reason for refusal to PSO within a five-day period.

4. Central Bank 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 contradict with laws of the Republic of Armenia and other normative acts;
- c) PSO has committed three and more infringements of this Law and Central Bank normative acts 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 Central Bank normative acts.

5. Central Bank 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 SUPERVISION 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 eliminated;
- 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 professional knowledge or qualification criteria defined by the Central Bank; and
- e) persons who whose behavior in past makes Central Bank 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. Central Bank Board will define the criteria and procedure for qualification and professional integrity of PSO managers. Central Bank 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 Central Bank. 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 standard and other requirements to PSO

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

Where Central Bank tightens the prudential standard, the new standard shall take effect six months after the official publication of a Central Bank decision. Where Central Bank softens the standard, that new one shall take effect upon the official publication unless otherwise provided by Central Bank.

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

Central Bank 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, Central Bank 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 Central Bank 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. Central Bank Board will determine the procedure, and terms and conditions for repayment of liabilities.

4. Central Bank may allow the money remitter organization to dispose the amount deposited or securities or bank guarantee, if outstanding liabilities, as provided for in part 3 of this Article 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 part 3 of this Article. Where the money remitter organization undergoes a 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. Supervision of PSO activities

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

2. Central Bank 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 Central Bank.

Article 25. Bookkeeping and financial statements, Audit; Publication 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 Central Bank Board in agreement with a Government-authorized body.

2. PSO shall prepare, publish and submit financial statements and other Central Bank Board-defined statements to Central Bank, as set forth by laws of the Republic of Armenia and other normative acts, as per procedure, and terms and conditions determined by Central Bank Board.

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

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

5. PSO shall publish their annual financial accounts and auditor opinion within a six-month period after the end of a financial year, in the newspaper with the issue number of at least 2000 copies.

6. PSO shall periodically provide information on their activities, as per procedure and frequency determined by Central Bank Board.

CHAPTER 7

INFRINGEMENT OF LAWS AND OTHER NORMATIVE ACTS; RESPONSIBILITY

Article 26. Infringement of laws and other normative acts by PSO

Central Bank may call PSO to responsibility, if:

- a) PSO has rendered payment and settlement services by infringing laws and other normative acts;
- b) provisions of principles of operation of PSO have been violated;
- c) accounting rules, 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 Central Bank assignment, as set forth hereunder;
- e) prudential 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 acts, Central Bank 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. Central Bank shall issue warning and instruction to eliminate infringement, if PSO

- a) has rendered payment and settlement services by infringing laws and other normative acts adopted pursuant to such laws;
- b) has violated the rules of accounting, the procedure and terms and conditions for presentation and release of financial accounts and/or other information;

- c) has inserted false or inaccurate data in the documents mentioned in point (b) hereinabove; and
- d) has violated the prudential standards set for PSO.

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

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

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

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

- a) have infringed the provisions of this Law and other normative acts 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 supervision by Central Bank; and
- d) have failed to take appropriate action to fulfill the Central Bank assignments.

5. Central Bank shall suspend the license to PSO, if it files an appropriate application to Central Bank 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. Central Bank shall revoke the license to PSO, if it:

- a) has committed infringement of the provisions of this Law and other normative acts 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 Central Bank assignments;
- c) has submitted false, distorted or inaccurate information to Central Bank 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 supervision by Central Bank.

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

7. Central Bank 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, Central Bank may use any of the sanctions, as set forth by part 1(a) and (c) of this Article, and the said additional sanction. The penalty amount shall be charged by the court decision upon a Central Bank 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 acts 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 infringement, as provided for in part 3 of this Article, a fine shall be imposed on 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 acts 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 knowledge and qualification exams at Central Bank, issuing certificates of qualification, recovering the lost certificates, Central Bank may charge a service fee, as and to the extent determined by Central Bank.

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 established a payment and settlement system shall apply to Central Bank and receive authorization within a six-month period, as required by this Law and Central Bank normative acts pursuant to this Law;
- b) organizations that participate in foreign payment and settlement system shall apply to Central Bank and receive authorization within a six-month period, as required by this Law and Central Bank normative acts 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 coordinate their activities with the requirements of this Law and Central Bank normative acts 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 Central Bank within a six-month period upon entry of this Law into force for being licensed as PSO. Central Bank shall license such persons, if the requirements and stipulations laid down herewith have been met; and

e) persons being engaged in activities, as determined by Article 18(2) hereinabove, shall notify Central Bank within a three-month period upon entry of this Law into force, as required by this Law and Central Bank normative acts. Failure to notify Central Bank will give rise to responsibility under the laws of the Republic of Armenia.

2. Failure to fulfill the requirements laid down in part 1 of this Article, the activities of payment and settlement system, the activities of PSO, and the participation in foreign payment and settlement system shall, upon completion of the set timeframe, be deemed as terminated, and PSO will be subject to liquidation.

President of the Republic of Armenia

ROBERT KOCHARYAN

December 21, 2004, Yerevan

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