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Supporting Sustainable Capital Markets and Promoting Sound Corporate Governance Regional Initiative Implementation Plan

August 2011

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Supporting Sustainable Capital Markets and Promoting Sound Corporate Governance

Regional Initiative Implementation Plan

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Acronyms

CEE	Central and Eastern Europe
EBRD	European Bank for Reconstruction and Development
E&E/EG	USAID's Economic Growth Office, Europe and Eurasia Bureau
FINRA	Financial Industry Regulatory Authority (U.S.)
FSU	Former Soviet Union
IASB	International Accounting Standards Board
IOSCO	International Organization of Securities Commissions
IR	Investor Relations
MmoU	Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information
NASD	National Association of Securities Dealers
PFS	Partners for Financial Stability Program
PMP	Performance Monitoring Plan
RIIP	Regional Initiative Implementation Plan
SEE	Southeast Europe
USAID	United States Agency for International Development

About PFS

The United States Agency for International Development (USAID) Partners for Financial Stability (PFS) Program is led by the Office of Economic Growth in the Europe and Eurasia Bureau (E&E). The project addresses the challenges facing the financial sector in 12 Partner Countries: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia (Southeastern Europe) as well as Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine (Eurasia). Other countries in the E&E region that are considered USAID 'graduates' serve as Mentor Countries in the PFS Program.

The PFS Program is designed to complement the work of the bilateral USAID missions' Economic Growth programs in the region by bringing together regional players to address regional challenges. PFS Program activities include benchmarking studies, conferences, knowledge sharing, research and technical assistance. The PFS Program addresses the challenges of the financial systems in these regions, working in a broad range of subject areas including anti-money laundering, banking and non-bank financial regulation, supervision and institutional rehabilitation, corporate governance, financial literacy, access to finance and implementation of international standards in financial sector reporting.

Forward

The purpose of this Regional Initiative Implementation Plan is to define a strategy to strengthen capital markets and promote sound corporate governance and investor relations. The goal of the proposed activities is to expand sources of finance and investment opportunities for businesses and households. This Plan begins with a brief analysis of the current challenges facing SEE and Eurasia to develop both well-functioning capital markets and the corporate sector's ability to meet standards of governance and transparency necessary to obtain investor trust and resources. The overall goal is to spur economic growth and job creation.

Because strengthening the mechanisms for providing capital differ from strengthening the capacities to attract it, this Plan presents its Objectives separately. It then defines a series of Activities designed to operate in parallel to address the development challenges identified. Lastly this Plan specifies the desired Outcomes and methods for Monitoring and Evaluating the contribution of the Activities towards meeting the desired Outcomes.



1. Executive Summary

In a market based economy, companies within the private sector must compete for the capital necessary to establish and fund their businesses. Optimally, a company should be able to access a range of financial products of various terms and conditions and resources (loans, equity and debt) and not have to rely solely on bank financing. In addition, investors and savers would like to have a range of opportunities.

A capital market provides the mechanism for matching investor funds to deserving companies. It is, in one sense, a conduit for the flow of investment capital within the private sector. A company's corporate governance and investor relations practices directly impact that company's ability to tap into the conduit for funds. Because investor funds are limited, corporate governance and investor relations can be viewed as a measure of a company's "competitiveness" for capital.

In the past decade the donor community was able to achieve significant progress in the development of the capital market and the promotion of good corporate governance practices in some countries. There were growing alternatives to bank finance. However, the unfortunate reality is that the global financial crisis that struck in mid-2008 has all but erased these gains. This holds true across the PFS region:

- The dramatic drop in share prices in the midst of the crisis resulted in a significant loss of wealth almost overnight.
- Due to the loss of investor trust and confidence, the current ability of companies to raise capital through new securities offerings is severely curtailed.
- Once again companies must rely more on banks to finance expansion and new job creation.
- The critical capital markets' institutions, e.g., stock exchanges, depositories, broker dealers, that rely on transaction-based revenue to fund their operations are experiencing steep losses and must reduce costs or face near-term insolvency; entire systems are in jeopardy.
- A "surprise failure" by a broker-dealer could expose investors to loss of assets.
- The severe retrenchment of the capital markets in the region has called into question the philosophical underpinnings of corporate governance and/or investor relations.

The Objectives of this Plan are to address these development challenges in a cost-effective, targeted manner that leads to measurable, long-lasting results. Given the limitations on PFS resources, the Plan seeks to leverage the roles and resources of partners (such as development institutions, international standards setters, and mentor country experts) in a fashion aligned with their goals and interests.

In the capital markets area, the Plan's Objectives are:

1. Lowering systemic risk in the Beneficiary countries;
2. Improving transparency and protecting shareholder rights;
3. Promoting new types of financial products geared to the local reality;
4. Improving the enabling environment to promote development of capital markets; and
5. Harmonization and integration of regional markets.

In the corporate governance area the Plan's Objectives are:

1. Improving corporate governance in the Beneficiary countries.
2. Improving disclosure by listed companies in the Beneficiary countries.

To achieve the PFS Program Objectives in the capital markets area the Plan proposes, inter alia:

- Developing model financial responsibility rules to be applied to market participants
- Supporting events which educate corporate management about the benefits of the publicly-held company
- Promoting the use of listed instruments such as preferred shares and corporate debt as alternative financing tools (to bank lending and common shares) which can contribute to expanding the size and scope of the capital markets.
- Supporting regional linkages among capital markets to produce the critical mass required to attract foreign investors.
- Supporting knowledge sharing events among securities regulators
- Promoting compliance with IOSCO principles and international agreements.

To achieve the PFS Program Objectives in the corporate governance area the Plan proposes, inter alia:

- Assisting in drafting or adopting corporate governance codes in countries lacking them
- Promoting implementation of corporate governance codes in countries that have them
- Supporting the participation of counterparts (primarily regulatory authorities and stock exchanges) from Beneficiary countries in regional events dedicated to corporate governance
- Conducting and publishing a semi-annual regional benchmarking survey, “Investor Relations Online – Survey of Websites of Listed Companies in Eurasia and SEE”
- Providing grants to research institutions in Eurasia and SEE to conduct country benchmarking surveys utilizing the same methodology as the regional surveys
- Publishing case studies on good governance and effective disclosure
- Supporting and participating in regional corporate governance seminars hosted by regulatory authorities and stock exchanges

The following summarizes the Activities proposed under this Plan.

Table 1: Summary Overview of Regional Initiative to Support the Capital Markets and Corporate Governance

Objective	Partnerships	Activity	Outcome	Monitoring
Capital Markets				
Lowering Systemic Risk in Beneficiary countries	IOSCO Technical Committees, EBRD, FINRA	Activity #1: Draft model rules and support regional conferences and technical workshops to promote implementation: financial responsibilities and bankruptcy law language.	Upgraded, proportional rules covering financial responsibility and bankruptcy language	An increased number of adopted new or upgraded rules in line with IOSCO Principles (per PFS project assessment) RIIP IO No. 1
Improving Transparency of Issuers	IOSCO Technical Committees, EBRD	Activity #2: Draft model disclosure rules and support regional conferences and technical workshops to promote implementation	Model, proportional disclosure rules for offerings adopted	An increased number of countries with a new proportional rules for offerings, periodic disclosure and listings RIIP IO No.2
Expanding the Markets by Promoting New Types of Financial Products	IOSCO Technical Committees, IASB, EBRD	Activity #3: Support regional conferences on use of preferred shares and debt, collect and publish market data, draft model disclosure rules for issuance of preferred shares and debt	Use of new instruments for raising capital	An increased number of new types of instruments used for raising capital in the region (security regulator data) RIIP IO No.3
Promoting Harmonization and Integration of Regional Markets	IOSCO Technical Committees, Vienna Borse, NASDAQ OMX, EBRD	Activity #4: Draft model rules for cross-border listings, support study tours of multilateral trading facilities and study tours of countries with integrated markets	Exchanges consider listing shares from other jurisdictions	An increase in listings of foreign companies on domestic exchanges in the region (security regulator data) RIIP IO No.4
Improving the Enabling Environment	IOSCO Technical Committees, WFE, FEAS, FINRA, EBRD	Activity #5: Conduct semi-annual conferences for securities regulators to focus on current, common issues facing securities regulators, with strong emphasis on both policy and implementation responses.	More robust regulatory environment that encourages capital formation while providing investor protection	Number of Beneficiary countries participating at semi-annual conferences RIIP IO No. 5

Objective	Partnerships	Activity	Outcome	Monitoring
		Activity #6: Conduct knowledge-sharing and technical assistance on 2008 IOSCO Assessment Methodology.	Compliance with IOSCO Principles is improved	Increased number of PFS country security regulator officials capable to conduct self-assessment of compliance with IOSCO Principles (PFS assessment and Security Regulator reporting), RIIP IO No. 5
		Activity #7: Support technical workshops and provide technical assistance on IOSCO MMOU accession, completion of the MMOU self-assessment, and accession process.	One or more Beneficiary countries becomes a signatory to the MMOU	Number of Beneficiary countries that become signatories of IOSCO MMOU RIIP IO No. 5
		Activity #8: Demand driven activities for securities regulators such as: Develop model inspection manuals; develop model procedures for rules governing the closure of insolvent market participants; support knowledge-sharing events for securities regulators on conducting inspections of market participants and effective enforcement investigations; support knowledge-sharing events for criminal investigative authorities, prosecutors and judges on securities-related cases, including financial reporting fraud.	Improved inspection and enforcement procedures adopted	Number of Beneficiary countries that adopt upgraded or new model supervision manuals or procedures (Security Regulators), RIIP IO No. 5
Corporate Governance				
Improving Corporate Governance in Beneficiary countries	Baltic Corporate Governance Institute; Global Corporate Governance Forum; IFC; NASDAQ OMX; Polish Institute of Directors	Activity #1: Draft model Corporate Governance Codes and support knowledge-sharing events and twinning arrangements to promote implementation of the Corporate Governance Codes by those countries that do not have it.	Corporate governance codes in line with international leading practice	Number of new Beneficiary countries that adopt and disseminate corporate governance codes. (per PFS project assessment and counterpart self-assessment), RIIP IO No.1
		Activity #2: Support knowledge-sharing events to increase public awareness of codes and		

Objective	Partnerships	Activity	Outcome	Monitoring
		experience sharing by successful listed companies.		
Improving Disclosure by Listed Companies in Beneficiary countries	BusinessWire; International Investor Relations Federation; NASDAQ OMX; Polish Investor Relations Institute	<p>Activity #3: Co-finance demand-driven country benchmarking surveys</p> <p>Activity #4: Develop and publish case studies on good governance</p> <p>Activity #5: Support regulatory authorities and stock exchanges to organize regional knowledge-sharing events on corporate governance/ transparency</p>	Improved disclosure practices by listed companies	An increase in improved disclosure practices by listed companies (per PFS annual regional benchmarking surveys), RIIP IO No. 2

2. The Development Challenge

The Impact of the Global Financial Crisis

Prior to the global financial crisis, trading volumes were growing dramatically in a number of countries in CEE, SEE and Eurasia. These countries were also experiencing rising share prices broadly across their markets, generating wealth (at least on paper) for the holders. On the corporate side, there was steady improvement in the business and management cultures. While “capacities” and “attitudes” are harder to measure, based upon surveys carried out by the legacy PFS program and other proxy indicators, it is clear that significant progress was being made.

The global financial crisis that struck in mid-2008 brought about an abrupt halt to these trends. The capital flight from these emerging market countries resulted in a dramatic drop in prices resulting in loss of wealth almost overnight. The resulting loss of investor trust and confidence has made the capital markets a less attractive location for savings. Private companies are finding it difficult to raise equity. This limits private sector growth and job creation.

Nature and Extent of Today’s Development Challenge

While the degree of the post-crisis challenges may vary by country within the PFS region, the nature of these challenges is common to all of the countries in Southeast Europe and Eurasia. Consequently, addressing these issues collectively under a regional PFS program will leverage USAID funding and complement the economic development programs pursued by regional missions.

System Fragility Due to Small Market Sizes and Structure

As transaction-based revenues have plunged over the last two to three years, the market players have been experiencing steep operating losses. This applies with equal force to securities exchanges, clearance and settlement entities, depositories and share registries. Unless trading volumes return to pre-crisis levels soon, or these institutions find ways to consolidate and reduce costs, these systems may face near-term insolvency. Due to institutional interdependence, failure of one institution will imperil country-wide markets.

The development challenge is how to preserve the viability of the single-country markets – and thus protect the country’s ability to provide financing for its smaller but promising companies – while at the same time providing an enabling environment that will facilitate linkages that lead to better “critical mass” for the capital markets as a whole for the region which can focus on the larger, more established companies.

Risk of Investor Losses Due to Failures of Market Intermediaries (Broker-Dealers)

The steep losses being incurred by the market intermediaries in the Beneficiary countries has caused a decline in the number of licensed broker-dealers by 25 to 50 percent, and the trend is continuing into 2011. Although broker-dealer bankruptcies may be a form of market correction, “surprise failures” can result in loss of investor assets and destroy market confidence unless financial responsibility rules are in place and enforced. The region needs more advanced financial responsibility regimes, coupled with an enforced rule segregating customer assets from the broker-dealer’s assets, in order to protect customer assets in this hostile post-crisis environment.

Backsliding in Attitudes towards Corporate Governance and Transparency

In light of the financial crisis and the resulting curtailment of the private sector’s ability to raise investor funds via the capital market, management of companies within the Beneficiary countries may be asking what benefit are received for embracing these ‘western’ ideals. If these markets experience backsliding in the attitudes – or worse, practices -- towards corporate governance and

investor relations the donor community will find itself trying to cover the same development territory yet again as it promotes the use of these approaches.

The response should be to reach out to progressive management and assist companies to come to the markets. These activities, coupled with a continuance of the efforts to promote good corporate governance and investor relations, should enable USAID to retain the gains made over the last 10 years in building capacity and developing corporate management culture that leads to private sector corporate growth and jobs creation.

Uneven Regulatory Capacity

Securities regulation within the PFS region is uneven across the countries. Four of the eleven countries are not members of the International Organization of Securities Commissions (IOSCO). Six of the eleven countries are not signatories to the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information". The level of compliance with IOSCO's "Objectives and Principles of Securities Regulation" is known only through occasional assessments by various donors.

Interventions focused on boosting implementation of IOSCO's international standards, establishing all Beneficiary countries as IOSCO members and bringing all of the countries within the MMOU as signatories should elevate the quality of securities regulation within the PFS region to international standards. An additional impact of these interventions would be to harmonize regulation across the region, which, in turn should support cross border activities and promote more regional linkages.

Responses of other Donors

Capital Markets

Capital markets interventions in the Beneficiary countries by other donors are varied, and unevenly applied geographically. The EBRD's capital markets activities are directed toward developing local currency financing alternatives as well as overall capital markets develop; activities vary in their scope from country to country. With regard to their financial sector activities, the World Bank and the International Monetary Fund continue their main focus on public sector finance and governance. To the extent that either institution has programs relating to the capital markets these involve the government debt markets. (The exception to this in the Beneficiary countries is an upcoming comprehensive capital markets project in Azerbaijan sponsored by the World Bank.) The FIRST Initiative sponsors single country capital markets programs often focused on a single, specific aspect with resources in the \$100,000 to \$300,000 range. It appears that FIRST has only one current project in the SEE or Eurasia region. The standard setting bodies such as FASB and IOSCO conduct their operations with a world-wide outlook. There are no programs devoted to the PFS regions.

PFS will closely coordinate a number of its activities with EBRD to ensure complementary approaches. We will also seek to share costs with them when appropriate. Otherwise there are no significant donor responses to the development challenges outlined above within Southeast Europe and Eurasia. There is a significant development gap to be filled.

Corporate Governance

A small number of donors are currently implementing corporate governance projects in Eurasia and in SEE. The primary donors are IFC and the Global Corporate Governance Forum (GCGF), both of which have some country projects and some regional initiatives. In general, it seems that both donors are slowly downsizing their activities in SEE; the PFS Program has been in contact with the GCGF to discuss their work plan for 2011-2012. The EBRD is developing a corporate governance code for adoption in Armenia. Several Eurasian and SEE institutions are members of the European

Corporate Governance Institute (ECGI). Capital markets regulators from Eurasia and SEE are invited to attend the US SEC International Institute for Securities Market Development in Washington, DC each spring. Corporate governance and disclosure are among the topics covered. From 2001-2009 the PFS Program exchanged information with these institutions on an ongoing basis. Also, it participated with them on a few projects related to corporate governance. The PFS Program would continue to exchange information and coordinate activities with all of the above-mentioned institutions.

Notwithstanding the above-mentioned donor programs, there is still a gap for specific, demand-driven corporate governance activities in Eurasia and SEE. First, despite the activities of the above-mentioned donors, there is still a need to improve and strengthen disclosure of information about corporate governance and corporate governance codes as well as improve implementation of the codes. Second, many of the donor-funded activities do not include expertise from CEE “mentor” countries, which have recently implemented corporate governance reforms, harmonized local legislation with EU requirements and responded to the informational demands of institutional investors by improving corporate governance and disclosure. A hallmark of the PFS Program’s corporate governance/disclosure activities would be to share the recent experience and expertise of CEE mentor countries with counterparts in Eurasia and SEE.

3. Objectives of the Regional Initiative

Overarching Objective

To achieve a positive, leveraged impact on the development of capital markets and improvement in corporate governance practices in Southeast Europe and Eurasia.

Capital Markets

Objective 1: Lowering Systemic Risk in the Beneficiary countries.

This Objective seeks to address the challenges of: (1) protecting customer’s assets from loss due to insolvency of intermediaries; (2) improving the financial viability of the market infrastructure, and (3) avoiding market disruption due to surprise insolvencies. Activities tied to this objective are designed to increase the stability of the existing capital markets systems.

Objective 2: Improving Transparency and Corporate Governance and Protecting Shareholder Rights

This Objective seeks to improve the access to, and trustworthiness of, the capital markets. Activities tied to this objective will address the challenges of (1) improving issuer transparency, and (2) protecting shareholder rights, resulting in “sound governance” of private sector companies.

Objective 3: Expanding the Markets by Promoting New Types of Financial Products.

This Objective seeks to increase the size of the capital markets and grant greater access to investment choices by investors. Activities tied to this objective will address the related development challenges of: (1) improving the financial viability of the market infrastructure, and (2) mitigating problems of scale.

Objective 4: Promoting Harmonization and Integration of Regional Markets

This Objective seeks to increase linkages of markets across the region and grant greater regional access to investment choices by investors. Activities under this Objective should result in PFS Program Goals of promoting financial integration of the Beneficiary countries into the global economy.

Objective 5: Improving the Enabling Environment

This Objective seeks to improve the enabling environment of the capital markets. Activities under this Objective should result in promoting stable, well-functioning E&E financial sectors, thus contributing to region-wide and broad-based economic growth.

Corporate Governance

Objective 1: Improving corporate governance in the Beneficiary countries

This Objective seeks to improve corporate governance codes in line with international best practices. Activities under this Objective should build capacity in corporate management culture that leads to private sector corporate growth and jobs creation.

Objective 2: Improving disclosure by listed companies in the Beneficiary countries

This Objective seeks to improve disclosure practices by listed companies. Activities under this Objective are designed to make the capital markets more attractive for local and international portfolio investors by addressing corporate governance and disclosure deficiencies.

4. Partnerships

Within the Capital Markets area, the most likely development partners can be described in two main categories. First, with regard to the public sector regulator the main development partners will be IOSCO (and its relevant technical committees) and other regulatory and standard-setting bodies such as FINRA and IASB. The relevant bodies from the Mentor Countries will play a key role in developing model rules and sharing knowledge and experience.

Second, with regard to the private sector the main development partners will be those entities working within the Mentor Countries such as NASDAQ/OMX and the Vienna Borse, and the affiliated clearance and settlement and depository institutions. Business associations such as the NASD may also contribute their expertise.

PFS will coordinate its activities with USAID missions in the beneficiary countries, in particular with missions' ongoing bilateral financial sector programs, for instance the FINREP project in Ukraine, PARE project in Bosnia, and other economic growth projects with a financial sector component.

Activity	Partner Contribution
Lowering Systemic Risk	
1. Lowering Systemic Risk	<ul style="list-style-type: none"> • Mentor Country regulators share their relevant lessons learned • IOSCO Technical Committee and EBRD review draft model rules. • IOSCO and EBRD provide speakers for conference and knowledge sharing event • IOSCO and EBRD contribute staff time and knowledge sharing materials. • FINRA presents implementation guidance
Expanding Access to the Capital Markets	
2. Improving Transparency of Issuers	<ul style="list-style-type: none"> • Mentor Country regulators share their relevant lessons learned • IOSCO Technical Committee and EBRD review draft model rules.
3. Promoting New Types of Financial Instruments	<ul style="list-style-type: none"> • IOSCO Technical Committee and EBRD review draft model rules • IASB, IOSCO, and EBRD provide speakers for knowledge sharing sessions • IFC presents results of pilot programs for new instruments

	<ul style="list-style-type: none"> • Mentor Country exchanges share their relevant lessons learned
4. Supporting Regional Linkages	<ul style="list-style-type: none"> • NASDAQ OMX hosts study tours • Vienna Bourse hosts study tours • IOSCO Technical Committee and EBRD review draft model rules
Improving the Enabling Environment	
5. Regional Knowledge Sharing Workshops for Securities Regulators	<ul style="list-style-type: none"> • IOSCO, WFE, FEAS to provide speakers at workshops • Mentor Country regulators share their relevant lessons learned
6. IOSCO Principles Self Assessments	<ul style="list-style-type: none"> • IOSCO Secretariat to provide leadership on collecting assessments • Mentor Country regulators share their relevant lessons learned
7. Promoting Accession to the IOSCO MMOU	<ul style="list-style-type: none"> • IOSCO MMOU Committee to assist in review process • Mentor Country regulators share their relevant lessons learned
8. Upgrading and Harmonizing Supervision of the Markets	<ul style="list-style-type: none"> • FINRA, IOSCO and EBRD provide speakers for knowledge sharing sessions • Mentor Country regulators share their relevant lessons learned

In the area of Corporate Governance, the primary partners in the Beneficiary countries will be the regulatory authorities and stock exchanges. Development partners in mentor countries include: Baltic Corporate Governance Institute; NASDAQ OMX stock exchanges in Estonia, Latvia and Lithuania; and the Polish Institute of Directors. Other development partners include IFC and Global Corporate Governance Network.

In the area of Transparency and Disclosure, the primary partners in the Beneficiary countries will be the regulatory authorities and stock exchanges. Development partners in mentor countries include: NASDAQ OMX stock exchanges in Estonia, Latvia and Lithuania as well as the Polish Investor Relations Institute. Other development partners include BusinessWire and the International Investor Relations Federation.

5. Proposed Activities

Capital Markets ¹

Lowering Systemic Risk

Activity #1: Draft model rules and support regional conferences and technical workshops to promote implementation: financial responsibility regimes and bankruptcy law language.

The Activities will consist of the following elements, implemented based on the level of indicated interest:

¹ The implementation of these Activities will be guided by two overarching principles. First the subject matters of these interventions must be demand-driven. The counterparts must identify these topics as a priority concern. Thus, we have included the tool of a survey prior to commencement of the overall work (Annex 2). Second, our counterparts – given their resources and staff sizes – have only a limited ability to engage on these issues and absorb and implement the recommended reforms. If in the outer months we perceive that the counterparts have reached their capacity to take on new activities we will focus on successfully completing the work in progress before recommending a new line of activity.

- 1.1 Conducting a survey of countries to determine their interest in working to improve their financial responsibility regimes.

If sufficient interest is demonstrated:

- 1.2 Surveying countries to determine the elements of their financial responsibility regimes, including use of segregated accounts, calculation of regulatory capital, aggregate indebtedness limits and liquidity requirements.
- 1.3 Surveying countries (including possible off-site review of law) to determine if bankruptcy law (civil code) protects customer assets from the claims of the broker's creditors.
- 1.4 Developing model rules (or required components) for financial responsibility that are scalable for market conditions, to be adopted by Beneficiary countries' securities regulators
- 1.5 Developing model components for contents of bankruptcy laws (civil codes) and proposed language points for inclusion in law to protect customer assets from claims of the broker's creditors.
- 1.6 Holding a regional technical workshop to present (1) Results of surveys and model financial responsibility rules, and (2) results of surveys and bankruptcy law model components and language.
- 1.7 Technical assistance, to include online collaboration and/or advisors from mentor countries to the extent possible, as needed for adoption of required amendments to laws and regulations.

Improving Transparency of Issuers

Activity #2: Draft model disclosure rules and support regional conferences and technical workshops to promote implementation

The Activities will be implemented through several stages:

- 2.1 Conducting a survey of countries to determine their interest and need in working to upgrade their financial disclosure regimes.

If sufficient interest is demonstrated, and in connection with PFS' Corporate Governance and Investor Relations Component:

- 2.2 Educating managements on the concept of the publicly-held company, together with all benefits and obligations.
- 2.3 Developing model rules for disclosure during issuance, geared to the size of the PFS markets and reflecting proportionality.
- 2.4 Developing model disclosure rules for periodic reports, again geared to the size of the PFS markets and reflecting proportionality.

Note: Development of a model e-filing system for periodic disclosure reports might also be a high priority but would involve a high level of effort and an IT component. PFS will attempt to determine if a mentor country has a replicable system which could be shared.

Expanding the Markets by Promoting New Types of Financial Instruments

Activity #3: Support regional conferences on use of preferred shares and debt, collect and publish market data, draft model disclosure rules for issuance of preferred shares and debt

The Activities will apply to all Beneficiary countries and be implemented through several stages:

- 3.1 Collecting and publishing data semi-annually on securities offerings within CEE, SEE and FSU, including both public and private offerings and covering all types of securities – common shares, preferred shares and corporate debt. Data will be used for internal PFS purposes and

publicized to promote market development and transparency. Data will initially be collected by PFS but a sustainable partner will be sought to carry out data collection and publication on an ongoing basis. PFS completed the first round of data collection in Q2-2011 in connection with a PFS technical brief.

- 3.2 Surveying countries on companies' authority to issue preferred shares and debt, including location of legal authority (e.g., securities or company law), any limitations imposed under the law (e.g., maximum debt to equity ratios), tax treatment of issuance and accounting impacts.
- 3.3 Supporting initial technical workshops for industry and regulators on:
 - the flexibility of preferred shares, including cumulative vs. noncumulative dividends, further participation in profits, voting vs. non-voting, dividends in forms other than cash, dividends calculated according to profits, conversion rights, rights to call, rights to put.
 - the flexibility of corporate debt, including secured vs. unsecured, variable interest, subordination and seniority, interest payments in forms other than cash, conversion rights, rights to call, rights to put.
 - experience of use of preferred shares and corporate debt within mentor countries, Southeast Europe and Eurasia.
- 3.4 Developing model disclosure rules for the issuance of preferred shares and debt.

Promoting Harmonization and Integration of Regional Markets

Activity #4: Draft model rules for cross-border listings, support study tours of multilateral trading facilities and study tours of countries with integrated markets

The Activities will apply to all Beneficiary countries and can be implemented in conjunction or as stand-alone activities.

- 4.1 Creating model rules for listing foreign companies on domestic exchanges
- 4.2 Creating model disclosure rules for foreign companies listed on domestic exchanges.
- 4.3 Conducting study tours of multilateral trading facilities
- 4.4 Conducting study tours of countries with integrated markets (such as the Baltics)
- 4.5 Supporting demand-driven initiatives by exchanges and regulators to increase cross-border linkages through knowledge sharing events and targeted research.

Improving the Enabling Environment

Activity #5: Conduct semi-annual conferences for securities regulators to focus on current, common issues facing securities regulators, with strong emphasis on both policy and implementation responses.

The Activities will focus on current, common issues facing securities regulators, with strong emphasis on both policy and implementation responses.

- 5.1 Conducting semi-annual conferences to raise the most topical regulatory challenges and to have leading regulators suggest practical, effective approaches, with the results and conclusions synthesized into suggested model practices, policies and regulations applicable across the PFS region. The topics will be selected via survey and consultations and be demand-driven.

These semi-annual events can also be used to present results of the surveys and off-site work described in the other Activities below. Cost-sharing will be sought from host countries, participants, and partner organizations.

Activity #6: Conduct knowledge-sharing and technical assistance on 2008 IOSCO Assessment Methodology.

The Activities would be implemented in a sequence, depending on level of demonstrated interest:

- 6.1 Workshop on Methodology for Assessing Compliance
- 6.2 Technical assistance to PFS regulators in conducting self-assessments
- 6.3 Collect assessments conducted by donor projects and the self-assessments by regulators, followed by scoring and benchmarking reports used as baseline for time series studies
- 6.4 Comparing results to identify common issues
- 6.5 Follow-up knowledge sharing or conferences on findings and best solutions
- 6.6 Periodic repetition of the self-assessment to gauge progress and continued collection of assessments by donor projects (if time and resources permit).

Activity #7: Support technical workshops and provide technical assistance on IOSCO MMOU accession, completion of the MMOU self-assessment, and accession process.

This Activity will apply to Georgia, Azerbaijan, Moldova, Belarus, Ukraine, Armenia and Bosnia (Federation). It will be implemented through several stages:

- 7.1 Workshop on: (a) contents of the MMOU, (b) implementation experiences by current signatories (including PFS country and mentor country signatories), and (c) use and application of the self-assessment contained in the MMOU
- 7.2 Technical assistance on completing the MMOU self-assessment (using online collaboration and/or advisors from mentor countries to the extent feasible)
- 7.3 Technical assistance during the accession process (again relying on online collaboration and/or advisors from mentor countries to the extent feasible)

Activity #8: Demand driven activities for securities regulators.

This Activity will be implemented through several stages:

- 8.1 Conducting a survey of Beneficiary countries' interest in working on improving supervision of the markets

If sufficient interest is indicated, one or more of the following:

- 8.2 Developing model inspection manuals for all types of market participants including broker-dealers, investment funds and fund management companies.
- 8.3 Developing model procedures (or components checklist) for rules governing the closure of insolvent market participants.
- 8.4 Organizing or supporting regional workshops on conducting inspections of market participants (on-site and off-site inspections).
- 8.5 Organizing or supporting regional workshops on conducting effective enforcement investigations, including obtaining documents, interview techniques and developing admissible evidence, also to include required elements of proof.
- 8.6 Organizing or supporting regional workshops for criminal investigative authorities, prosecutors and judges on securities related cases, including financial reporting fraud.

Corporate Governance

Improving Corporate Governance in the Beneficiary countries

Activity #1: Draft model Corporate Governance Codes and support knowledge-sharing events and twinning arrangements to promote implementation of the Corporate Governance Codes by those countries that do not have it.

The Activities will consist of the following elements, implemented based on the level of indicated interest:

- 1.1 Conducting a survey of countries to determine more precisely their status, needs, and the degree of potential cooperation which can be made with other donors (mainly IFC).

If sufficient interest is demonstrated:

- 1.2 Assisting in drafting and adopting Corporate Governance Codes in those countries which do not yet have them (Albania, Belarus, Bosnia-Federation, and Georgia).²
- 1.3 Strengthening implementation of Corporate Governance Codes (Armenia, Azerbaijan, Macedonia, Moldova, Ukraine, Bosnia-Republika Srpska, Montenegro, and Serbia).

Activity #2: Support knowledge-sharing events to increase public awareness of codes and experience sharing by successful listed companies.

The Activities will consist of the following elements:

- 2.1 Organizing or supporting knowledge sharing events, technical workshops, or twinning programs (with mentor countries) for Beneficiary countries interested in adopting codes
- 2.2 Supporting stock exchanges in promoting public awareness of codes
- 2.3 Supporting experience sharing by successful listed companies to motivate other companies to list their shares or other instruments.

Improving Disclosure by Listed Companies in the Beneficiary countries

Activity #3: Co-finance demand-driven country benchmarking surveys

The Activities will consist of the following elements:

- 3.1 Conducting semi-annual regional benchmarking surveys, “Investor Relations Online – Survey of Website of Listed Companies in Eurasia and SEE.”
- 3.2 Co-financing (demand driven) detailed country benchmarking surveys that utilize the same or similar methodology as the regional surveys. The country surveys would be conducted by Eurasian and/or SEE research institutes.

Activity #4: Develop and publish case studies on good governance

This Activity will consist of the following elements:

- 4.1 Co-financing and publishing case studies on good governance.

² Kosovo has a code for state owned enterprises only. Kosovo does not have publicly listed companies.

Activity #5: Support regulatory authorities and stock exchanges to organize regional knowledge-sharing events on corporate governance/ transparency

This Activity under IO 2 will consist of the following elements:

- 5.1 Supporting local counterparts (regulatory authorities and stock exchanges) to organize regional seminars / events on corporate governance and transparency / investor relations. The Georgian Stock Exchange and the Belgrade Stock Exchange have already requested that the PFS Program cooperate with them on such a seminar.

6. Expected Outcomes

Capital Markets

Objectives	Expected Outcomes
1. Lowering Systemic Risk	Upgraded, proportional rules covering financial responsibility and bankruptcy language.
2. Improving Transparency of Issuers	Model proportional disclosure rules for offerings adopted by regulators.
3. Expanding the Markets by Promoting New Types of Financial Products	Use of new instruments for raising capital.
4. Promoting Harmonization and Integration of Regional Markets	Exchanges in Beneficiary countries consider listing shares of other jurisdictions.
5. Improving the Enabling Environment	More robust regulatory environment that encourages capital formation while providing investor protection
	Compliance with IOSCO Principles is significantly improved.
	One or more Beneficiary countries become signatories to the MMOU
	Model inspection procedures and enforcement procedures adopted.

Corporate Governance and Transparency

Objectives	Expected Outcomes
1. Improving Corporate Governance in Beneficiary countries	Corporate governance codes in line with international leading practice
2. Improving Disclosure by Listed Companies in Beneficiary countries	Improved disclosure practices by listed companies

7. Monitoring Plan

This section of the Regional Initiative Implementation Plan outlines how PFS will measure and monitor whether PFS activities are on track and contribute to the achievement of Regional Initiative Outcomes.

PFS will track the results of this Regional Initiative as part of its Performance Monitoring Plan (PMP), using various data sources, such as PFS assessments and benchmarking studies, international institutions data reporting, counterpart self-assessments and reporting. PFS will also use surveys to measure overall satisfaction with PFS events amongst stakeholders (for example, after study tours or knowledge-sharing events), and thereby also gauge future demand for PFS initiatives/interventions.

PFS will track cost-sharing amounts and percentages by the beneficiaries of the activities and by other co-financing organizations. Beneficiaries' and other organizations' willingness to share in the costs of PFS activities is a strong indicator of the usefulness of the events.

The Monitoring Plan follows our standard PMP approach to mapping of outputs and outcomes, followed by a list of new indicators resulting from this Regional Initiative to be incorporated in the PMP. The activities will also contribute to existing PMP indicators and will be reported as part of the established PMP reporting process.

Table 2: “Capital Markets Regional Initiative Monitoring Plan”

E&E/EG Office Level	AO: Broad-based, inclusive and sustainable economic growth and integration in the E&E region			
	IR: Increased Financial Sector Stability, Growth and Inclusion			
	IR Indicators:	Credit to the private sector as of GDP (FA Framework)		
		Interest rate spread percentage (FA Framework)		
		Capital adequacy		
NPL as a % of total lending				
Sub IR 1.1: Increased financial sector integration	Sub IR 1.2: Increased harmonization of policies and practices with international standards	Sub IR 1.3: Increased institutional capacity of financial sector actors	Sub IR 1.4: Increased access to financial services for historically underserved groups	
PFS Program PMP-Level	Sub IR Indicators:			
	Number of formal partnerships developed with regional and international standard organizations, donor organizations, and research organizations in PFS areas	Number of Financial Sector Professionals trained on international standards with PFS assistance (PPR)	Number of Financial Sector Supervisors or Regulators trained with PFS assistance (PPR)	Number of financial institutions supported by PFS technical assistance in the area of SME lending
	Number of networks established between PFS financial sector stakeholders across PFS technical areas across E&E region	Number of internationally recognized financial sector standards adopted as a result of PFS assistance	Number of material improvements in the infrastructure institutions that reduce market risks made with PFS assistance (PPR)	Positive change in utilization of donor credit lines or guaranty facilities for onlending to SMEs by those financial institutions supported by PFS technical assistance
		Number of financial sector training and/or certification programs established or supported that meet international standards (PPR)	Increase in revenue of PFS partners associations, training institutions or other organizations for provision of training or other services to financial sector stakeholders.	Number of financial sector training and/or certification programs established or supported that meet international standards (PPR)

Regional Initiative Implementation Plan - Capital Markets				
Notional Budget: \$800,000				
RIIP Primary Objective: To achieve a positive, leveraged impact on the development of capital markets and improvement in corporate governance practices.				
RIIP Intermediate Objective 1: Lowering systemic risk in the Beneficiary Countries	RIIP Intermediate Objective 2: Improving transparency and protecting shareholder rights	RIIP Intermediate Objective 3: Expanding the markets by promoting new types of financial products	RIIP Intermediate Objective 4: Promoting harmonization and integration of regional markets	RIIP Intermediate Objective 5: Improving the enabling environment
<p>Number of adopted new or upgraded rules in line with IOSCO Principles by PFS Beneficiary Countries.</p> <p>Unit of measure: Regionally consolidated cumulative number of adopted rules per PFS project assessment or (if available) security regulators' self-assessments. Each rule counts as "1" for adoption, "0.5" for partial adoption, and "0" for no adoption. Rules to be tracked: Financial responsibilities, bankruptcy law language, valuation rules, offering rules, periodic disclosure rules, e-transmission, disclosure rules for issuance of preferred shares and debt, listing of foreign companies, disclosure rules for foreign companies.</p>	<p>Number of countries adopting new or improved disclosure rules.</p> <p>Unit of Measure: Regionally consolidated cumulative number of countries with upgraded or new proportional rules for offerings, periodic disclosure and listings per PFS project assessment.</p>	<p>Number of new types of instruments used for raising capital in the region (security regulator data).</p> <p>Unit of measure: Regionally consolidated cumulative number of offerings, both public and private placements. Score of "1" for each transaction.</p>	<p>An increase in listings of foreign companies on domestic exchanges in the region (security regulator data).</p> <p>Unit of Measure: Percentage increase in number of foreign companies listed on PFS Beneficiary country domestic exchange pre and post PFS assistance.</p>	<p>Number of PFS Beneficiary country signatories to IOSCO MMOU as reported by security regulators.</p> <p>Unit of Measure: Currently only Albania, Montenegro and Serbia are signatories. Any additional PFS Beneficiary Country signatories can be attributable to PFS assistance.</p> <p>Number of PFS country securities regulator officials capable to conduct self-assessment of compliance with IOSCO Principles (PFS assessment and Security Regulator reporting)</p> <p>Unit of Measure: Regionally consolidated, cumulative number of PFS regulator officials capable to conduct self-assessment methodology. PFS Beneficiary Countries have at least one person proficient in self-assessment methodology - counted as "1". The assessment proficiency to be determined jointly between Security Regulator and PFS project.</p>

Project Initiative (RIIP) Level

	Activity	Activity Indicator(s)	Related RIIP Objective(s)	Related PMP Objective(s)
Activity Implementation Level	Activity #1: Draft model rules and support regional conferences and technical workshops to promote implementation: financial responsibilities and bankruptcy law language.	Number of model rules drafted.	RIIP Intermediate Objective 1: Lowering Systemic Risk in the Beneficiary countries.	Sub IR 1.2: Increased harmonization of policies and practices with international standards. Sub IR 1.3: Increased institutional capacity of financial sector actors
		Number of PFS Beneficiary countries participating at regional conferences and technical workshops.		
	Activity #2: Draft model disclosure rules and support regional conferences and technical workshops to promote implementation_	Number of PGS Beneficiary countries adopting new or improved disclosure rules	RIIP Intermediate Objective 2: Improving Transparency and Protecting Shareholder Rights	Sub IR 1.2: Increased harmonization of policies and practices with international standards.
	Activity #3: Support regional conferences on use of preferred shares and debt, collect and publish market data, draft model disclosure rules for issuance of preferred shares and debt_	Number of PFS Beneficiary countries participating at regional conferences.	RIIP Intermediate Objective 3: Expanding the markets by promoting new types of financial products	Sub IR 1.3: Increased institutional capacity of financial sector actors
Number of PFS Beneficiary countries adopting new or improved rules for issuance of financial instruments other than equity capital.				
Activity Implementation Level	Activity #4: Draft model rules for cross-border listings, support study tours of multilateral trading facilities and study tours of countries with integrated markets	Number of PFS Beneficiary countries adopting rules which allow for cross-listings.	RIIP Intermediate Objective 4: Promoting Harmonization and Integration of Regional Markets	Sub IR 1.1: Increased financial sector integration
		Number of PFS Beneficiary countries participating in study tours.		
	Activity #5: Conduct semi-annual conferences for securities regulators to focus on current, common issues facing securities regulators, with strong emphasis on both policy and implementation responses.	Number of PFS Beneficiary countries participating at semi-annual conferences.	RIIP Intermediate Objective 5: Improving the enabling environment.	Sub IR 1.3: Increased institutional capacity of financial sector actors
	Activity #6: Conduct knowledge-sharing and technical assistance on 2008 IOSCO Assessment Methodology.	Number of PFS Beneficiary countries that participate at knowledge-sharing events and/or are receiving technical assistance on self-assessment methodology.	RIIP Intermediate Objective 5: Improving the enabling environment.	Sub IR 1.2: Increased harmonization of policies and practices with international standards.

Activity	Activity Indicator(s)	Related RIIP Objective(s)	Related PMP Objective(s)
	Number of IOSCO Compliance Self-Assessments in the region as reported by securities regulators. Self-assessment, first time and repeat assessments, conducted by a regulator, each counts as "1".		Sub IR 1.3: Increased institutional capacity of financial sector actors
Activity #7: Support technical workshops and provide technical assistance on IOSCO MMOU accession, completion of the MMOU self-assessment, and accession process.	Number of PFS Beneficiary countries that participate at knowledge-sharing events and/or are receiving technical assistance on IOSCO MMOU accession.	RIIP Intermediate Objective 5: Improving the enabling environment.	Sub IR 1.2: Increased harmonization of policies and practices with international standards. Sub IR 1.3: Increased institutional capacity of financial sector actors
	Number of PFS Beneficiary countries that become MMOU signatories.		
Activity #8: Demand driven activities for securities regulators such as: Develop model inspection manuals; develop model procedures for rules governing the closure of insolvent market participants; support knowledge-sharing events for securities regulators on conducting inspections of market participants and effective enforcement investigations; support knowledge-sharing events for criminal investigative authorities, prosecutors and judges on securities-related cases, including financial reporting fraud.	Number of model inspection manuals drafted.	RIIP Intermediate Objective 5: Improving the enabling environment.	Sub IR 1.2: Increased harmonization of policies and practices with international standards. Sub IR 1.3: Increased institutional capacity of financial sector actors
	Number of PFS Beneficiary countries with upgraded or new model inspection manuals or procedures for market participants as reported by security regulators.		
	Number of model procedures drafted.		
	Number of regulators, criminal investigators, prosecutors or judges from PFS Beneficiary countries participating at knowledge-sharing workshops.		

Table 3: “Corporate Governance Regional Initiative Monitoring Plan”

AO: Broad-based, inclusive and sustainable economic growth and integration in the E&E region				
IR: Increased Financial Sector Stability, Growth and Inclusion				
E&E/EG Office Level	IR Indicators:	Credit to the private sector as of GDP (FA Framework)		
		Interest rate spread percentage (FA Framework)		
		Capital adequacy		
		NPL as a % of total lending		
	Sub IR 1.1: Increased financial sector integration	Sub IR 1.2: Increased harmonization of policies and practices with international standards	Sub IR 1.3: Increased institutional capacity of financial sector actors	Sub IR 1.4: Increased access to financial services for historically underserved groups
PFS Program PMP-Level	Sub IR Indicators:			
	Number of formal partnerships developed with regional and international standard organizations, donor organizations, and research organizations in PFS areas	Number of Financial Sector Professionals trained on international standards with PFS assistance (PPR)	Number of Financial Sector Supervisors or Regulators trained with PFS assistance (PPR)	Number of financial institutions supported by PFS technical assistance in the area of SME lending
	Number of networks established between PFS financial sector stakeholders across PFS technical areas across E&E region	Number of internationally recognized financial sector standards adopted as a result of PFS assistance	Number of material improvements in the infrastructure institutions that reduce market risks made with PFS assistance (PPR)	Positive change in utilization of donor credit lines or guaranty facilities for onlending to SMEs by those financial institutions supported by PFS technical assistance
		Number of financial sector training and/or certification programs established or supported that meet international standards (PPR)	Increase in revenue of PFS partners associations, training institutions or other organizations for provision of training or other services to financial sector stakeholders. Number of new projects or programs flowing to the partners from PFS and follow-on projects.	

Project Initiative (RIIP) Level	Regional Initiative Implementation Plan - Corporate Governance	
	Notional Budget: \$200,000	
	RIIP Primary Objective: Improve the corporate sector's ability to meet standards of governance and transparency necessary to obtain investor trust and resources.	
	RIIP Intermediate Objective 1: Improving Corporate Governance in the Beneficiary Countries	RIIP Intermediate Objective 2: Improving disclosure by listed companies in the Beneficiary Countries
	An increase in the number of PFS Beneficiary Countries adopting and disseminating Corporate Governance codes in line with international best practices. Unit of measure: Regionally consolidated cumulative number of newly adopted and disseminated codes. Each code counts as "1" when newly adopted and "0" for no adoption or if already adopted. Each code counts "1" for new dissemination (on Stock Exchange website or other official publications) and "0" for no dissemination or if already disseminated.	A percentage increase in improved disclosure practices by listed companies. Unit of Measure: An increased cumulative score from the regional survey "Investor Relations Online - Survey of Websites of Listed Companies in Eurasia and SEE." Percentage increase is annualized to meet the PMP annual reporting requirements.

Activity	Activity Indicator(s)	Related RIIP Objective(s)	Related PMP Objective(s)
<p>Activity #1: Draft model Corporate Governance Codes and support knowledge-sharing events and twinning arrangements to promote implementation of the Corporate Governance Codes by those countries that do not have it.</p>	Number of PFS Beneficiary countries that are provided with model Corporate Governance Code(s)	<p>RIIP Intermediate Objective 1: Improving Corporate Governance in the Beneficiary Countries</p>	<p>Sub IR 1.2: Increased harmonization of policies and practices with international standards</p>
	Number of PFS Beneficiary country participants at knowledge-sharing events on adoption of Corporate Governance Codes.		
	Number of twinning arrangements for Beneficiary countries interested in adopting Codes.		
<p>Activity #2: Support knowledge-sharing events to increase public awareness of codes and experience sharing by successful listed companies.</p>	Number of publicly listed companies across PFS Beneficiary countries participating in knowledge-sharing events.		
<p>Activity #3: Co-finance demand-driven country benchmarking surveys</p>	Number of PFS Beneficiary countries with completed country benchmarking surveys.	<p>RIIP Intermediate Objective 2: Improving disclosure by listed companies in the Beneficiary Countries</p>	<p>Sub IR 1.3: Increased institutional capacity of financial sector actors</p>
	Number of regional research institutes receiving PFS grants/assistance to develop country benchmarking surveys.		
	Number of PFS Beneficiary country case studies published and disseminated.		
	Number of knowledge-sharing events supported by PFS.		
<p>Activity #4: Develop and publish case studies on good governance</p>			
<p>Activity #5: Support regulatory authorities and stock exchanges to organize regional knowledge-sharing events on corporate governance/ transparency.</p>			

Annex 1. Timelines

Capital Markets

No.	Activity	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012 or later
Objective 1. Lowering Systemic Risk							
Activity 1: Draft model rules and support regional conferences and technical workshops to promote implementation: financial responsibility regimes and bankruptcy law language							
1.1	Survey Countries to determine their level of interest and need		Conduct & analyze survey				
1.2	Survey Beneficiary countries to determine financial responsibility regimes		Conduct & analyze survey				
1.3 1.4	Develop scalable model financial responsibility rules			Develop model rules			
1.5	Develop model language for inclusion in bankruptcy law.						
1.6	Regional technical workshop to present all of the above					Regional technical workshop	
1.7	Technical assistance as needed for adoption						Ongoing
Objective 2. Improving Transparency of Issuers							
Activity #2: Draft model disclosure rules and support regional conferences and technical workshops to promote implementation							
2.1	Conduct survey of countries to determine the interest and need in working to upgrade their financial disclosure regimes		Conduct & analyze survey				

No.	Activity	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012 or later
2.2	Educate managements on the concept of the publicly-held company			workshop			
2.3	Developing model rules for disclosure during issuance				Develop model rules		
2.4	Develop model disclosure rules for periodic reports						
Objective 3. Expanding the Markets and Promoting New Types of Financial Products							
Activity #3: Support regional conferences on use of preferred shares and debt, collect and publish market data, draft model disclosure rules for issuance of preferred shares and debt							
3.1	Collect and publish data on securities offerings within CEE, SEE and FSU	Design/collect/publish data					Collect and publish data
3.2	Survey countries on companies' authority to issue preferred shares and debt		Conduct & analyze survey				
3.3	Conduct knowledge sharing for industry and regulators on use of preferred shares and debt, and experience within PFS region				workshop		
3.4	Develop model disclosure rules for issuance of preferred shares and debt					Develop model rules	
Objective 4. Promoting Harmonization and Integration of Regional Markets							
Activity #4: Draft model rules for cross-border listings, support study tours of multilateral trading facilities and study tours of countries with integrated markets							
4.1	Create model rules for listing foreign companies on domestic exchanges				Develop model rules		

No.	Activity	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012 or later
4.2	Create model disclosure rules for foreign companies listed on domestic exchanges				Develop model rules		
4.3	Conduct study tours of multilateral trading facilities					Study tour	
4.4	Conduct study tours of countries with integrated markets (such as the Baltics)						Study tour
4.5	Support efforts by associations of exchanges to increase cross-border linkages						Ongoing (if needed)
Objective 5. Improving the Enabling Environment							
Activity #5: Conduct semi-annual conferences for securities regulators to focus on current, common issues facing securities regulators, with strong emphasis on both policy and implementation responses.							
5.1.	Conducting semi-annual conferences			Semi-annual conference			Semi-annual conference
Activity #6: Conduct knowledge-sharing and technical assistance on 2008 IOSCO Assessment Methodology							
6.1	Workshop on 2008 IOSCO Assessment Methodology			knowledge sharing on IOSCO assessment methodology			
6.2	Assistance to PFS regulators on conducting self-assessments.				assisting regulators conduct self-assessments (ongoing)	assisting regulators conduct self-assessments (ongoing)	

No.	Activity	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012 or later
6.3	Collect assessments; conduct scoring and benchmarking to be used as baseline Compare results to identify common issues					collect assessments & benchmark	collect assessments & benchmark
6.5	Presentation of findings and knowledge sharing on best solutions						workshop on findings & solutions to assessments
6.6	Periodic repetition of the self-assessment to gauge progress (if time and resources permit)						repetition of self-assessments to gauge progress
Activity #7: Support technical workshops and provide technical assistance on IOSCO MMOU accession, completion of the MMOU self-assessment, and accession process.							
7.1	Workshop on: (a) contents of the MMOU, (b) implementation experiences by current signatories (including PFS country and mentor country signatories), and (c) use and application of the self-assessment contained in the MMOU.					workshop on MMOU	
7.2	Technical assistance on completing the MMOU self-assessment					assistance (ongoing)	assistance (ongoing)
7.3	Technical assistance during the accession process					assistance (ongoing)	assistance (ongoing_

No.	Activity	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012 or later
Activity 8: Activity #8: Demand driven activities for securities regulators							
8.1	Conduct survey of countries to determine their interest and need in working to upgrade their inspection and enforcement regime			Conduct & analyze survey			
8.2	Developing model inspection manuals for broker-dealers, investment funds and fund management companies.				Develop model documents		
8.3	Developing model procedures (or components checklist) governing the closure of insolvent market participants.					Develop model documents	
8.4	Workshops on conducting inspections of market participants (on-site and off-site inspections).						Workshop (combined)
8.5	Workshops on conducting effective enforcement investigations						Workshop
8.6	Workshops for criminal investigative authorities, prosecutors and judges on securities related cases						Workshop

Corporate Governance and Investor Relations

No.	Activity	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012 or later
Objective 1. Improve Corporate Governance							
Activity #1: Support knowledge-sharing events to increase public awareness of codes and experience sharing by successful listed companies.							
1.1	Conduct a survey of countries to determine the status, need and degree of potential cooperation		Conduct a survey				
1.2	Support drafting and adoption of Corporate Governance Codes		Survey counterparts in countries that do not have a code	If demand exists, begin specific activities		Follow-up survey to track progress	Follow-up survey to track progress
1.3	1.2. Strengthening implementation of Corporate Governance Codes		Survey counterparts and donors to suggest ways to improve implementation of code(s)	If demand exists, begin specific activities			
Activity #2: Support knowledge-sharing events to increase public awareness of codes and experience sharing by successful listed companies.							
2.1	Support drafting and adoption of Corporate Governance Codes		Survey counterparts in countries that do not have a code	If demand exists, begin specific activities		Follow-up survey to track progress	Follow-up survey to track progress
2.2	Strengthening implementation of Corporate Governance Codes		Survey counterparts and donors to suggest ways to improve implementation of code(s)	If demand exists, begin specific activities			
Objective 2. Improving Disclosure by Listed Companies							
Activity #3: Co-finance demand-driven country benchmarking surveys							
3.1	Conduct regional		Conduct and publish survey				Conduct and

No.	Activity	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012 or later
	benchmarking surveys						publish survey
3.2	Co-finance country benchmarking surveys		Ongoing and demand driven	Ongoing and demand driven	Ongoing and demand driven	Ongoing and demand driven	Ongoing and demand driven
Activity #4: Develop and publish case studies on good governance							
4.1	Publish case studies		Ongoing once second regional survey is published and thus more data is available. Might be co-financed by PFS Program grants.	Ongoing	Ongoing	Ongoing	Ongoing
Activity #5: Support regulatory authorities and stock exchanges to organize regional knowledge-sharing events on corporate governance/ transparency							
5.1	Support regional events on corporate governance / transparency			Seminar (Georgia or Serbia)			Seminar (Georgia or Serbia)

Annex 2. Draft Surveys to Determine Beneficiaries' Interest in PFS Activities

Capital Markets

1. Please indicate your interest in working to improve your financial responsibility regime.
2. What are the elements of your financial responsibility regimes, including use of segregated accounts, calculation of regulatory capital, aggregate indebtedness limits and liquidity requirements.
3. (Including possible off-site review of law) Does your bankruptcy law (civil code) protect customer assets from the claims of the broker's creditors.
4. Please indicate your interest in participating in the development of model rules (or required components) for financial responsibility that are scalable for market conditions, to be adopted by Beneficiary countries' securities regulators
5. Please indicate your interest in participating in developing model components for contents of bankruptcy laws (civil codes) and proposed language points for inclusion in law to protect customer assets from claims of the broker's creditors.
6. Please indicate your interest in participating in a regional technical workshop to present:
 - Results of surveys and model financial responsibility rules.
 - Results of surveys and bankruptcy law model components and language.
7. Please indicate your interest in receiving technical assistance, to include online collaboration and/or advisors from CEE mentor countries to the extent possible, as needed for adoption of required amendments to laws and regulations.
8. Please indicate your interest and need in working to upgrade your financial disclosure regimes as follows:
 - Educating managements on the concept of the publicly-held company, together with all benefits and obligations.
 - Developing model rules for disclosure during issuance, geared to the size of the PFS markets and reflecting proportionality.
 - Develop model disclosure rules for periodic reports, again geared to the size of the PFS markets and reflecting proportionality.
9. Please explain companies' authority to issue preferred shares and debt, including location of legal authority (e.g., securities or company law), any limitations imposed under the law (e.g., maximum debt to equity ratios), tax treatment of issuance and accounting impacts.
10. Please indicate your interest in technical workshops for industry and regulators on:
 - the flexibility of preferred shares, including cumulative vs. noncumulative dividends, further participation in profits, voting vs. non-voting, dividends in other than cash, dividends calculated according to profits, conversion rights, rights to call, rights to put.
 - the flexibility of corporate debt, including secured vs. unsecured, variable interest, subordination and seniority, interest payments in other than cash, conversion rights, rights to call, rights to put.
 - experience of use of preferred shares and corporate debt within PFS region.
11. Please indicate your interest in developing model disclosure rules for the issuance of preferred shares and debt
12. Please indicate your interest in Creating Model Approaches for Cross-Border Listings:

- Creating model rules for listing foreign companies on domestic exchanges
 - Creating model disclosure rules for foreign companies listed on domestic exchanges.
 - Study tours of multilateral trading facilities
 - Study tours of countries with integrated markets (such as the Baltics)
 - Efforts by associations of exchanges and regulators, to increase cross-border linkages through knowledge sharing events and targeted research.
13. What topics would be of interest for regional knowledge sharing workshops for securities regulators? These semi-annual conferences will focus on current, common issues facing securities regulators, with strong emphasis on both policy and implementation responses.
14. Please indicate your interest in participating in a regional, advisor-led initiative to conduct IOSCO Principles self assessments:
- Workshop on Methodology for Assessing Compliance
 - Technical assistance to PFS regulators in conducting self-assessments
 - Collect assessments conducted by donor projects and the self-assessments by regulators, followed by scoring and benchmarking reports used as baseline for time series studies
 - Comparing results to identify common issues
 - Follow-up knowledge sharing or conferences on findings and best solutions
 - Periodic repetition of the self-assessment to gauge progress and continued collection of assessments by donor.

This Question will apply to Georgia, Azerbaijan, Moldova, Belarus, Ukraine, Armenia and Bosnia (Federation).

15. Indicate your interest in working to become a signatory to the IOSCO MMOU:
- Workshop on: (a) contents of the MMOU, (b) implementation experiences by current signatories (including PFS country and mentor country signatories), and (c) use and application of the self-assessment contained in the MMOU
 - Technical assistance on completing the MMOU self-assessment (using online collaboration and/or advisors from mentor countries to the extent feasible)
 - Technical assistance during the accession process (again relying on online collaboration and/or advisors from mentor countries to the extent feasible)
16. Indicate your interest in participating in:
- Developing model inspection manuals for all types of market participants including broker-dealers, investment funds and fund management companies.
 - Developing model procedures (or components checklist) for rules governing the closure of insolvent market participants.
 - Regional workshops on conducting inspections of market participants (on-site and off-site inspections).
 - Regional workshops on conducting effective enforcement investigations, including obtaining documents, interview techniques and developing admissible evidence, also to include required elements of proof.
 - Regional workshops for criminal investigative authorities, prosecutors and judges on securities related cases, including financial reporting fraud.

Corporate Governance

Section 1 – Existence of a Corporate Governance Code

Question 1A – Does your country/market have a Corporate Governance Code?

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Question 1B – If you answered YES to Question 1A, please note the year in which the Corporate Governance Code was first adopted and the year of the most recent edition of the Corporate Governance Code.

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Question 2 – Does your country/market have an official English-language translation of its Corporate Governance Code?

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Question 3 – If your country/market has an official English-language translation of its Corporate Governance Code, please note the full website address (URL) where the official English-language translation of the Corporate Governance Code may be found OR attach an electronic copy of the official translation.

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Question 4 – Which donor or donors participated in the drafting of the Corporate Governance Code?

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Section 2 – Disclosure and Dissemination of Information about a Corporate Governance Code

Question 5 – Which institution organized or co-sponsored an event to announce the adoption of the Corporate Governance Code?

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Question 6 – Which institution disseminated information about the Corporate Governance Code, in the form of a press release or an article in a newsletter / publication distributed by the institution?

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Question 7 – Is an official version of the Corporate Governance Code (in local language) available on the websites of the following organizations?

Question 8 – Is an official English-language translation of the Corporate Governance Code available on the websites of the following organizations?

Question 9 – Was the adoption of the Corporate Governance Code reported in the following media?

Section 3 – Implementation of a Corporate Governance Code

Question 10 – In your country/market, the Corporate Governance Code applies to which companies?

Question 11 – Which institution conducted or co-sponsored an event (seminar, training program or workshop) to educate market participants about how to implement the Corporate Governance Code?

Question 12 – Which institution analyzes disclosures mandated by the Corporate Governance Code?

Question 13 – Which institution has published a report on disclosures mandated by the Corporate Governance Code?

Question 14A – Does the Corporate Governance Code in your country require that each company publish a comply or explain statement?

Question 14B – If you answered YES to Question 14A, how many companies published a comply or explain statement in 2010?

Question 14C – If you answered YES to Question 14A and provided a number of companies in response to Question 14B, which percentage of companies which are required to publish a comply or explain statement actually published a comply or explain statement in 2010?

Question 15 – Has compliance with the Corporate Governance Code improved during the past year?

Question 16 – Which donor or donors provided technical assistance and/or participated in the implementation phase of the Corporate Governance Code?

Question 17 – Is any donor engaged at this time in providing technical assistance and/or participating in the implementation phase of the Corporate Governance Code?

Question 18 – In your opinion, what is the most difficult challenge in implementing the Corporate Governance Code?

Question 19 – List the major types of institutional investors in your country.

Question 20 – Would engagement on the part of market participants (listed companies and investors), regulatory authorities, the stock exchange and donors improve the quantity and quality of disclosures mandated by the Corporate Governance Code in your country/market?

Question 21 – Would your institution be interested in working with the PFS Program on a regional event on corporate governance disclosure/investor relations?

Question 22 – If local institutions and the PFS Program were to organize a regional event on corporate governance disclosure/investor relations, which of the following topics would be most useful in terms of improving the quantity and quality of disclosures mandated by the Corporate Governance Code in your country/market?

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