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POSSIBILITY AND PROSPECTS OF LAUNCHING EXCHANGE-TRADED FUNDS IN ARMENIA

The last three years have been challenging for the whole world economy and financial sector. The expectations of recession, growing inflation and continuously falling securities market resulted in inefficiency of taking risk of an individual company. This brings the necessity of diversification in investments which can be reached by using Exchange-traded funds(ETF). By investing in ETFs one receives a diversified portfolio which is managed by professionals.

Taking into account the current development level of the Armenian capital market and Armenian investor's needs, professional and investing skills, ETFs are the exact instrument that the Armenian market needs. However creating a new instrument in a market is a very challenging process with a list of difficulties. First of all, there should be a well-designed legislative framework which will manage to effectively regulate the market. The feasibility of launching a financial instrument can also depend on other factors, such as demand and supply for that instrument, the creation of competition in the industry, the provision of liquidity and effectiveness of the new market.

However, our studies determine that Armenia has an appropriate regulatory and investment environment to accept ETFs as an investing instrument. Moreveor, the analysis shows that launching an ETF can bring a new development for the Armenian capital market.

KEYWORDS: *exchange-traded funds(ETF), fund management, diversification, indexes, liquidity, stock exchange, development, capital market*

JEL: G11, K22
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INTRODUCTION. The Armenian securities market has a history of approximately thirty years, but its development level still remains low. The only sector of the Armenian securities market that has reached a certain level of development is bond market. The aim of the paper is to the examine the challenges of launching ETFs in domestic securities market and to describe the opportunities that can provide this new instrument for the market's further growth.

Exchange-traded funds (ETFs) have got to be progressively well known within the worldwide securities markets over the past two decades. With resources under management of over $7 trillion, ETFs have got to be a crucial portion of the financial markets. ETFs are outlined to provide investors with an opportunity to invest in well diversified portfolios of different assets, such as bonds, stocks, commodities, etc., with low costs and without having high professional skills.

The rapid growth in ETF market leads to distribution of these financial instruments in new markets. However, creating an ETF in a country's financial market for the first time is a challenging process with a list of difficulties.

In this article, we discuss the possible challenges that can be faced when launching ETF in the Armenian market, also the development opportunities that this new instrument can provide. For this aim we examine the regulation of ETFs in countries with developed ETF markets such as The United States and European Union. Based on the analysis, we offer changes for domestic market regulations. We also analyze the current situation of the Armenian securities market, volumes of trades and securities issues, available statistics of existing funds to understand the potential demand for ETFs. We aim to describe the importance and necessity of ETFs for domestic investors and market.

LITERATURE REVIEW. The main part of academic research on investment funds fundamentally centers on deciding their capacity to produce returns that outperform benchmark. However, these studies have not led to a clear conclusion. (Elton and Gruber, 2013). Investors who invest in funds, first of all should examine the professional skills of fund managers, their methods of market timing and stock selection. However, these studies do not provide clear insight into the real impact of investment funds on society as a whole, more precisely, if the management of investment funds is able to lead to an economic growth.

Sharpe (1991) and French (2008) also have doubts about societal advantages that mutual funds can offer because, according to them, mutual funds are generally required to create their portfolio similar to market portfolio, which denies the ability of them to outperform the benchmark. Moreover, actively managed funds face high transaction costs from trading which also reduced the net returns of investors.

However, there are authors that describe investment funds as institutions that have a significant impact on the economic growth of the country. Doctor of Philosophy Yiqing Zu in his article "The role of investment funds in the real economy" describes two ways of how investment funds can affect the real economy. The first way is through the primary market: Fund managers are professional who are able to find most productive firms through their comprehensive and trustworthy analyses and direct the funds to that companies.

Additionally, thanks to the effective ex-post monitoring by fund managers, they can effectively manage the productivity of funds by reducing risks. As a result, investments are being made in the more efficient spheres of real economy leading to economic enhanced growth.

The other way of economic impact of investment funds is the secondary market. Incorporating valuable information in stock prices in the process of trading, they improve the price efficiency in the secondary market. Bond, Edmans and Glodstein described how the price efficiency in secondary market can affect the real economy.

Contrary to the widely held notion that prices simply represent expectations about future cash flows without influencing them, these authors show in their studies that there can be large effects where security prices influence real business choices.

The other important sphere of investment funds impact on real economy is their behavior during the economic recessions. Russian economist Buyev in his article "The influence of investment funds on the economic growth of the leading countries of the world" has made the following conclusions, based on his analysis of investment funds activities during the 2008-2009 financial crisis.

- crises did not lead to a significant reduction in the number and assets of investment funds;
- when the prices of stocks and stock indices fall, investors do not withdraw money from investment funds and switch their attention to money market funds and bond funds;
- despite the decrease in the value of the fund's net assets as a result of economic downturns, the balance of sales of investment funds in all recent years (except 2003) remained positive;
- in the process of investing in funds, investors generally focus on long-term financial results, poorly reacting to short-term price changes in their investments;
- during the 2008-2009 crisis investment funds played the role of stabilizer of the stock market, preventing sharp inflows and outflows of capital at times of deterioration of the situation.

There are a lot of types of investment funds. One important type is ETFs. Exchange-traded funds (ETFs) are investment companies that offer investors a way to pool their money in a fund that invests in stocks, bonds, or other assets. In return, investors receive an interest in the fund. Some ETFs are managed passively, for example they can track any index (Index funds), others can be actively managed under any strategy by buying and selling securities to reach their investment goals[1].

Anderson, Born, and Schnusenberg (2010) outlined some of the benefits exchange-traded funds (ETFs) provide. Firstly, ETFs are traded in exchanges, thus they have continuous pricing, while other investment funds are priced at the end of the day. So, investors can buy or sell ETFs at market prices throughout the trading day. This real-time pricing feature is particularly advantageous for institutional investors operating in the bond market, as it enables them to react promptly to intraday bond market fluctuations.

The other advantage of ETFs is their transparency. Mutual funds are generally actively traded funds, so their portfolio changes frequently, however, they disclose their holdings semiannually. In contrast, ETFs are more likely to be managed passively. Generally, they track any index and their performance is similar to that of an underlying index. So the ETFs provide a higher level of transparency.

RESEARCH METHODOLOGY. In this research, the widely used methods and principles have been used to evaluate the necessity and opportunity of the launching a new instrument in the country's financial market.

First of all, the legislative field has been analyzed. We have studied the regulatory experience of countries with developed and well-designed ETF markets and also examined the current regulation of investment funds in Armenia to specify the possible legislative gaps. Also the trading rules of the Armenia Stock Exchange have been analyzed to understand the feasibility of listing and trading ETFs there.

To understand the potential demand for ETFs in Armenia we have studied the level of banks deposits in domestic market during the past decade, also calculated the bank deposit/GDP ratio and compared it to the global average. Next, we analyzed the Armenian bond market, particularly government and corporate bonds issues, trade levels, and the structure of the market to identify the potential issuers of ETFs.

For supply analysis, we studied the portfolios of currently existing domestic investment funds and the income level they provide and compared it to the yields of other financial instruments.

The studies have been based on different sources, such as the statistics and reports of the Armenian Stock Exchange, the RA Statistical Committee, the Central Bank, and others.

[1] US Securities and Exchange Commission. (n.d.). Glossary. https://www.investor.gov/introduction-investing/investing-basics/glossary/exchange-traded-fund-etf#:~:text=Exchange%2Dtraded%20funds%20(ETFs),by%20SEC%2Dregistered%20investment%20advisers

ANALYSIS. Since the introduction of the first exchange-traded fund (ETF) in the form of Standard & Poor's Depository Receipts (SPDRs) in 1993, ETFs have become popular investment vehicles in the financial markets. Assets under the management of ETFs have been continuously growing reaching up to 10 trillion US dollars in 2021 and approximately 9.55 trillion US on 2022 (Chart 1).

The decrease in assets of ETF during the last year is due to the fall in the global financial market, and it refers to all sectors of the market. However, in 2022, the number of listed exchange-traded funds (ETFs) increased by 5% when compared to 2021, and the ETF value traded increased considerably (32.2%) reaching 36.8 trillion USD[2].

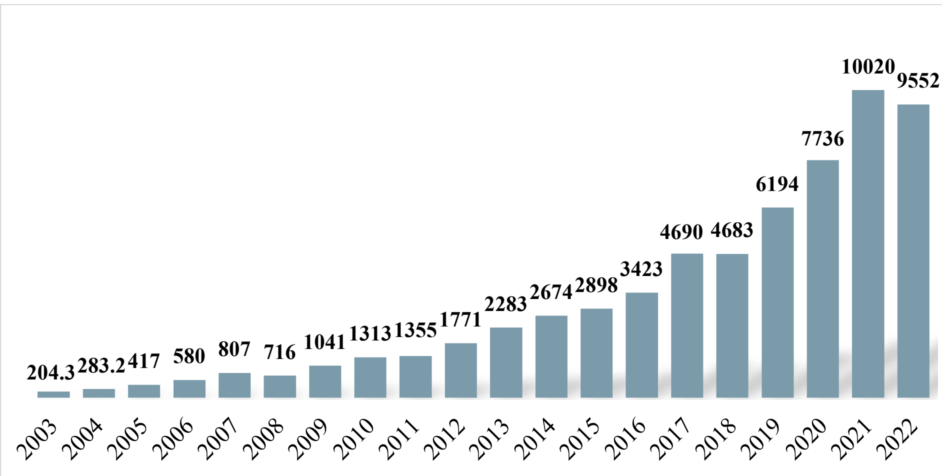

Chart 1. ***Assets under management of ETFs in the world from 2003 to 2022*** *(in billion US dollars)*[3]

According to the data from the Investment Company Institute (ICI), daily, ETF trading volume accounted for an average of 25% of total stock market trading in 2021. During periods of market turbulence, ETF secondary market trading volumes rise-both in absolute terms and as a share of total stock market trading-as investors, especially institutional investors, turn to ETFs to quickly and efficiently transfer and hedge risks. For example, in late 2018, stock market volatility jumped, largely reflecting market participants' concerns about slowing global growth and intensifying trade tensions. On December 24, 2018, when the S&P 500 index neared bear market territory following its September peak, ETF trading volume accounted for 43% of total stock market trading its highest share during 2018. During the financial market stress brought on by the COVID-19

[2] World Federation of Exchanges. (2022). FY 2022 Market Highlights. Retrieved from https://www.world-exchanges.org/our-work/articles/full-year-2022-market-highlights-report

[3] Statista. (n.d.). Development of assets of global exchange-traded funds from 2003 to 2022. https://www.statista.com/statistics/224579/worldwide-etf-assets-under-management-since-1997/#:~:text=The%20value%20of%20assets%20of,up%20to%208% 2C754%20in%202022

crisis, ETF trading volume surged reaching 40% of total stock market trading on March 3, 2020, as investors quickly sought to reposition their exposures in the face of the looming pandemic (ICI, 2022).

ETF implementation and trading in the Armenian Stock Exchange can lead to enlivenment and further development of the Armenian capital market. However, creating a new financial instrument in a market where they do not currently exist can be a challenging and complex process. Here are some general steps that could be taken:

1. Determine the feasibility of creating an ETF, which means understanding whether it is feasible to create an ETF in the country. This involves assessing the demand and supply for such a product, as well as the availability of the necessary infrastructure and support services.
2. Research the regulatory environment: The first step would be to research the regulatory environment. This includes understanding the legal and regulatory framework for investment funds, as well as any requirements for registering, licensing, or listing a new financial product.
3. Develop the ETF structure: Assuming it is feasible to create an ETF in the country, the next step is to develop the structure of the ETF. This includes determining the underlying assets that the ETF will track, as well as the legal and operational framework for the ETF.
4. Launch the ETF: The final step is to launch the ETF. This involves listing the ETF on a stock exchange and marketing the ETF to potential investors.

To evaluate the possibility of launching ETFs in Armenia, let us discuss all the above-mentioned steps for the Armenian market. And we will start our research from analyzing the possible demand and supply for exchange-traded funds.

To understand the possible supply for ETFs, we will examine the activity of investment funds that are currently registered in Armenia. There are approximately 50 of them but only two are public funds.

The first Armenian public investment fund is the Capital Asset Management Government Securities Fund. The name itself indicates that the fund's portfolio fully consists of government bonds. As of May 2023, 99.447% of the fund's assets are invested in the Armenian government bonds. The remaining 0.553% is invested in the financial sector of Armenia[4]. The dynamic of the fund's net asset value is presented in Chart 2. The fund’s assets have been continuously growing since its inception until 2018, reaching its highest level up to 1.425 billion AMD. However, in 2020 yields of Armenian government

[4] Structure of CAM GSF investment fund portfolio (n.d.) Retrieved from http://capitalfunds.am/en/services-2/services/#!703

bonds started increasing, and because there was no diversification in the portfolio, the fund's net asset value fell.

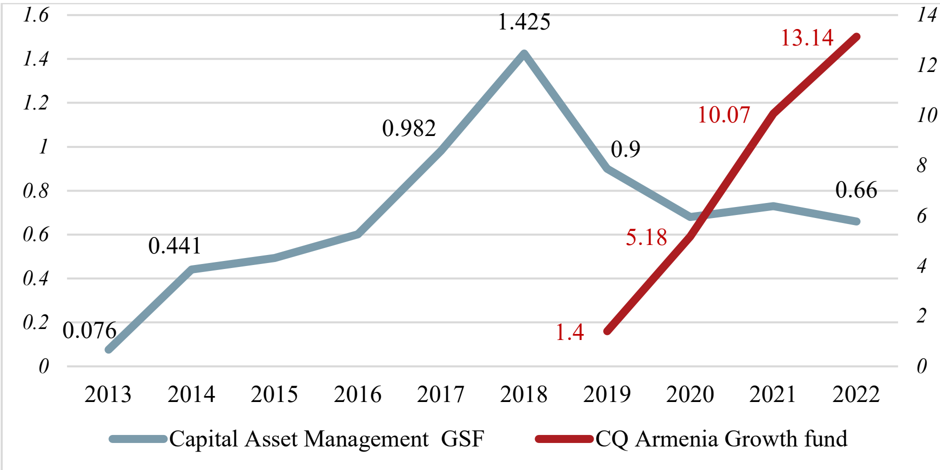

Chart 2. ***Net Asset Value of CAM GSF and CQ Armenian Growth fund since inception*** *(billion AMD)*[5]

We cannot say the same for the other public fund. C-Quadrat Armenian Growth Fund was established in 2019. The net asset value of the fund has been growing since its inception. As it can be seen from Chart 2, during the three years of the fund's lifetime its assets have grown more than 9 times. 26.3% of the fund's asset is invested in deposits or held in cash, also approximately 21.5% is invested in foreign stocks. Having this kind of diversification allowed the fund to overcome the devaluation of national government bonds, which make up more than 40% of the fund's assets (Chart 3).

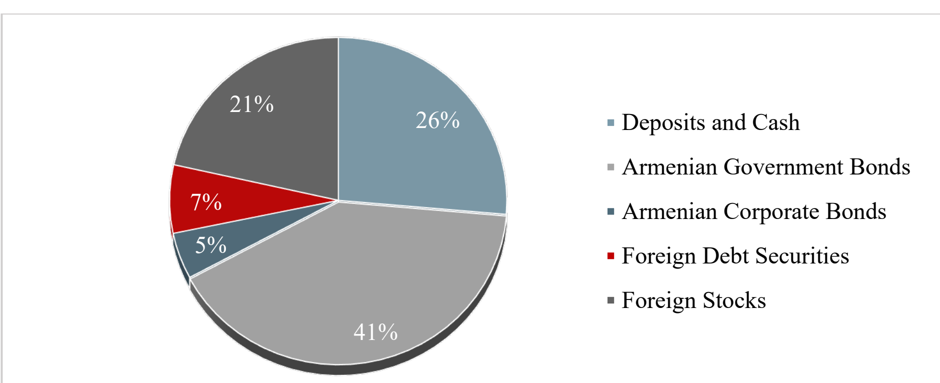

Chart 3. ***Portfolio structure of CQ Armenian Growth Fund[6].***

[5] Capital Asset Management GSF Financial Statements (2014-2022) Retrieved from http://capitalfunds.am/en/cam-gsf-investment-fund-financial-statements/
C-Quadrat Armenian Growth Fund Annual Financial Statements (2019-2022) Retrieved from https://www.c-quadrat-ampega.am/en/cqag-funds-reporting

[6] AGF-Armenian Growth Fund. https://www.c-quadrat-ampega.am/en/cqag-armenian-fund

The portfolios of Armenian investment funds are mainly consisting of Armenian government and corporate bonds, because bond market is comparatively more developed part of the Armenian securities market and also there is no diversity of financial instruments: The Armenian stock market still does not have a tangible level of development.

To understand the demand for ETFs in Armenia, we will discuss the possible supply of investments. As is known, the securities market in Armenia is not as developed as the banking sphere. As of the end of 2022 bank assets to GDP ratio in Armenia has been 98.7%, moreover, it exceeded 100% during 2020-2021[7]. Even the securities market is mainly represented by banks. The 89% of corporate bonds listed in the Armenia Stock Exchange are issued by the banks (Chart 4). Also, the banks are the main investors in Armenian Government bonds. So the main part of public savings flows to banks as deposits and investments in corporate bonds.

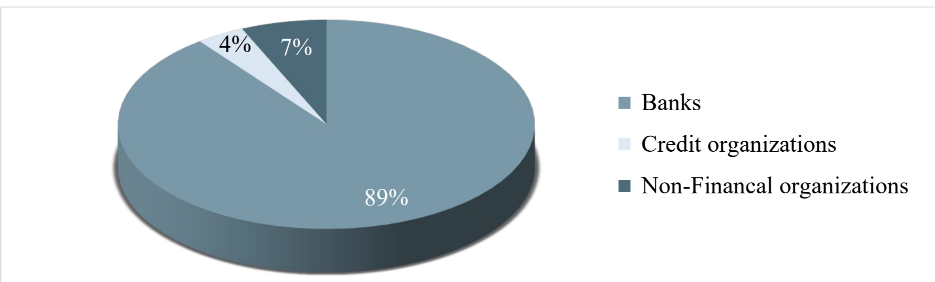

Chart 4. ***The structure of the Armenian Corporate bond market by issuers as of 31 December 2022***[8]

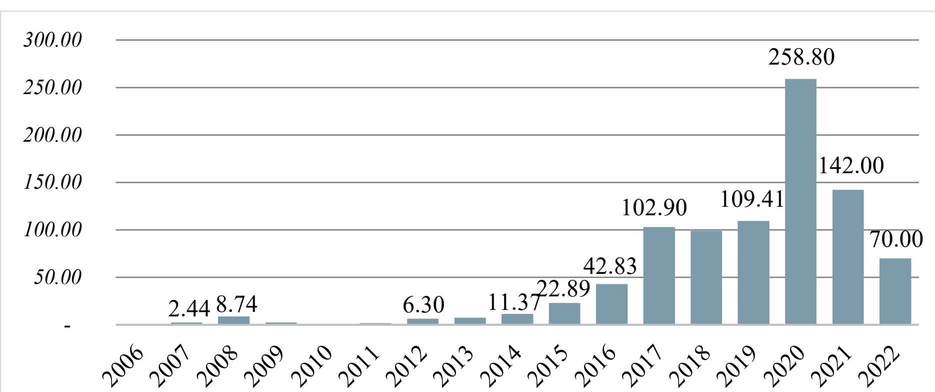

Chart 5. ***Bank deposits volume (in billion AMD) and Bank Deposits/GDP ratio Armenia for 2013-2022 period***[9]

[7] Central Bank of Armenia (n.d.) Banking system Assets/GDP Loans/GDP ratios (Monthly report). https://www.cba.am/am/SitePages/statfinorg.aspx

[8] Armenia Stock Exchange(n.d.). Monthly Bulletins (December 2022). https://amx.am/am/guides_and_insights

[9] Central Bank of Armenia (n.d.). Deposits by Sectors (Monthly report). https://www.cba.am/am/SitePages/statfinorg.aspx
Statistical Committee of the Republic of Armenia(n.d.) Gross Domestic Product (Yearly report). https://www.armstat.am/am

As it can be seen from Chart 5, bank deposit levels have been growing over the last 10 years and Bank deposits/GDP value has exceeded 60% in 2022. According to World Bank data as of the end of 2021 global bank deposits as a percentage of GDP were approximately 69.41%[10], so the ratio in Armenia is very close to the world mean, which means that there are enough savings in Armenia to be invested in financial instruments.

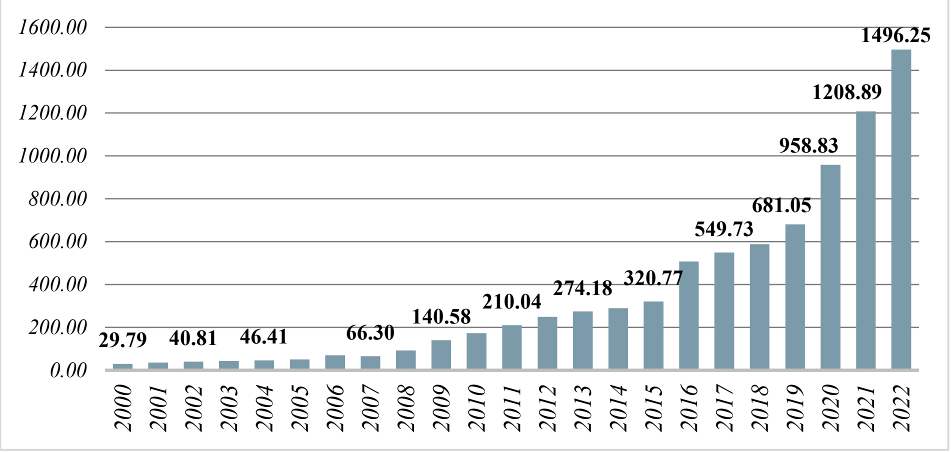

Chart 6. ***Corporate bond issues in Armenia during 2006-2022*** *(billion AMD)*[11]

This can be also proved by growing issues of the Armenian government and corporate bonds. As it can be seen from Chart 6, the issues of corporate bonds have significantly increased since 2017. This growth can be explained by a few reasons. The first is that The Central Bank of Armenia reduced the reserve requirements for foreign currency funds which are collected through bonds. The next is the increase of the minimum level of banks' total capital. Continually more companies gain financing through bonds and also continue to grow bond issues by banks. Since March 2020 there has been no tax on coupons paid for corporate bonds. This also increased the attractiveness of bonds relative to deposits, and as a result in 2020 corporate bond issues increased more than twice compared with 2019. Also in 2020, Ameriabank first time in the Armenian stock market history issued so-called "Green bonds" with a volume of 42 million USD.

The decrease in corporate bond issues during the most recent years can be explained by the increase in interest rates, as a result of which banks started to avoid attracting new funds. Additionally, the great inflow of money from Russia because of the Russian-Ukrainian war also led to excess money at banks. The inflow of foreign currency was so high that banks did not need to attract additional funds.

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[10] The World Bank (n.d.) Global Financial Development. Retrieved from https://databank.worldbank.org/source/global-financial-development/Series/GFDD.OI.02

[11] Armenia Stock Exchange(n.d.). Issuers and Instruments. https://amx.am/en/instruments/bond

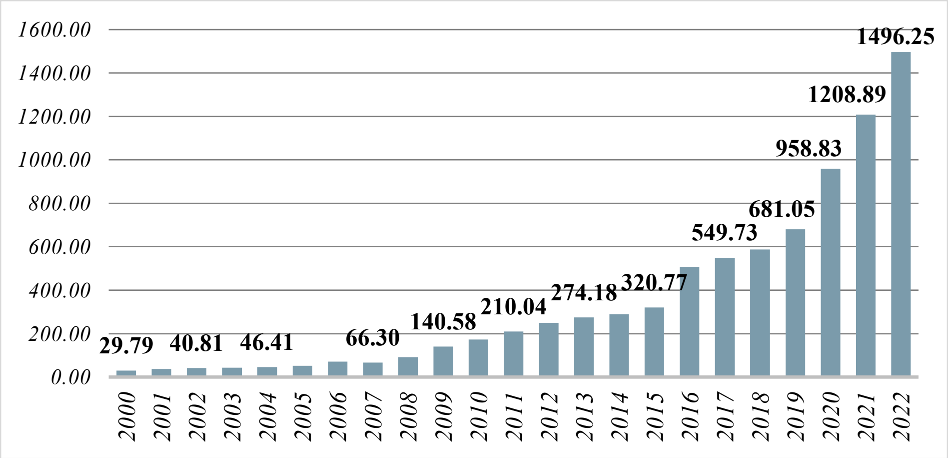

Chart 7. ***Government bond issues in Armenia during 2000-2022*** *(billion AMD)*[12]

Chart 7 shows that issues of government bonds also have growing trends. These statistics prove that there are free available funds and savings within the economy that can be potentially allocated to financial instruments.

The growth in the primary market leads to the enlivenment of the secondary market too. The trade volume of bonds in the Armenian Stock Exchange constantly grows. The growing trade volumes in the Armenia Stock Exchange especially in the last 3 years (Chart 8) and also the latest changes such as the shift towards a more modern and efficient trading system and relaunching trades in the forex platform show that our exchange can provide services for new types of financial instruments.

Thus, the large volumes of deposits, as well as the continuous issuance of state and corporate bonds prove that there are free funds in the economy that can be invested in financial instruments and provide additional income.

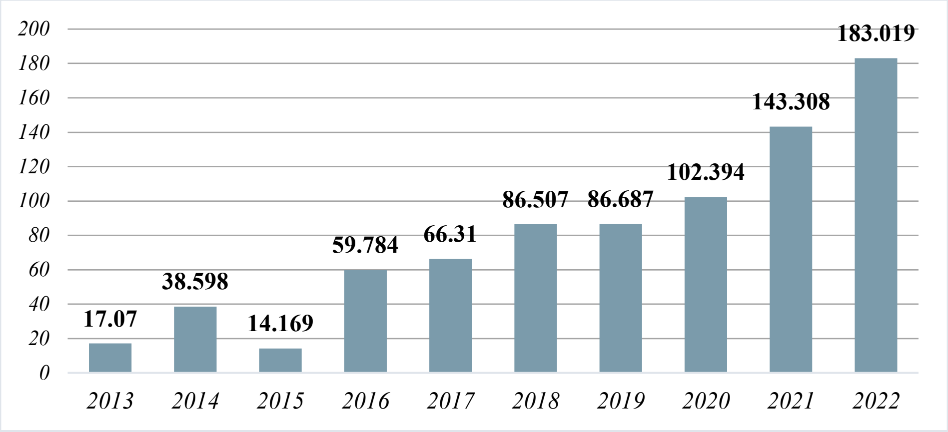

Chart 8. ***Trade volume of corporate and government bonds (in billion AMD) in Armenia Stock Exchange in the past 10 years***[13]

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[12] Dynamics of Summary Data on the RA Public Debt (2013-2023). https://minfin.am/en/page/summary_data_on_public_debt/

Another important part of evaluating demand for investment funds is the return on investments. In the following two graphs, a comparison of the returns of the funds and the returns of investment alternatives in the same currency and periods is presented. For AMD-denominated funds as a benchmark, we have chosen the average annual return of Capital Asset Management Government Securities Fund and Glocal Profix AMD fund. Both funds fully invest their assets in the Armenian government bonds. The average yield of the Armenian government bonds with up to 5 years of maturity is 10.2, meanwhile, funds investing with the same securities suggest a higher yield. This is because these funds heavily rely on high financial leverage facilitated through repo agreements as the main source of above-average profitability and associated risk.

In comparison with other investment alternatives such as bank deposits and the Armenian corporate bonds, funds still provide higher returns (Chart 9).

The same situation is for investments in the USD. This time Glocal Profix USD Fund has been considered as a benchmark. The fund's portfolio fully consists of the Armenian corporate bonds. The fund's return again exceeds the average yield of the Armenian corporate bonds more than twice. It also exceeds the return from investing in deposits, Armenian Eurobonds, and US treasuries (Chart 10).

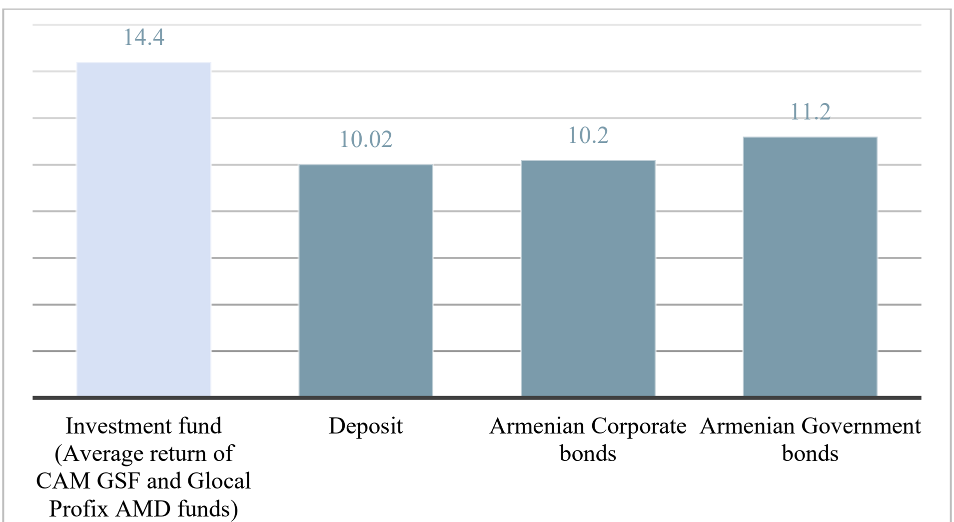

Chart 9. ***The yields of AMD-denominated investment funds (Average return of Capital Asset Management Government Securities Fund and Glocal Profix AMD fund), deposits, Armenian corporate and government bonds as of the end of May 2023[14]***

[13] Armenia Stock Exchange(n.d.). Monthly Bulletins (2013-2022). https://amx.am/am/guides_and_insights

[14] Data is retrieved from https://www.cba.am/am/SitePages/Default.aspx, https://amx.am/, https://capitalfunds.am/en/, https://glocal.am/

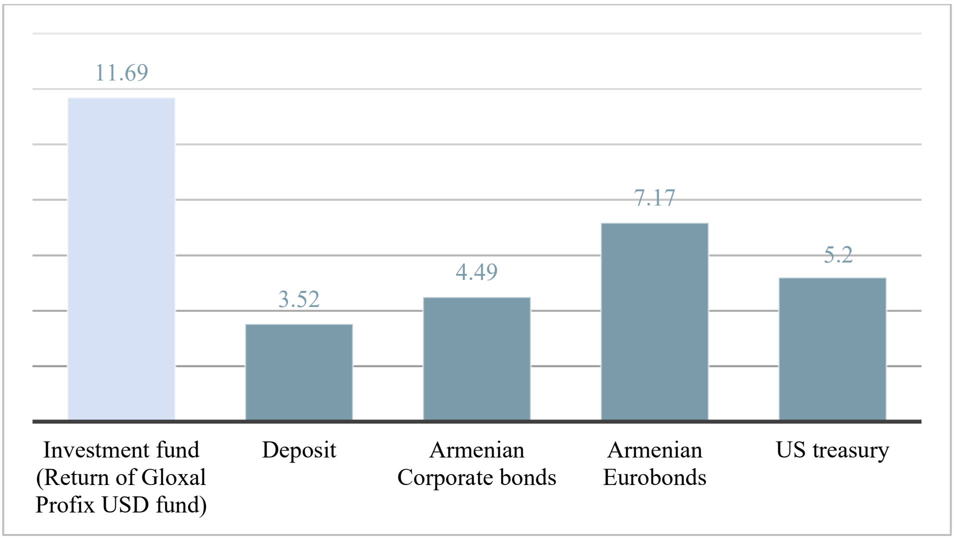

Chart 10. ***The yields of USD-denominated investment funds, deposits, Armenian corporate bonds, Armenian Eurobonds, and US treasuries as of the end of May 2023***[15]

Consequently, although the financial instruments available in the Armenian market are relatively limited and generally consist of corporate and government bonds, these funds manage to generate higher returns with that instruments, by using leverage and repo agreements, thereby increasing their attractiveness to investors. Therefore, the key aim is to make these funds more accessible to a wider range of investors by making them public.

Having enough savings for investments, what Armenian investors need is high yields, liquidity, diversification, and low costs. And here comes the necessity of creating ETFs:

- They can suggest to ordinary investors who do not have enough financial knowledge a highly diversified portfolio with professional management which can help to reduce investment risk and increase returns.
- ETFs are traded on an exchange like stocks, which means that they can be bought and sold throughout the trading day at market prices. This ease of trading and the ability to trade in small amounts can help to increase liquidity in the market.
- ETFs can provide a stabilizing influence on the market by allowing investors to invest in a broad range of assets, including foreign markets, thereby reducing the risk of volatility in individual stocks or sectors and allowing investors to enter the global market.
- As ETFs are considered to be the type of stocks, they can also bring to development of our almost non-existent stock market.

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[15] Data is retrieved from https://www.cba.am/am/SitePages/Default.aspx, https://amx.am/, https://glocal.am/, Data is retrieved from https://www.cba.am/am/SitePages/Default.aspx, https://amx.am/, https://capitalfunds.am/en/, https://glocal.am/

- By investing in foreign markets ETFs will allow Armenian investors to get access to the world stock market. Currently, only a few Armenian banks and investment companies can offer their clients to invest in foreign markets and trade in such exchanges as NYSE, NASDAQ, LSE, etc. at high commissions and minimum deposit requirements.

So the above analyses determine that despite the lack of variety of financial instruments, existing funds can provide higher yield using those instruments. And if those funds become public and listed in exchange, it is obvious that the newly created Exchange-traded funds will enjoy a great demand among Armenian investors. Furthermore, the launch of ETFs in Armenia may attract foreign investors to the country's market, which will increase the liquidity and efficiency of the market.

Regarding the structure of ETF and underlying assets, the fund managers are free to create their portfolios. They could track any index or create fixed-income ETFs that will invest only in Armenian fixed-income bonds such as financial or non-financial corporate bonds, government bonds, or Eurobonds, or they can mix Armenian and foreign securities. Currently, Armenian investment funds are constrained to passive fund management due to the limited availability of investment instruments. Although there are no detailed statements of non-public funds' portfolios, however, as already said above, most of them mainly contain Armenian government bonds for AMD funds and Armenian corporate bonds for USD funds.

To complete the analysis of ETFs' launching opportunities we will have a brief look at investment funds regulation in Armenia.

The regulation of investment funds in Armenia is governed by the Law on Investment Funds, which was approved on December 22, 2010. Generally, the legal procedures outlined in the legislation for establishing, registering, and licensing a fund registering a fund manager, and addressing other organizational issues may be extended to ETFs too. Nevertheless, specific provisions regarding ETFs must be included in separate articles within the law and other Central bank regulations governing investment funds:

First of all, there should be a complete definition for ETFs. According to the US Securities and Exchange Commission (SEC), an exchange-traded fund (ETF) is a type of investment fund that holds a collection of stocks, bonds, or other securities, which are typically designed to track the performance of a specific index (US Securities and Exchange Commission, 2023). However, ETFs can also be actively traded funds and this second type of them, in the author's opinion, is more suitable for the Armenian market, because as already stated, the aim of launching ETFs in the Armenian market is to suggest a highly diversified and professionally managed portfolio to non-professional investors, meantime to provide a liquidity for them by listing the fund in Exchange and having market makers for it. So the legal definition of ETFs in Armenian legislation should be as follows: "Exchange-traded fund is a type of investment fund, the shares of which are traded on stock exchanges, like individual stocks, and can be bought and sold throughout the trading day at market-determined prices."

Then, the fund type should be specified in the legislation. There are two main types of funds: Open-end and Closed-end. Open-end investment funds continuously issue and redeem ownership shares. The shares of an open-end fund do not trade in a secondary market or on any organized exchange; instead, investors purchase shares from the company. Likewise, investors redeem shares by selling them back to the company, where they are retired. Closed-end funds do not continuously issue or redeem ownership shares. Initially, there is a public offering of shares. After the shares of the new closed-end fund are offered to the public, the fund invests the proceeds from the initial public offering following the policy statement disclosed in the prospectus. Closed-end funds do not sell new shares to interested shareholders, nor do they stand willing to redeem shares from their investors. To obtain shares after a public offering is completed, an investor must purchase shares from other investors in the secondary market (one of the exchanges or the over-the-counter (OTC) market) (Anderson, S. C., Born, J. A., & Schnusenberg, O., 2010). In developed markets, ETFs are usually created as open-end funds (US Securities and Exchange Commission, 2023). However, in the author's opinion, the ETFs in Armenia should be created as closed-end funds. As the financial instrument will be new for the market and investors, it would rather be bought and sold in the stock exchange providing additional liquidity for the fund instead of being sold back to the fund and decreasing funds' assets. Also, ETF should be registered as a public fund.

For ETFs, it is important to specify underlying assets and set diversification requirements. Article 40 of "The RA Law on Investment funds" specifies the financial instruments where the investment funds assets should be invested (The RA Law on Investment Funds, 2010). This list of assets should be used for ETFs too. The only addition can be investing in the Armenian government and corporate Eurobonds, which are traded in OTC (over-the-counter) markets. Also, there should be stated diversification requirements for ETFs, for example there must be limitations on investing in a single industry or in the securities of single issuer.

The ETFS should be required to provide disclosures to their investors, which will include the daily disclosure of their portfolios' structure, holdings, net asset value (NAV) returns and expenses.

The regulation of ETFs also should include market-making requirement. Currently Armenian bond market has a well-established market making institute which provides liquidity for bonds thus the demand for bonds increases. The same is essential for ETFs. Ancestors will avoid investing ETFs if they are not sure they can sell them anytime they want. The ETFs should have at least one market-maker and there should be a strict regulation on bid-ask spread stated by them. Currently, Armenian banks and investment companies are successfully act as a market-makers for the bonds and stocks listed in Armenian Stock Exchange.

In summary, we can say that Armenian capital market is able to employ a new financial instrument. It has necessary regulatory and investment environments which is needed for launching a new instrument which can be the base for the market's further development.

CONCLUSION. ETF market is currently one of the most rapidly developing part of the global financial market with a growing volumes of assets under management. The launching of ETF market in Armenia can be a strategic key to a further development of Armenian capital market.

ETF as a financial instrument has a list of advantages, such as diversification, low risks, ease of trade, etc. ETFs suggest their investors well diversified and professionally managed portfolios without demanding high professional skills.

Designing an ETF for the Armenian market can be a huge step toward the creation of an investing culture among Armenian investors.

The Armenian capital market is still at the beginning of its development and there is no wide variety of financial instruments. Only the bond market has some tangible level of development so the market is mainly presented with corporate and government bonds. However, Armenian investment funds manage to receive above market returns in such conditions using leverage and repo agreements. The main problem is that these funds are private and they are not available for wide range of investors. Making this funds public and listing them in exchange with well-established market-making institute can bring a new level for the Armenian capital market, also it will rise the interest of foreign investor for the Armenian market which will add a liquidity and efficiency to our market.

Analyzing the current level of deposits in Armenia and also taking in advance the growing level of issues and trades of corporate and government bonds, we can conclude that there is a certain amount of savings that can provide the demand side for ETFs. Armenian legislative field is also ready for a new instrument after some changes and adding some requirements regarding the transparency of these funds.

In conclusion, the Armenian capital market has all necessary resources and institutes for launching a new financial instrument such as ETFs and this can lead to a further development of the Armenian financial market.

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