

Convertible loan agreement: recent legislative changes

On 12/05/2025, the RA National Assembly adopted a package of legislative amendments on the introduction of the procedure for concluding and executing convertible loan agreements. In particular, the package envisages making amendments and supplements to the RA Civil Code, the RA Tax Code and the RA laws on Limited Liability Companies and on Joint-Stock Companies. The aforementioned package of amendments enters into force on 12/06/2025 and applies to relations arising from agreements concluded after the effectiveness thereof. Therefore, in this document we will address the main regulations introduced under these amendments.

This material does not address the peculiarities of concluding a convertible loan agreement by financial organizations, as stipulated in article 39.1¹ of the RA Law on the Central Bank of the Republic of Armenia, as well as the regulations on the taxation of convertible loans.

What is the rationale behind the need for these amendments?

In Armenia, in consideration of the prohibition set forth in the RA Civil Code, as well as in RA Laws on Limited Liability Companies and on Joint Stock Companies on releasing a participant/shareholder of the company from the obligation to pay for shares or from the obligation to make a contribution in the authorized capital of a company by offsetting claims against the company, in practice, the conclusion of a convertible loan agreement was excluded, whereof the offset of obligation to repay the loan to the company would occur. The amendments exclude the applicability of the said prohibition to the convertible loan agreement.

What is a convertible loan?

The conclusion of a convertible loan agreement will allow a joint stock or limited liability company to provide a loan, while simultaneously allowing acquisition of a shareholding in the authorized capital of that company, instead of the obligation to repay the loan amount or part thereof and/or pay interest or part thereof. Moreover, such an opportunity shall be initially envisaged in the convertible loan agreement.

Furthermore, according to the new regulations, in the case of limited liability companies, the provision of convertible loans to third parties not deemed participants of the company is not possible only in the case, where the charter prohibits the increasing of the authorized capital through contributions of third parties.

Do the amendments regulate the conversion of foreign currency loans; what do they envisage?

The prohibition to make cash (monetary) investments in the authorized capital of legal entities operating in the territory of the Republic of Armenia exclusively in Armenian drams has not been removed. Instead, the amendments stipulate that foreign currency loans must be renewed and replaced with loans in AMD in which case it should be deemed that the investment is made in AMD. Moreover, the exchange rate to be mandatorily used as a basis is the average exchange rate published by the Central Bank of the Republic of Armenia, formed on the currency markets, as of the date on which the request for conversion (or the application, in the case of a limited liability company) is received (or deemed received) by the borrowing company.

Is the decision of the general meeting required to conclude a convertible loan agreement?

Both limited liability companies and joint-stock companies are required to have in place the decision on concluding a convertible loan agreement adopted by the general meeting of shareholders/participants of the company (hereinafter referred to as the "General Meeting"). For both organizational types of companies, such a decision should be adopted by the unanimous voting; yet, for joint-stock companies, the company's charter may stipulate a possibility of adopting a decision with at least $\frac{3}{4}$ of the votes of all owners of voting shares. Regarding the applicability of the latter case, it is stipulated that the shareholders of the company who vote against the conclusion of the convertible loan agreement will retain the preemptive right to acquire shares subject to subsequent issuance and allocation by the company. Then, where these shareholders decided to exercise their preemptive rights, the borrowing company will be relieved of fulfilling the obligation in kind on condition that it compensates the losses of the lender, specifically, it will be relieved of the obligation to issue and allocate shares in its authorized capital in favor of the lender.

When and how does the conversion take place?

The conversion process commences when the lender files a written conversion request/application with the executive body of the company, which shall include justifications regarding the occurrence of conditions set forth in the contract, in cases where the agreement makes the emergence of the conversion right conditional upon certain events. If the contract stipulates that the request/application shall be deemed received when the conditions defined in the contract occur, then as such there will be no need to submit a separate

request/application at the time when such conditions occur.

From the time when the request/application is received or is deemed to be received, the executive body of the company shall convene a general meeting, so that all decisions required for the conversion are made within 60 days from the said date. The conversion shall be deemed completed as of the moment of state registration of the relevant changes in the charter capital and the composition of participants and/or the size of shareholding.

Moreover, in the case of LLCs, the lender's contribution in the authorized capital of the company shall be deemed paid at the time of adopting the decisions necessary for the conversion after receiving the conversion request; for JSCs, the shares shall be deemed paid at the time of their allocation.

At the same time, it is also essential that in the event of a conversion, new shares may be allocated at a price below the market value.

This material was prepared on 10/06/2025.

About Authors

Narine Beglaryan

Senior Partner, attorney

Narine Beglaryan leads the firm's corporate law and M&A area of practice, as well as banking law and capital markets, data protection and privacy practices. Her role encompasses providing expert legal advice and litigating on behalf of clients.



Narine Beglaryan has been a licensed attorney since 2012. Joined the Concern Dialog team in 2013.

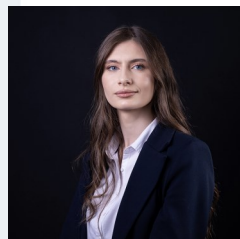
With over 15 years of experience, her expertise is recognised internationally, as evidenced by her inclusion in the main ranking lists such as the prestigious Chambers Global, Chambers Europe, and IFLR1000, as well as being featured in the Legal500 ranking of leading individuals.

Prior to joining the Concern Dialog team, she worked for seven years in a bank and in the telecommunication sector (in-house counsel).

Ani Mkrtumya

Associate, attorney

Ani Mkrtumyan specialized in corporate law and personal data protection. In particular, she is involved in providing expert advice and legal representation regarding the sectors. She has been a licensed attorney since 2023. Joined Concern Dialog team in 2021.



About Concern Dialog



Concern Dialog is a top-tier, full-service law firm, headquartered in Yerevan, Armenia. It has been a trusted partner for businesses and individuals seeking legal counsel and representation since 1998. The firm is renowned for its work in the areas of corporate law, labour law, competition law, tax law, contract law, family law (including child abduction cases), and regulatory issues. Concern Dialog has extensive experience in regulatory matters in TMT, mining, energy, utilities, banking and finance, medical services, real estate, and not-for-profit sectors. In addition to its renowned consulting and transaction practice, the firm's litigation practice is regarded as one of the leaders in Armenia for landmark litigation and arbitration cases. Concern Dialog's membership of TagLaw and Nextlaw networks, as well as its co-operation with individual law firms from various jurisdictions, allow the firm to provide services to its Armenian clients virtually worldwide.