

PN-ACE-456

# SURVEY OF INVESTMENT PRODUCTS

PRICEWATERHOUSECOOPERS 

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# **SURVEY OF INVESTMENT PRODUCTS**

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## **Equity Securities (STOCKS)**

Stocks = Ownership

A company issues stock as its primary means of raising capital. When speaking of stocks, people generally refer to ***common stock***.

Common stock can be classified in four ways

***Authorized stock***

***Issued stock***

***Outstanding stock***

***Treasury stock***

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# INVESTMENT PRODUCTS

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## STOCKS (Equity Securities)

- Investors who purchase shares become part **owners** of the company and are entitled to share any profits from the business. When speaking of stocks, people generally refer to **common stock**
- Common stock can be classified in four ways
  - 1) **Authorized stock** the total number of shares the company is allowed to issue or sell under its original charter. This number is authorized by the state. Often, a company sells only a portion of the authorized shares at first, retaining the rest for future needs
  - 2) **Issued stock** stock that has been authorized and distributed to investors (as opposed to **unissued shares**)
  - 3) **Outstanding stock** Any shares that the company has issued, but has not repurchased – that is, stock the investors own
  - 4) **Treasury stock** stock a company has issued and subsequently repurchased from the public

## Equity Securities

When a company first issues stock (has an **underwriting**), it sets a share price that is generally consistent with the company's prospects and performance as well as in comparison with similar companies in the same industry

Newly issued stocks are sold in the **primary market** through an **underwriter** or a team of underwriters. Proceeds from the sale of stocks in the primary market go to the company for its use.

Once shares have been issued in the primary market they can be bought and sold in the **secondary market**.

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## Equity Securities

The sale price, or **market price**, of stocks bought and sold in secondary markets depends on market conditions. The value of a share of stock is simply what someone is willing to pay for it. Proceeds from sales go to the stock seller rather than to the corporation.

Common stockholders have rights, including right to

- Elect Board of Directors
- Received dividends declared by directors
- Transfer ownership of shares
- Vote on issues
- Inspect company books
- Share money obtained if company is dissolved

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(3)

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(4)

- The sale price, or **market price**, of stocks bought or sold in secondary markets depends on market conditions. The value of a share of stock is simply what someone is willing to pay for it. Proceeds from sales go to the stock seller rather than to the corporation
- Common stockholders have many rights, including the right to
  - 1) Elect the Board of Directors
  - 2) Receive dividends declared by the directors
    - a) Cash
    - b) Stock
  - 3) Transfer ownership of shares (selling, gift-giving, bequeathing)
  - 4) Vote on critical issues facing the company
  - 5) Inspect the corporate books -- for example, the stock register or list of stockholders
  - 6) Share the money obtained if the corporation is dissolved

## Equity Securities

### Common stock value

**Par value** useful for accounting or bookkeeping purposes only For investors, a common stock's par value is meaningless It is an arbitrary value the company gives the stock in its articles of incorporation, and has no bearing on the stock's market price

**Market value** the lowest price a seller is willing to accept and the highest price a buyer is willing to pay

**Book value** a measure of how much money a common shareholder could expect to receive for each share if the company were liquidated The book value per share can – and usually does – differ substantially from a stock's market value

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## Equity Securities

### Preferred stock

- Appeals to conservative investor due to steady income provision
- Called “preferred” because its dividends are paid before common dividends Dividends are based on par value
- Has **priority claims** over common
- Has limited voting rights

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(5)

- Common stock value
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(6)

- **Preferred stock**
  - 1) Tends to appeal to a more conservative investor or one interested in a steady income because it pays a fixed dividend rate
  - 2) It is called "preferred" because its dividends are paid before common stock dividends are paid Also, preferred stock has **priority claims** over common stock, that is, it gets paid before common if the company goes bankrupt The dividend rate of preferred stock is usually shown in money amount, but sometimes as a percentage of a par value For example, \$8 per share per year or 8% of \$100 par value (Par value is a useful term for investors regarding preferred stocks )
  - 3) Has limited voting rights

## Equity Securities

Types of preferred stock

- **Straight** preferred - missed dividends are not paid
- **Cumulative** preferred - missed dividends accumulate or add up
- **Participating** preferred - sometimes pays dividends in addition to the fixed rate
- **Convertible** preferred - owners are entitled to exchange their shares for another security
- **Callable** preferred - company is allowed to buy it back from investors at a stated price after a specified date

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## Equity Securities

**Preemptive rights** issued to existing stockholders when company issues new stock  
Stockholders can maintain consistent percentage of ownership  
**Rights offerings** are short-term  
Price for stock is lower than current market

**Warrants** bonus as incentive to buy newly issued security  
Long-term  
Price for stock is higher than current market

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- 4) Types of preferred stock
- a) **Straight preferred** Straight preferred has no special features beyond the stated dividend payment. Missed dividends are not paid to the holder.
  - b) **Cumulative preferred** If a dividend for any period is not declared, it will accumulate, or add up. Cumulative preferred stockholders receive their current dividends plus the total accumulated dividends – dividends in arrears – before any dividends may be distributed to common stockholders.
  - c) **Participating preferred** In addition to fixed dividends, participating preferred stock offers its owners a share of company profits that remain after all dividends and interest due other securities are paid.
  - d) **Convertible preferred** Owners are entitled to convert or exchange their shares for another security -- usually common stock in the same company -- whenever they wish to do so.
  - e) **Callable preferred** Callable, or redeemable, preferred allows a company to buy it back from investors at a stated price after a specified date.

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- **Preemptive rights** Preemptive rights are issued to existing stockholders when a company issues new stock to raise capital. Rights enable existing stockholders to maintain a consistent percentage of ownership in the company by allowing them to buy new shares in proportion to their present holdings before the company offers newly issued shares to the general public. For example, a person who owns 1 percent of the stock has a preemptive right to purchase 1 percent of any new stock issue. Therefore, if the company is going to issue 100,000 new shares, the stockholder has the preemptive right to purchase up to 1000 shares. **Rights offerings** are short-term and usually allow the stockholder to purchase stock at a price lower than the current market price. Because of this, rights have a market value of their own and can be sold if the stockholder does not wish to exercise the right himself.
- **Warrants** A warrant is a bonus paid to purchasers of a newly-issued bond or preferred stock as an incentive to buy the security. Warrants can make an initial public offering more attractive. Warrants have longer terms than rights. A warrant holder is entitled to exchange the warrant for common stock or another instrument at a set price during a specified period of time - for example, up to ten years. The price set in the warrant is higher than the current market value of the common stock at the time it is first issued.

## DEBT SECURITIES (BONDS)

Bond = Loan An entity that raises capital by issuing or selling bonds is actually borrowing money from the bondholders in exchange for interest

Bonds are considered *senior securities*.

Bonds are attractive to investors who are interested in steady income

Bondholders have no voting rights

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## DEBT SECURITIES

**Face value** The amount the borrower promises to pay the bondholder

**Maturity date (or due date)** Specifies when the face value will be paid to the bondholder

- **Term bonds** Mature on the same date

- **Serial bonds** Portions of the bonds mature on different dates

**Interest rate** Usually stated as a percentage of the face amount

**Purchase price** Stated as a percentage of the face amount

Trading bonds in the marketplace

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## BONDS (Debt Securities)

- A bond is a loan – the issuer makes a written promise to pay a specified amount of money at a set date with interest calculated at a fixed rate at regular intervals. When a corporation or other entity raises long-term capital by issuing or selling bonds, it is actually borrowing money from the bondholders in return for interest.
- Bonds are considered **senior securities** because creditor claims are settled before the claims of stockholders. Therefore, stockholders' interests are subordinate to those of bondholders.
- Investors buy bonds to provide for steady income. Bonds pay interest every six months until maturity. Then, at the time specified by the terms of the bond, the organization repays the loan.
- Bonds differ from stocks in that bondholders have no voting rights or say in how the corporation is managed.

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- **Face value** The amount the borrower promises to pay the bondholder. In the U.S. the face value is usually \$1000 per bond.
- **Maturity date (or due date)** Specifies when the face value will be paid to the bondholder.
  - 1) **Term bonds** Mature on the same date.
  - 2) **Serial bonds** Portions of the bonds mature on different dates, usually four to five years apart. This allows investors to select the maturity most suitable to their needs.
- **Interest rate** Usually stated as a percentage of the face amount.
- **Purchase price** Stated as a percentage of the face amount. Bonds are sold at par, premium, or discount.
- **Trading bonds** As with stock prices, the market price of a bond can fluctuate. However, the interest rate paid by the bond issuer is fixed for the life of the bond. If interest rates in general increase in the marketplace, the market value of existing bonds with interest rates lower than that offered currently will decline. If current interest rates decrease, the market value of bonds with higher rates will increase. In other words, bond prices and the movement of interest rates are inversely related.

## DEBT SECURITIES

### CORPORATE BONDS

Issued in three forms

- **Registered** The owner is recorded with the issuing corporation
- **Bearer** Ownership rests with the person possessing the certificate
- **Book Entry** There is no physical bond certificate

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## DEBT SECURITIES

### CORPORATE BONDS

Types of corporate bonds

- **Mortgage bonds** Secured by the real property owned by the issuing corporation
- **Collateral trust bonds** Secured by stocks or bonds owned by the issuing corporation
- **Equipment trust certificates** Secured by equipment (railroad cars or airplanes, for example) owned by the issuing corporation
- **Debentures** Secured only by the issuing corporation's promise to pay

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- **CORPORATE BONDS**

- 1) Issued in three forms

- a) **Registered** The owner is recorded with the issuing corporation  
Interest payments are mailed directly to the owner every six months
- b) **Bearer** Ownership rests with the person possessing the certificate  
A bearer bond has coupons attached which show the date of each payment  
On the interest date, bondholders either present the coupons for payment or deposit them into their bank accounts
- c) **Book Entry** There is no physical bond certificate  
The bonds are held in nominee name (street name) at the brokerage firm

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- 2) Types of corporate bonds

- a) **Mortgage bonds** Secured by the real property owned by the issuing corporation
- b) **Collateral trust bonds** Secured by stocks or bonds owned by the issuing corporation  
The collateral securities are placed in trust
- c) **Equipment trust certificates** Secured by equipment (railroad cars or airplanes, for example) owned by the issuing corporation
- d) **Debentures** Secured only by the issuing corporation's promise to pay

## DEBT SECURITIES

### CORPORATE BONDS

Methods of retiring bonds

- **Call** corporation repurchases bond prior to maturity under certain conditions
- **Refunding** corporation retires outstanding issue of bonds by issuing new bonds at a lower interest rate
- **Sinking fund** corporation agrees to set aside a specific amount of money each year to buy back ("sink") outstanding bonds in the open market
- **Conversion** exchangeable for another security of the same corporation, usually common stock

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## DEBT SECURITIES

### U.S. GOVERNMENT SECURITIES

- Issued by the U S Treasury Backed by the full faith and credit of the U S government They are considered among the safest investment products
  - Brought to market through auctions **Book entry**
- Types of government securities

- **Treasury bills (T bills)** Short-term securities, ranging up to one year in maturity, but most are either three months or six months
- **Treasury notes (T notes)** Intermediate-term securities with maturities of two to ten years and fixed interest rates
- **Treasury bonds (T bonds)** Longer-term financing with maturities of 10 to 30 years and fixed interest rates

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- 3) Methods of retiring bonds Most bonds are retired when they reach maturity, at which time the corporation pays the face value. However, there are four ways bonds can be retired before maturity
  - a) **Calls** This feature allows the corporation to repurchase the bond prior to maturity under certain conditions
  - b) **Refunding** This feature allows the corporation to retire an outstanding issue of bonds by issuing new bonds at a lower interest rate
  - c) **Sinking fund** The corporation agrees to set aside a specific amount of money each year to buy back ("sink") outstanding bonds in the open market. This makes the remaining bonds more attractive because the corporation is now required to pay less interest each year and has fewer bonds to redeem at maturity
  - d) **Conversion** A convertible bond is exchangeable for another security of the same corporation, usually common stock. If the exchange occurs, the bond is retired and no further interest payments are made. Since the bond no longer exists, the corporation is not obliged to redeem it at maturity

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- **U S GOVERNMENT SECURITIES**

- 1) Issued by the U S Treasury. Backed by the full faith and credit of the U S government. They are considered among the safest investment products available
- 2) Brought to the market through auctions
- 3) Types of government securities
  - (a) Treasury **bills (T bills)** Short-term securities, ranging up to one year in maturity, but most are either three months or six months. Sold at a discount -- that is, they do not have a fixed interest rate. Investors purchase them at one amount and receive a higher amount (the face value) at maturity
  - (b) Treasury **notes (T notes)** Intermediate-term securities with maturities of two to ten years and fixed interest rates
  - (c) Treasury **bonds (T bonds)** Longer-term financing with maturities of 10 to 30 years and fixed interest rates
- 4) In newer issues, transactions are settled through **book entry** systems. Delivery takes place by computer rather than on actual paper

## **DEBT SECURITIES**

### **MORTGAGE-BACKED SECURITIES**

Backed by mortgage pools

Mortgage-backed securities and the markets in which they are traded have helped keep money available for *home financing*

Investors receive income from the interest and principal payments made on the underlying mortgages by the mortgage holders

Issued by government agencies

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## **DEBT SECURITIES**

### **MUNICIPAL BONDS**

Issued by state and local government to raise capital to finance a variety of construction and improvement projects, such as new schools, hospitals, airports, highways, etc

Interest is free of federal income tax and state income tax in the state where the issuing entity is located

Most investors tend to hold on to the municipal bonds for the tax-free interest, so trading is not as active as with other securities

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- **MORTGAGE-BACKED SECURITIES**

- 1) Backed by mortgage pools Investors receive income from the interest and principal payments made on the underlying mortgages by the mortgage holders Mortgage-backed securities and the markets in which they are traded have helped keep money available for home financing
- 2) Mortgage-backed securities are issued by the following federal agencies
  - Government National Mortgage Association (GNMA),
  - Federal Home Loan Mortgage Corporation (FHLMC),
  - Federal National Mortgage Association (FNMA)

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- **MUNICIPAL BONDS**

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- 3) Most investors tend to hold on to the municipal bonds for the tax-free interest, so trading is not as active as with other securities

## DEBT SECURITIES

### MUNICIPAL BONDS

Types of municipal bonds

- **General obligation** bonds secured by full taxing power of issuer
- **Limited tax** bonds secured by a specific tax
- **Revenue** bonds secured by income from the project for which the bond paid

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## DEBT SECURITIES

### BOND RATINGS

Independent credit rating services evaluate the financial strength of bond issuers and translate their findings into letter grades

Standard & Poor's

Moody's Investor  
Services, Inc

AAA  
AA  
A  
BBB  
BB  
B  
C  
D

Aaa  
Aa  
A  
Baa  
Ba  
B  
Caa  
D

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- 4) Types of municipal bonds
- (a) **General obligation bonds** Secured by the full taxing power of the state or local government issuing them Funds for interest and principal come from general tax revenues
  - (b) **Limited tax bonds** Secured by a specific tax, such as a state sales tax
  - (c) **Revenue bonds** Secured by the money generated by the project the bond funds For example, if bond proceeds are used to build an energy plant, revenue from the sale of energy the plant generates is used to repay the bondholders

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- **Bond ratings** Independent credit rating services evaluate the financial strength of bond issuers and translate their findings into letter grades

Standard & Poor's	Moody's Investor Services, Inc.
AAA	Aaa
AA	Aa
A	A
BBB	Baa
BB	Ba
B	B
C	Caa
D	D

### Interpretation of Bond Ratings

#### INVESTMENT GRADE

**AAA/Aaa** Highest rating Capacity to repay principal and interest judged high

**AA/Aa** Very strong Only slightly less secure than the highest rating

**A/A** Judged to be slightly more susceptible to adverse economic conditions

**BBB/Baa** Adequate capacity to repay principal and interest

#### NON-INVESTMENT GRADE

**BB/Ba** Speculative Significant chance that issuer could miss an interest payment

**B/B** Issuer has missed one or more interest or principal payments

**C/Caa** No interest is being paid on bond at this time

**D/D** Issuer is in default Payment of interest or principal is in arrears

Bond ratings are based on an issuer's financial stability The rating services apply a series of financial tests to assess a corporation's financial strength

Specific criteria used to rate bonds include

- ✓ the amount and composition of existing debt,
- ✓ the stability of the issuer's cash flow,
- ✓ the issuer's ability to meet scheduled payments of principal and interest
- ✓ asset protection,
- ✓ management capability

## OTHER INVESTMENT PRODUCTS

**Mutual Fund** A managed company that pools money obtained from the public to achieve certain investment goals. Mutual funds invest in a large number of individual securities -- usually stocks or bonds. There are over 7,000 mutual funds in the U S at this time.

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## OTHER INVESTMENT PRODUCTS

**Options** An option contract is an agreement to buy or sell a security (usually stocks) at a set price by a specified time. Options have limited existence.

- A **call** option gives the holder the right to *buy* the underlying stock at a set price, regardless of the current market price, for a pre-determined period of time.

- A **put** option gives the holder the right to *sell* the underlying stock for a set price, regardless of current market price, for a pre-determined period of time.

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## OTHER INVESTMENT PRODUCTS

- **Mutual Fund** A managed company that pools money obtained from the public to achieve certain investment goals. Mutual funds invest in a large number of individual securities -- usually stocks or bonds. There are over 7,000 mutual funds in the U S at this time.

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  - 1) A **call** option gives the holder the right to *buy* the underlying stock at a set price, regardless of the current market price, for a pre-determined period of time.
  - 2) A **put** option gives the holder the right to *sell* the underlying stock for a set price, regardless of current market price, for a pre-determined period of time.

## OTHER INVESTMENT PRODUCTS

**Futures** A futures contract is an agreement between two parties on the sale of a commodity (for example, wheat, corn, silver, oil, etc ) The contract promises delivery of the commodity at a future date for an agreed-upon price

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THE  
DEVELOPMENT  
OF AN SRO:  
WHY AND HOW

# **The Development of an SRO: Why and How**

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## **THE GOALS AND OBJECTIVES OF THE ASSOCIATION**

- To assist in the development of the professional activities of broker-dealer companies in the Republic of Armenia.
- To provide for the self-regulation of the activities of the broker-dealer members in the securities markets
- To provide for broker-dealer collaboration with the SEI.
- To provide for the reliability, transparency and liquidity of securities transactions in the securities markets of the Republic of Armenia.

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SCRIPT  
FOR  
DEVELOPMENT OF AN SRO WHY AND HOW

[Asterisks (\*) are in place to assist with timing of the PowerPoint presentation ]

- 1) Today I am interested in working with you to discuss the development of an SRO One thing we need to discuss is whether there should be an SRO of only broker-dealers, for example, or whether the entire capital markets community or certain sections of it should be in an SRO The exchanges are usually considered SROs because members must adhere to their rules and regulations Also, any SRO must operate under the oversight of the SEI, which gives approval of the SROs activities and regulations
- 2) \* We will talk about the general overall goals of an SRO and then get into some specifics later on \* I have set up this presentation as though the SRO is established as one for and of broker-dealers, so you will see that emphasis throughout the slides But it is a general look at such a project, we can add other information and modify the emphasis as necessary once development gets underway \* Also, you will receive copies of the slides later on \*\* So, these would seem to be the areas of most importance in the development of an SRO Let us get into more specifics now

## **Major Goals of the Association**

- ♦ Develop and adopt *Rules of Fair Practice*, a *Uniform Practice Code*, *Code of Procedure*, and *Code of Arbitration* for members.
- ♦ Provide regulation of activities of broker-dealers under the oversight of the SEI
- ♦ Develop cooperation and collaboration between members of the Association and other professional participants in the securities market
- ♦ Provide for the protection of the public interests and for the protection of the interests of customers, investors, issuers, and members of the Association

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## **Major Goals of the Association**

- ♦ Provide help and consultation to members of the Association
- ♦ Foster the public recognition of broker-dealers in the Republic of Armenia
- ♦ Distribute information regarding broker-dealer activities among the members of the Association and the public
- ♦ Organize meetings and seminars throughout the Republic of Armenia to exchange information regarding the experience of broker-dealers, improve the professional level of competence in the broker-dealer industry, and to resolve common and individual problems of broker-dealers

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- 3) \* \* There are some rules and codes which will be written I have models that the Association can use if they want \* Remember, the ultimate authority regarding regulation rests with the SEI In the U S we have the NASD as an SRO, but they operate under supervision of the SEC \* This comment about cooperation and collaboration is vital, of course \* We need to do all we can to develop public confidence in the whole of capital markets in Armenia
- 4) \* \* We need to help the securities industry grow \* Public awareness is very important to help us grow \* The more we get our word out, the better the future looks \* Even though there is plenty of competition in the marketplace, we can help each other and thereby build the industry

## **Major Goals of the Association**

- ♦ Organize meetings with the public to disseminate information regarding the securities markets and broker-dealer activities, standards, and practices
- ♦ Unify and standardize existing reports and other documents as related to broker-dealer activities in the Republic of Armenia
- ♦ Participate in the development of legislative initiatives related to broker-dealers, in cooperation with the SEI
- ♦ Ensure and enforce broker-dealer compliance with the effective securities legislation of the Republic of Armenia, the rules of the SEI, and the rules and *By-Laws* of the Association

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## **Major Goals of the Association**

- ♦ Ensure fair competition and business ethics among broker-dealers, and protect the rights of issuers and investors
- ♦ Initiate and foster relations between members of the Association and the international broker-dealer community

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- 5) \* \* Again, more contact with the population of Armenia will help build confidence in the systems we use \* We should possibly consider this as a good beginning to our work together Standardized forms or formats make it easier for all financial intermediaries to conduct business with each other \* There has been plenty of talk about the need for changes in legislation regarding capital markets Some changes are taking place now, but there are more needed The SRO and the SEI can lead the way in this regard \* This, of course, is the "self-regulatory" part of the SRO
- 6) \* \* Fair competition, business ethics, and protection of rights will strengthen our industry \* We know how important it is for us to be able to work more closely with foreign brokers and investors \* Now we need to address membership issues involved in the development of an SRO

## **Membership in the Association**

- What licenses are required for qualification?
- Entrance fee required?
- Yearly maintenance fee required?
- How are fees paid?
  - >Cash
  - >Material valuables (buildings, equipment, etc )
  - >Transfer of user rights over premises, transportation means, equipment, etc

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## **Membership in the Association**

### **Termination of membership:**

- License revoked by SEI
- Violation of provisions of Association's *Charter, By-Laws*, or rules
- Failure to comply with effective legislation of the Republic of Armenia
- Voluntary
- Member has right to appeal involuntary termination.

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- 7) \* We have several types of licenses available in Armenia broker, dealer, consultant or advisor, underwriter, trust, investment fund, exchange, and registrar Did I name all of them? So, who will be in the SRO? What comments are there? \* What fees are involved to join the organization? \* What ongoing fees are necessary? \* There are a few ways to pay the fees Which ones are acceptable? \* What questions or comments do we have about this slide?
- 8) \* We have to address how membership ends That is, under what circumstances \* Of course, if the SEI takes away a member's license, the membership should be terminated \* If the member breaks the SRO's rules, it makes sense that termination is a possibility, although fines and/or suspensions from activities would be used for relatively minor infractions \* Here is more about breaking laws \* Of course, a member can drop membership if the firm goes out of business for any reason \* By the way, if a member has been involuntarily terminated, he should have the right to appeal such termination to the SEI \* Now let us look at the rights and obligations of the members

## **Rights and Obligations of Members**

### **Rights:**

- to elect, and be elected to, the administrative bodies of the Association;
- to participate in the discussions and make decisions regarding issues concerning the general operation of the Association and its administrative bodies;
- to facilitate the Association's support of regulatory issues, fulfillment and development of its operations, and protection of the interests of its members;

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## **Rights and Obligations of Members**

### **Rights**

- to submit for review by the officers of the Association issues related to the operation of the Association,
- to participate in any activities of the Association;
- to represent the interests of the Association and participate in its behalf on the basis of a proxy issued by the officers of the Association;
- to receive methodological and other help from the Association

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- 9) \* A member should have the opportunity to assist in the development and program of the SRO by serving as an officer or on committees of the Association  
\* Debate and voting are vital activities of the Association \* Involvement of a wide cross-section of the membership assists in the development of an SRO
- 10) \*\* This is more comment about involvement \* Same \* There will be times that some members will not be available to meet in person to discuss or vote on important issues Therefore, proxies can be used to present their views and/or their votes \* The industry gets stronger as we address general problems or concerns

## **Rights and Obligations of Members**

### **Obligations:**

- to obtain the appropriate license issued by the SEI;
- to comply with the effective legislative acts of the Republic of Armenia, the rules of the SEI, and the Association's *Charter, By-Laws, Rules of Fair Practice, Uniform Practice Code, Code of Procedure, and Code of Arbitration Procedures*;
- to participate in achieving the objectives of the Association,

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## **Rights and Obligations of Members**

### **Obligations:**

- to implement and abide by the decisions of the General Meeting of the Association, and the decisions taken by the officers of the Association;
- to make timely payments of membership fees, dues, and any other required payments.

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11) Those were some rights, now let us mention some obligations or responsibilities  
\* \* We have already mentioned the topic of licenses \* Here we go again with  
more talk about laws, rules, and regulations We will go into further detail about  
the functions of each of these documents of the SRO \* Again, more about  
involvement

12) \*\* General meetings of the Association will probably take place at least twice a  
year The General Meeting of the Association is the supreme administrative body of  
the Association The General Meeting of the association is entitled to make decisions  
regarding the activities of the Association \* We have to pay our way

## Administration of the Association

•The General Meeting of the Association is the supreme administrative body

- >Exclusive rights to some activities
- >Voting procedures
- >Quorum
- >Schedule of meetings
- >Appoint a Council of Directors

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## Administration of the Association

•The Council of Directors is the administrative body that manages the activities of the Association.

### Responsibilities of Council of Directors:

- protecting the interests of the members of the Association in issues related to broker-dealer activities in the securities market,
- adopting *By-Laws* of the Association, and such internal rules and regulations it deems appropriate for directing the activities of the Association,
- adopting *Rules of Fair Practice*, a *Uniform Practice Code*, *Code of Procedure*, and *Code of Arbitration*, and amendments thereto, that it deems necessary for the regulation of the conduct of its members, and for the protection of the public interest and investors

14

13) \* Who runs the Association? \* As I mentioned earlier, the General Meeting has final say \* The General Meeting has the exclusive right to

- 1) adopt and modify the *Charter* of the Association,
- 2) appoint the Council of Directors ,
- 3) establish the major plans and approve the activity reports of the Association ,
- 4) approve the budget of the Association, and the procedures for payment of the remuneration of the employees of the Association,
- 5) determine the amount of entrance and membership fees,
- 6) decide on the termination of the activity of the Association,
- 7) decide on the termination and expulsion of members of the Association

The General Meeting decides about voting procedures and what percentage of membership must be present or represented in order to establish a quorum One extremely important task involves the appointment of a Council of Directors

14) \*\* The Council has serious responsibilities \*\* You can read these as well as I can talk about them (Pause) \* (Pause) \* (Pause) What questions or comments do you have about this slide?

## **Administration of the Association**

### **Responsibilities of Council of Directors:**

- **creating, approving, and managing the activities of the Association,**
- **organizing and conducting the General Meetings,**
- **appointing such officers and employees that the Council of Directors deems appropriate and necessary to carry out the work of the Association,**
- **recommend an annual budget to the General Meeting of the Association for approval,**

15

## **Administration of the Association**

### **Responsibilities of Council of Directors:**

- **defining the terms of reference of all bodies and structures of the Association, except for the General Meeting,**
- **resolving other issues involving the Association that do not fall under the purview of the General Meeting of the Association**

16

- 15) \*\* (Pause) \* (Pause) \* (Pause) \* (Pause) I see we are talking money here in this slide A little later we will talk about sources of revenue
- 16) \*\* (Pause) \* (Pause) Serving on the Council of Directors is a time-consuming job The Council's responsibilities are weighty and varied What questions or comments do you have about this section concerning the responsibilities of the Council?

## **Financial and Business Activities, and Property of the Association**

### **Revenue Sources:**

- new member entrance fees, annual membership fees, and any other assessments and charges approved by the General Meeting of the Association;
- donations from persons and organizations, including foreign persons and organizations;
- income received from organizations and enterprises with a status of a legal entity,
- bank loans and funds from enterprises, citizens, and organizations,
- payments for training and returns from published materials,
- any other other legal sources of income

17

## **Financial and Business Activities, and Property of the Association**

- achieve the goals and objectives of the Association;
- improve the Association's material and technical base;
- pay salaries to officers and employees of the Association and other persons involved in the activities of the Association;
- finance other legal activities of the Association.

18

- 17) \* Where does the money come from? \* What questions or comments do you have about this slide?
- 18) \* How is the money used? \* What questions or comments do you have about this slide?

## **Termination of the Activities of the Association**

The activities of the Association may be terminated as follows

- by the decision at the General Meeting, if approved by at not less than two-thirds of the votes of Members present at the General Meeting,
- on the basis of other reasons stipulated by the SEI, and the legislative acts of the Republic of Armenia

Termination of the activities of the Association shall also occur in the event of the liquidation of the Association.

19

## **Rules of Fair Practice of the Association**

Designed to

- promote and enforce just and equitable principles of trade and business, and to maintain high standards of commercial honor and integrity among members of the association,
- prevent fraudulent and manipulative acts and practices;
- provide safeguards against unreasonable profits or unreasonable rates of commissions or other charges;
- protect investors and the public interest;
- provide for collaboration of the Association with the SEI or other governmental agencies in the promotion of fair practices and the elimination of fraud.

20

- 19) \* What if things do not work out well? \* Sometimes things are just not meant to be, and activities must be terminated for some reason or reasons. As you can see here, there should be procedures put into effect to take care of such contingencies. \* What questions or comments do you have about this slide?
- 20) \* One of the important documents of the Association concerns the *Rules of Fair Practice*. The rules are designed to primarily to protect the public by promoting integrity in the marketplace. \* You can read these as I bring them onto the screen. Again, I have models of these rules which the Association may use as a guide. I will be happy to meet with a small group to provide whatever assistance is requested. What questions or comments do you have about this slide?

## **Uniform Practice Code**

**Designed to make uniform, wherever practicable, the custom, practice, usage, and trading techniques of the day-to-day conduct of business between members of the Association in order to eliminate the disputes and misunderstandings which may arise from uncertainty and lack of uniformity in such matters, so that the free and open securities market may be developed and improved, and impediments thereto removed.**

21

## **Code of Procedure**

**Applies to all (1) proceedings relating to disciplinary actions involving Members; (2) to proceedings relating to eligibility requirements for membership and termination of membership; (3) and to any other proceedings when the Council of Directors deems it appropriate.**

22

- 21) The *Rules of Fair Practice* are concerned with the investor, the *Uniform Practice Code* \* is concerned about the day to day conduct of business between members of the Association \* Again, I have models of the code What questions or comments do you have about this slide?
- 22) The *Code of Procedure* is concerned with problems and disciplinary actions involving members of the Association \* Models are available What questions or comments do you have about this slide?

## **Code of Arbitration Procedure**

**Designed to resolve disputes, claims, or controversies arising out of or in connection with with the securities business of any member of the Association, including the following:**

- Disputes between or among members of the association;**
- Disputes between or among members and public customers or other non-members.**

23

23) \* Resolving disputes brings about the need for the *Code of Arbitration Procedure* \* (Pause) \* (Pause) \* (Pause) What questions or comments do you have?

What are our next activities regarding the development of an SRO? What help can we give? We need to look at what, who, when, where, etc to proceed

FUNDAMENTALS  
OF  
SALES  
OF  
FINANCIAL  
PRODUCTS  
AND  
SERVICES

**FUNDAMENTALS**  
OF  
**SALES**  
OF  
**FINANCIAL**  
**PRODUCTS AND SERVICES**

1

**Selling**

- Successful brokerage firms are those with brokers who know how to sell
- Firms will be profitable if they take their services to the marketplace effectively
- In this module, we will examine selling and sales management processes
- You will learn simple approaches to setting appointments and conducting meetings with potential clients
- We will examine activity requirements and reporting tools

2

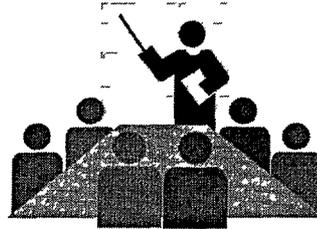
## FUNDAMENTALS OF SALES OF FINANCIAL PRODUCTS AND SERVICES

(2)

Successful broker dealers are those with brokers who know how to sell. Though mastery of brokerage operations, public offerings, and analysis are critical, firms will be profitable if they take their services to the marketplace effectively. In this module, we'll examine the selling and sales management process. Participants will learn and demonstrate familiarity with a simple approach to setting appointments and conducting meetings with potential clients. To help organize the selling process, we'll look at activity requirements and reporting tools. As a result of this module, managers will have tools to teach brokers selling skills and track their results.

## Education

- A successful securities broker is involved in education
- Includes his or her own education and the education of clients and potential clients
- Present seminars using slides, transparencies, video tapes, handouts, guest speakers, etc



3

## Education

- A successful securities broker is involved in education
- Includes his or her own education and the education of clients and potential clients
- Present seminars using slides, transparencies, video tapes, handouts, guest speakers, etc
- Brochures** are useful for educational purposes as well as advertising for the firm

4

(3)

A big part of the work of a successful securities broker involves education. Not only his or her own education, but the education of clients and potential clients concerning the securities industry in general as well as education about specific products, strategies, transactions, etc. One method I have found successful involves presenting public seminars using slides, transparencies, video tapes, audio tapes, handouts, guest speakers, etc.

(4)

Printed material, such as brochures, have been very useful. Here is a brochure from a large mutual fund family in the United States, and here is another one from a brokerage firm. This one is titled "How to be a Successful Investor" and this one is titled "Modern Investing". Both of these are intended for reading by members of the public.

## **Education**

- **A successful securities broker is involved in education**
- **Includes his or her own education and the education of clients and potential clients.**
- **Present seminars using slides, transparencies, video tapes, handouts, guest speakers, etc**
- **Brochures are useful for educational purposes as well as advertising for the firm**
- **Face-to-face meetings with clients and potential clients are educational opportunities**

5

## **Contact**

- **Some of your clients will be sellers only  
You will have only a one-time contact with them**
- **Design a short form to simplify business transactions with these sellers**
- **Explain market dynamics regarding abundance of sellers**
- **However, maintain periodic contact in case of future interest**

6

(5)

And, generally, a considerable portion of one-on-one or face-to-face meetings can be spent educating the person or persons with whom you are meeting

(6)

Some of your clients will be interested only in selling the shares they own. That is, you will have only a one-time contact with them. I would suggest that a short form be designed to speed up the process of opening accounts and conducting transactions for these one-time clients. In any case, when they put in their sell orders, be sure to explain how an abundance of sellers in the marketplace will tend to push prices down. However, part of your job is to establish long-term relationships with clients. There may be a time in the future that these same persons decide to get back into the securities market, so be sure to keep good records about these clients (addresses, telephone numbers, dates, securities sold, etc.) and maintain periodic contact with them over time – for example, send them newsletters every so often -- so that if and when they do decide to become involved again, you will be the broker they call.

## Contact

Your job is to have clients for you and your firm. The goal is to develop long-term relationships with individuals and organizations who will be active investors.

7

## You have several tools

- Your **products** and your **service**

✓ The products available are pretty much the same for everyone, so significant differences will be seen in the services you and your firm provide.

8

(7)

Others will become investors. They will see value in securities markets and will add to their holdings from time to time and do other trading as needs or wants change. Again, your job is to establish long-term relationships with clients for you and the brokerage firm.

(8)

You have several tools or means to help you be successful in this business, starting with products and service. Everybody else has pretty much the same products, so the difference will be the service you and your firm provide.

## You have several tools

- Your products and your service

- One of the most important sales tools is the "you" you present to the world That is, **your image**

  - ✓Consider the importance of grooming, clothing, shoes, language, voice, posture, eye contact, etc

  - ✓We have only one chance to make a first impression

9

## You have several tools

- Your products and your service

- Your image

- Another important tool is your **personal contact network**

  - Your personal contact network is all the people you know and all the people they know In addition, it is all the people you meet in your everyday life

10

(9)

One of your most important sales tools is the "you" you present to the world. That is, your image. Make sure you are paying special attention to such things as your grooming, clothes, shoes, language, voice, posture, eye contact, etc. Remember, we have only one chance to make a first impression. When making a sales call, professional attire will tell the person looking at you that you mean business – that you understand what you do for a living and why, and that your main goal is to convey information and knowledge as a result of your meeting.

(10)

Another important tool is your personal contact network. Simply put, it is all the people you know and all the people they know. In addition, it is all the people you happen to meet in your everyday life.

## You have several tools

- Your products and your service
- Your image
- Your personal contact network

**“What kind of work do you do?”**

“I am a securities broker ”

“I help people build wealth for their future financial security and comfort ”

11

## You have several tools

- Your products and your service
- Your image
- Your personal contact network
- Your “label”

•An important tool is your **system** to keep track of prospects and clients

✓Consider using something similar to the following a **prospecting board.**

12

(11)

By the way, when people ask you what you do for a living, which one of the following two answers do you think better opens the door for further discussions?

- "I am a securities broker "
- "I help people build wealth for their future financial security and comfort "

Sometimes this is called a "label" or "brand "

(12)

Another important tool is the system you use to keep track of prospects and clients -- the way you organize your files. Consider using a prospecting board. This can consist of cards thumbtacked to a bulletin board or taped to a wall or window. I will explain.



(13)

Category A consists of prospects you are going to call or visit in order to schedule an appointment. These are people with whom you have had no sales contact yet, but you have decided that you have a reason to communicate with them. There are several sources of these names. I will go into further detail later concerning how you get names for these cards.

Category B is made up of prospects who were part of an earlier A group whom you called or visited and who indicated an interest in at least meeting with you to hear what you have to say. So you have appointments with these persons. This is good! When you call on category A persons, what you want are APPOINTMENTS with prospects who are willing to discuss the potential usefulness of your services.

After appointments, some of the B persons will have shown enough interest that you feel you should maintain contact with them, work more with them, encourage them to become clients. So you move them into the C category. Your job now is to find more ways to point out to them how an association with you will eventually result in positive results for them. You will probably do business with about 50% of these.

Category D persons are those who are either former C persons who have become much more interested in your services or B persons who immediately indicated a strong interest at the appointment. You are very confident that you will be doing some business with persons in this group.

One advantage to using the bulletin board or wall system is that it is always visible. You are not able to ignore it, so it helps to keep you focused on the activities you need to do to be successful. Disadvantages to the card system include the fact that there is not a lot of room on the cards to write notes, and it is difficult to attach photocopies, faxes, e-mails, etc. to the cards. Consequently, some brokers find it more convenient to use a notebook with loose leaf pages. It is still basically the same system, but the notebook provides more room for notes, and other documents are easily added to the notebook.

(14)

The fifth tool is your initiative. The sales profession demands a great deal in terms of individual initiative and the ability to motivate oneself. By this I mean that you take on the responsibility to affect your environment in such ways that your sales efforts will be more profitable for you. That's what it all really comes down to: your success.

**The beauty of sales as a profession is that YOU control your own destiny:**

- YOU are meeting the people
- YOU are making the phone calls
- YOU are writing the letters
- YOU are telling the stories
- YOU are writing the orders



**Being well organized definitely helps.**

15

**The prospect to whom you are speaking is thinking the following questions:**

1. Who IS this person?



16

(15)

The beauty of sales as a profession is that YOU control your own destiny YOU are meeting the people, YOU are making the phone calls, YOU are telling the stories, YOU are writing the orders It is a great profession And good organization definitely helps

You remember our A, B, C, D chart a few slides back Where do we get the names for the people in the A category? Sometimes in the U S , a new broker will simply get a list of names and telephone numbers and will sit down at a telephone and start making calls This activity is termed "cold calling," and it is getting more difficult to do there In the Republic of Armenia I am certain it will not work very well at all People here, I am sure, do not respond well to telephone calls from strangers Consequently, this is where your personal contact network enters the picture You ask your friends, relatives, clients -- anyone you know -- for introductions or referrals to their friends and relatives In some cases it is just a name and phone number, office address, or home address you need You also need permission from your friend to use his name Sometimes you will be able to use a letter of introduction (Occasionally you will write the letter yourself and have your friend sign it ) You will have several other good ideas, but the key is to get referrals, since it makes the first contact with a prospect so much easier The business I do in the U S now is strictly by referrals, some of my clients will mention my name to friends and then call me to have me contact the friends

When I train brokers in the U S , sometimes I suggest that they sit down at a telephone and call five of their friends or relatives I have them explain that they are looking to expand their clientele base, and would appreciate some help The friends or relatives know what kind of work the brokers do, and all the brokers want from each of them are the names and telephone numbers (or addresses) of three friends or relatives whom the brokers will contact and offer to explain the services that they and their companies provide The brokers will mention the names of their friends when they make contact with these new persons (Usually the brokers will give their friends a demonstration of the "opening speech" so that they know the "tone" of the contact [We will talk about that speech in a few more slides ])

(16)

When you are contacting the people in the A category – the ones you are meeting for the first time – there are four very logical questions each prospect will be thinking when you are speaking to him or her (Sometimes the prospects are not only thinking the questions, but are asking them right out loud ) The first question is, "Who IS this person?"

**Prospect's questions:**

- 1 Who IS this person?
2. Why is he/she talking to me?

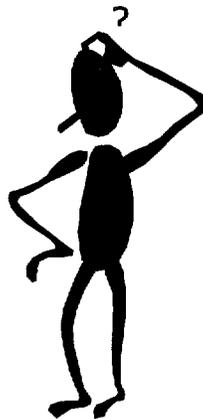


17

**Prospect's questions:**

- 1 Who IS this person?
- 2 Why is he/she talking to me?

- 3 Is it important?



18

(17)

The next question is, "Why is he/she talking to me?"

(18)

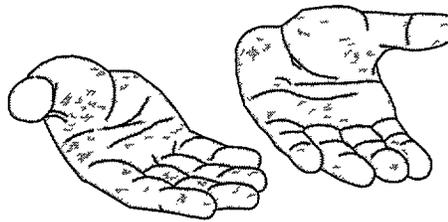
The third question is, "Is it important?"

## **Prospect's questions:**

- 1 Who IS this person?**
- 2. Why is he/she talking to me?**
- 3 Is it important?**

•What's in it for me?

How does it help me?



19

## **Prospect's questions:**

- 1 Who IS this person?**
- 2 Why is he/she talking to me?**
- 3 Is it important?**
- 4 What's in it for me? How does it help me?**

Be certain that the questions are answered as you make initial contact with a potential client, then ask for an appointment

All you want is a prospect who is willing to discuss the potential usefulness of your service

20

(19)

The fourth question is, "What's in it for me?" or "How does it help me?"

(20)

Make sure the above questions are answered in your opening remarks, then ask for an appointment. Remember, at this point all you want is a prospect who is willing to discuss the potential usefulness of your services.

Write a **script** to answer the questions

- 1 Who **IS** this person?
- 2 Why is he/she talking to me?
- 3 Is it important?
- 4 What's in it for me? How does it help me?

**PRACTICE** the script

**Record** yourself audio and video

Practice some more

21

It is absolutely natural for the prospect to say something about being **not interested**.

22

(21)

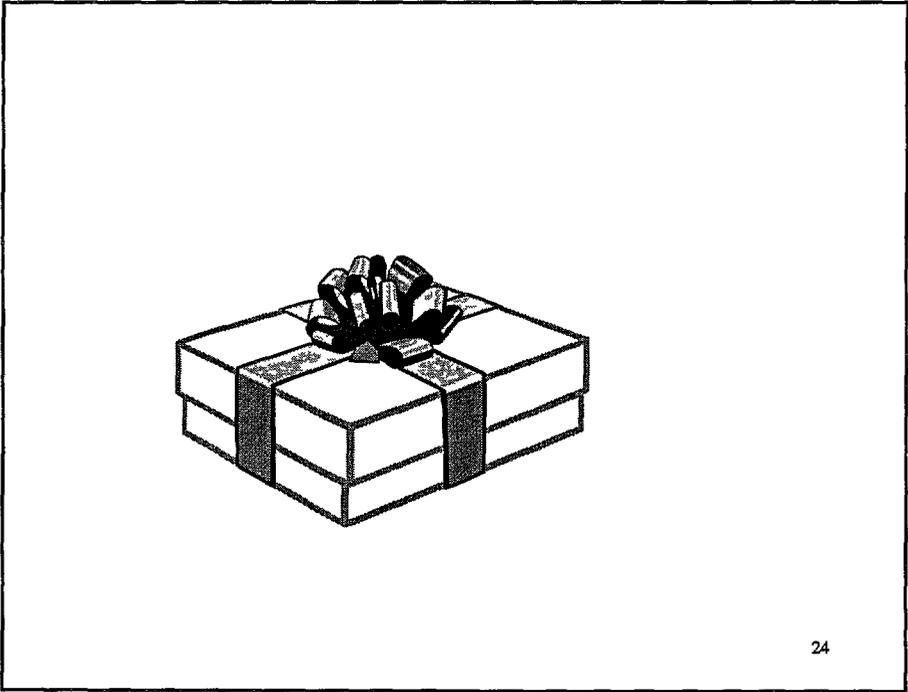
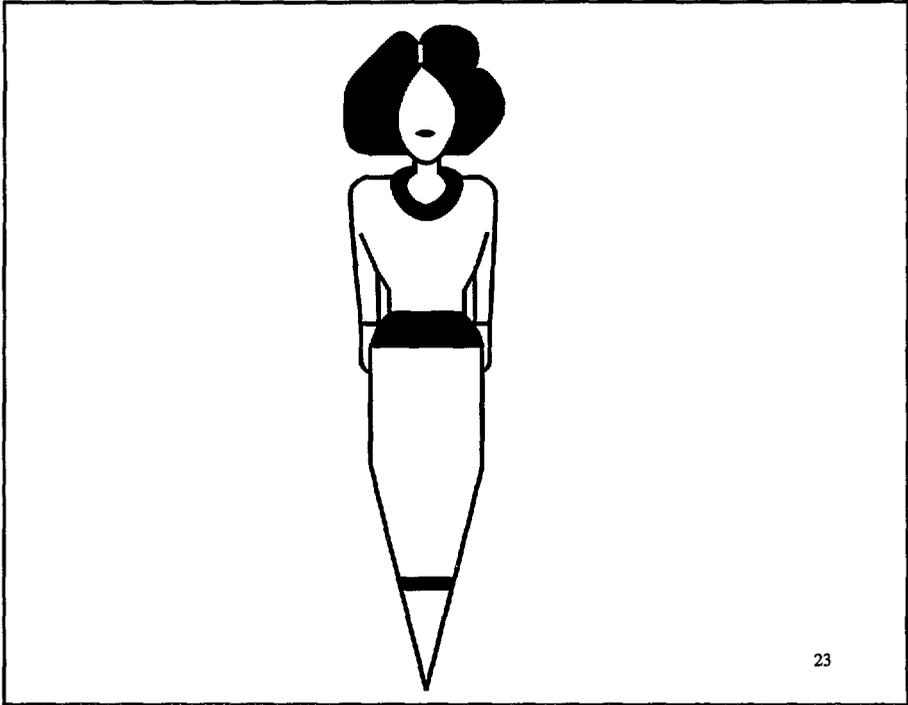
Write a script to answer the four questions PRACTICE saying the script Tape record – audio and video – your practice Practice some more This is extremely important advice

Here is an example of such an opening speech *“Hello, Mr Karapetian, I am Bob Thiel I have contacted you because our mutual friend, Haik Poghossian, suggested it I am a securities broker with AAA Brokerage, and Haik is not only a friend, but is a client as well I am setting up my appointments for next week and would like the opportunity to explain to you the specialized work that my company and I do to help our clients build wealth for their future financial security and comfort I would especially like to describe for you some investment strategies that could prove to be very profitable On Wednesday, is morning or afternoon better for you to meet with me?”*

Practice your opening speech Record it Make sure it sounds natural Practice some more (I guess you have figured out by now that I think practice is pretty important )

(22)

It is natural for a person to say something about not being interested



76

(23)

Let me tell you a story about one time when I went shopping with my wife

My wife had seen a sweater in the window display of a store. She didn't go into the store and, in fact, had never been in that store, but she really liked the looks of that sweater and was sure it was her size. She thought about that sweater for a couple days and decided to buy it. She asked me to drive her to the store so that she could buy that sweater.

(24)

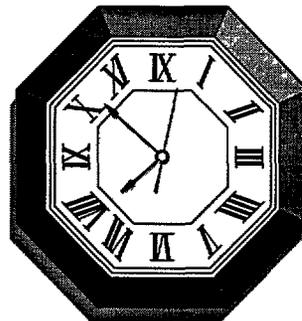
It was only a few days until her birthday, so I thought I would give it to her as a gift. We got into our car and drove about 10 kilometers to the store. Along the way, she was telling me that she hoped it was still there, that it was really pretty, that I would like it too, and so on. I parked the car down the street from the store. We got out, walked toward the store -- and good news! -- the sweater was still in the window. We walked into the store, we were the only customers there. The sales clerk asked my wife, "May I help you?" You probably think that my wife pointed to the sweater and asked for it, I know that's what I thought she was going to do. But when the sales clerk said, "May I help you?" my wife replied, "We are just looking."

Just looking? Just looking? We went to that store for one reason -- to buy that sweater. What does she mean, just looking? What she was doing was getting comfortable with the whole situation before making a final decision. She had never been in that store before, remember, so she was making sure it was a place where she really wanted to do business. She was just being natural, just as natural as the person here who initially says, "I am not interested." He isn't quite comfortable with the whole situation yet, and it's easier at first to be not interested. (We bought the sweater.)

One response to that natural comment about being not interested is as follows

**"I understand, Mr. Martanyan, a lot of people have said that. But once I had the chance to discuss how our program could help them, they decided to give our service a try. And I would be happy to explain our program to you. How does that sound?"**

25



26

(25)

So, here is what you say when the prospect first says he is not interested *“I understand, Mr Martanyan, a lot of people have said that But once I had the chance to explain how our program could help them, they decided to give our service a try And I would be happy to explain our program to you How does that sound?”* (This is another speech to memorize and practice )

At this point, the prospect will either agree to meet or will repeat that he is really not interested If he repeats the “not interested” part, you say to him -- with a smile -- *“OK, thank you for your time ”* And move along to your next telephone call or visit

Every so often you will get the feeling that even though the person was not interested at this time, maybe he would be under different circumstances For example, perhaps you contacted him at a particularly bad time If you got the feeling that this person might be interested in your services in the future, keep the card from the bulletin board with his name, etc on it Write a brief note on it which includes the date of the initial contact In a few months you can send him a newsletter and/or contact him again just to stay in touch However, do not get bogged down with this activity, spend at most two hours a month following-up with these “might be interested” persons (Remember, YOU are the one who had the feeling that a prospect might be interested, he did not say as much, but at least he will remember you if he does decide to start investing )

I repeat, do not get bogged down in this type of follow-up activity Too many salespersons think they are doing something constructive if they spend time mailing newsletters and flyers or calling on people just to stay in touch Your job is to call on people, get appointments to explain your special services, tell the stories, sign up clients, and help them build wealth for their future financial security and comfort

(26)

An extremely effective technique that can be used as part of the response to “not interested” involves promising to take only ten minutes of the person’s time Many persons will not mind giving up such a short time and will schedule an appointment Some salespersons even bring a plastic wind-up cooking timer to the subsequent interview, set it for ten minutes, go through an upbeat ten-minute presentation, and when the timer “dings” present three options offer (1) to leave right then or (2) stay a little longer to explain more if the prospect is interested or (3) schedule a longer appointment within the next few days Prospects will respect that you keep your word about taking only ten minutes, and is why you offer to leave as soon as the timer dings Some persons WILL want you to leave then, but many will be interested in more information, so they will invite you to stay for a while longer or will agree to a future appointment In a later slide we will discuss a “presentation book” – a tool which can make for a very well-organized, dynamic, and interesting presentation It is obvious that the first ten minutes of your presentation -- and presentation book -- must be extremely well-done in order to pique curiosity about further information

Keep records of the ratio of  
**contacts** made to  
**appointments** made to  
**accounts opened** to **sales**  
 completed.

27

NAME \_\_\_\_\_ WEEK OF \_\_\_\_\_

Attempts 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34  
 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68  
 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

Contacts 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34  
 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68  
 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

Hours 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30  
 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60

Opening Speech 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29  
 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63  
 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

Not interested? 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31  
 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65  
 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

Responded Not interested? 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26  
 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60  
 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

"OK, thank you for your time. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 1 22 23 24 25 26  
 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60  
 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

Agreed to appointment 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29  
 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63  
 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

Client Accounts Opened 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28  
 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50

Sales 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35  
 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50

28

76

(27)

Keep records In the U S it is not uncommon to have twenty initial contacts to set five appointments to make one or two sales

(28)

Here is a chart which will help you keep track of your activity and the results This can be used for both telephone and in-person contacts I will explain each part

NAME \_\_\_\_\_ WEEK OF \_\_\_\_\_

**Attempts** 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30  
31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60  
61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90  
91 92 93 94 95 96 97 98 99 100

**Contacts** 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30  
31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60  
61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90  
91 92 93 94 95 96 97 98 99 100

**Hang ups** 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30  
31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60

**Gave Opening Speech** 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26  
27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56  
57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

**"Not interested"** 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28  
29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58  
59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

**Responded to "Not interested"** 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23  
24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53  
54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83  
84 85 29

**"OK, thank you for your time"** 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23  
24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53  
54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83  
84 85

**Agreed to appointment** 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25  
26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55  
56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

**Client Accounts Opened** 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25  
26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50

**Sales** 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32  
33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50

**Notes** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

30

78

(29)

- **Attempts** is the number of telephone calls you made or the number of visits to offices or homes you made
- **Contacts** is simply the number of calls that were answered or the number of prospects you were able to see face-to-face
- **Hang-ups** refers to the fact that some people do not want to be bothered and will simply hang-up the phone without giving you a chance to say much. It can also refer to the person whom you are trying to meet face-to-face simply closes the door or says that he has no time right now
- **Gave Opening Speech** refers to the script you have written, practiced, and recorded. You were able to say it to the prospect
- **Not interested** is the natural response you will hear from a lot of prospects
- **Responded to "Not interested"** refers to the little speech you practice and say to the prospect when he indicates a lack of interest

(30)

- **"OK, thank you for your time"** is what you say when the prospect reaffirms his lack of interest. Remember to smile
- **Agreed to appointment** refers to the whole reason for our prospecting activities
- **Client Accounts Opened** refers to the important first step in establishing a long-term relationship with each of your clients. There must be an account opened before trades can take place
- **Sales** is simply a way to keep track of how many transactions you have conducted for your clients

This chart is very useful, especially for the new broker. In a way, sales is simply a numbers game. The salesperson has to make X number of initial contacts to have Y number of appointments to make Z number of sales. **MOST OF THE TIME THE ANSWER WILL BE NO.** Therefore, the contact chart is important because it spells out clearly what the new broker can expect, and it keeps him or her from taking things personally. "Hang-ups" and "Not interested" are to be expected, there are places for them on the chart, so the broker is not surprised by such behavior and just keeps on with the activities that will result in appointments for him or her to tell the story and sign up clients.

Once you have the appointment to discuss the service, you have the following **goals**:

1. **Obtain information** about the prospect's concerns, interests, wants, needs, etc.

31

### **GOALS...**

- 1 **Obtain information about the prospect's concerns, interests, wants, needs, etc**

2. **Provide information** about your services and your firm.

32

(31)

Once you have the appointment to discuss the service, your first goal is to obtain information from the prospect. You will ask questions to determine his needs, wants, concerns, interests, etc. Later in our seminar you will receive a list of questions to ask.

(32)

The second goal at the interview is to provide information about your services. Be careful here, most people do not like to be talked **AT**, but prefer to be talked **WITH**. Therefore, you and the prospect should be having a discussion during which you are determining his needs, wants, concerns, interests, etc., and you are showing him how the services you and your company provide can be beneficial to him.

## **GOALS...**

- 1 Obtain information about the prospect's concerns, interests, wants, needs, etc.**
- 2 Provide information about your services and your firm**
- 3 Inspire trust**
  - ✓The client has to trust that you are knowledgeable, understanding, and that you have his best interests at the heart of your work.

33

## **GOALS...**

- 1 Obtain information about the prospect's concerns, interests, wants, needs, etc**
- 2 Provide information about your services and your firm**
- 3 Inspire trust**
- 4. Listen, listen, listen.**
  - ✓Train yourself to immediately stop talking if the prospect starts to interrupt you.

34

(33)

Possibly the most important goal for you at the interview is to inspire trust. In essence, you are selling yourself, not products yet, at the interview. The client has to trust that you are knowledgeable, understanding, and that you have his best interests at the heart of your work.

(34)

LISTEN, LISTEN, LISTEN. Train yourself to immediately stop talking if the prospect starts to interrupt you. This skill is really easy to see in a successful, experienced salesperson, he may be in the middle of a very important sentence, but he immediately stops if the prospect wants to talk. People are not TALKED into buying, they are LISTENED into buying.

### **At the interview:**

- Place the prospect on your **right** (if you are right-handed).

- ✓Pen, written material, presentation book, file folder, etc. are directly in front of prospect You are not turning away.

35

### **At the interview:**

- Place prospect on your right (if you are right-handed)

- Concentrate** on **what** is being said and **how** it is being said.

36

(35)

At the beginning of the interview, place the prospects on your right – if you are right handed. You will be using a pen or pencil to make notes or to point to written material, so it keeps your prospects involved because you are not turning away. At most of my presentations in the U S , I am talking to both husband and wife, so I put them on my right along with my pen, my presentation book or other written material, a file folder with their name on it, and my note paper. Everything is happening right in front of them.

(36)

Tune out the rest of the world and tune your prospects in. Get your brain ready to concentrate on what is being said and how it is being said. Listen for tone-of-voice clues and look for body-language clues to determine the prospect's attitudes and feelings about the topics under discussion.

## **At the interview:**

- Place prospect on your right (if you are right-handed)
- Concentrate on what is being said and how it is being said
  
- Make the prospect feel important.  
He is!

37

## **At the interview:**

- Place prospect on your right (if you are right-handed)
- Concentrate on what is being said and how it is being said
- Make the prospect feel important He is!
  
- Get him talking about himself

38

(37)

Put your prospects at ease and make them feel important. They are! If they are in your office, offer them a light refreshment. If you are in their home or office, they may offer you a drink or snack, of course. When such an offer is made to me, my usual practice is to ask for water, since I do not drink coffee or tea. I consider it polite to accept the kind hospitality, and it is my impression that those who offer hospitality like to have it accepted.

(38)

Get your prospects talking about themselves. You are probably a very interesting person, but they do not want to learn much about you yet, so encourage them to tell you about themselves. Sometimes it is a good idea to engage in "small talk" so that you get comfortable with each other. You might ask them about things that are interesting to you family, home, hobbies, etc. Just make sure it is real. That is, you are truly interested in what you are asking them, prospects can spot phony very easily. (Some salespeople do not like to spend time with this small talk, but prefer to get directly to the business at hand. And sometimes it is easy to see that the prospects are not interested in small talk, so you would move into the business discussion right away.) The list of questions you will receive later are prepared for use during business discussions.

## **At the interview:**

- Place prospect on your right (if you are right-handed)
  - Concentrate on what is being said and how it is being said.
  - Make the prospect feel important He is!
  - Get him talking about himself
- 
- Hold eye contact and **listen to how he feels.**

39

## **At the interview:**

- Use a **PRESENTATION BOOK** to help you stay on track.

"In order for me to help you, may I ask you a few questions? My notebook will help me stay organized."

You will receive a list of open-ended questions to ask potential clients.

40

(39)

Maintain eye contact as much as possible and LISTEN TO HOW THEY FEEL To repeat myself from earlier Concentrate on what they are saying and how they say it

(40)

Have a presentation book to help you stay on track When I am ready to utilize my presentation book I say, "In order for me to help you, may I ask you a few questions? My notebook will help me stay organized" You and some colleagues get together to organize it to be most useful You can think of questions to ask clients or use the list of questions we are handing out now, or both In any case, I cannot emphasize too strongly the importance of a well-organized presentation book Here is a list of questions you could ask prospects during interviews Use these to help you put together your presentation book Notice that these are all open-ended questions that cannot be answered with "yes" or "no" In fact, try to keep from asking questions that can be answered "no" Let's take a few minutes right now to at least outline what you will cover in the first ten minutes' worth of your presentation book

## **At the interview:**

- Place prospect on your right (if you are right-handed)
- Concentrate on what is being said and how it is being said
- Make the prospect feel important He is!
- Get him talking about himself
- Hold eye contact and listen to how he feels
- Use a PRESENTATION BOOK to help you stay on track
  
- Ask** open-ended questions that draw out wants and needs

41

## **At the interview:**

- Place prospect on your right (if you are right-handed)
- Concentrate on what is being said and how it is being said
- Make the prospect feel important He is!
- Get him talking about himself.
- Hold eye contact and listen to how he feels
- Use a PRESENTATION BOOK to help you stay on track
- Ask open-ended questions that draw out wants and needs
  
- Listen to and **paraphrase** all points  
-- write them down.

42

(41)

During the interview, you will use the presentation book to ask open-ended, indirect questions that draw out wants and needs

(42)

During the interview, listen to and paraphrase all points the prospects are making – write them down. Make sure the prospects see you write them down. We all are pleased to see that what we say is so important that other people want to take notes to remind them of what we said

## At the interview:

- Place prospect on your right (if you are right-handed)
  - Concentrate on what is being said and how it is being said
  - Make the prospect feel important He is!
  - Get him talking about himself
  - Hold eye contact and listen to how he feels
  - Use a PRESENTATION BOOK to help you stay on track
  - Ask open-ended questions that draw out wants and needs
  - Listen to and paraphrase all points -- write them down
- Identify** dominant needs and wants -- get agreement from the prospect.  
("OK, the points you have mentioned so far are ")

43

## At the interview:

- Place prospect on your right (if you are right-handed)
  - Concentrate on what is being said and how it is being said
  - Make the prospect feel important He is!
  - Get him talking about himself
  - Hold eye contact and listen to how he feels
  - Use a PRESENTATION BOOK to help you stay on track
  - Ask open-ended questions that draw out wants and needs
  - Listen to and paraphrase all points -- write them down
  - Identify dominant needs and wants
- Assure** prospect that you want to help him select the right products and services for his situation.

44

(43)

During the interview, identify dominant wants and needs – get agreement from the prospect For example, *“OK, the points you have mentioned so far are indicating that safety of principal is a very important consideration in your thoughts about investing Have I understood that correctly?”*

(44)

During the interview, assure the prospects that you want to help them select the right products or services This same concept was mentioned earlier when we talked about the importance of inspiring trust

## At the interview:

- Place prospect on your right (if you are right-handed)
  - Concentrate on what is being said and how it is being said
  - Make the prospect feel important He is!
  - Get him talking about himself
  - Hold eye contact and listen to how he feels
  - Use a PRESENTATION BOOK to help you stay on track
  - Ask open-ended questions that draw out wants and needs
  - Listen to and paraphrase all points -- write them down
  - Identify dominant needs and wants
  - Assure prospect that you want to help
- Point out the **benefits**! (Sell the **sizzle**, not the steak.)

45

## At the interview:

- Place prospect on your right (if you are right-handed)
  - Concentrate on what is being said and how it is being said
  - Make the prospect feel important He is!
  - Get him talking about himself
  - Hold eye contact and listen to how he feels
  - Use a PRESENTATION BOOK to help you stay on track
  - Ask open-ended questions that draw out wants and needs
  - Listen to and paraphrase all points -- write them down
  - Identify dominant needs and wants
  - Assure prospect that you want to help
  - Point out the benefits!
- Ask** for the business.

46

(45)

During the interview, point out the benefits! Sell the sizzle, not the steak. What I mean is this. If you are talking about a steak, what you are talking about is a piece of dead cow. Who wants to think about a piece of dead cow? You want people to be thinking about the sizzle – the sound -- when the steak is cooking, the special smell, the remembrance of the wonderful taste and texture of a steak cooked just right, the little bit of salt, the fried mushrooms right next to the steak, the fresh tomato slices on the plate. Mmmmm, it makes me hungry right now. But I don't get that same feeling when all I think about is a piece of dead cow.

Your prospects and clients don't want to hear a lot of numbers about stocks, bonds, funds, etc., they are more interested in learning how investing in such things and working with you and your firm can result in good things for them. They want to think about the dacha to build, the new car, the education for the kids, the new house, furniture – good things that may happen because of their association with you and your firm. You cannot make outlandish claims or guarantee profits, of course, but the point here is that you could spend a couple hours explaining what stocks are, how they work, etc., and that won't convince anyone to buy any. What they want to think about is how their dreams get realized. Another way of saying that is to point out *end-result benefits*. There are six magic words that can help you get used to pointing out benefits. If you get practice using them, it becomes natural for you to explain to your prospects how they will benefit from your services. The six magic words are “**What this means to you is**” Sell the sizzle, not the steak.

(46)

During the interview, ask for the business. What I usually say is, “*I would like to have you as a client. Let's get some paperwork filled out so that we can get your account opened*” There are plenty of other ways to ask for the business, but the key is to ask for it. We make our money by selling products and services to clients, we don't get paid just to have conversations, so ask for the business.

What we have discussed here are not a series of tricks or just "sales techniques," but are methods to be **PREPARED, POSITIVE, and PROFESSIONAL.**

47

You can expect to hear **questions** and **objections** from prospects. We will provide a list of common questions and objections. Write responses to these

**Practice** hearing the questions and objections, practice saying the responses

48

(47)

What we have discussed here are not a series of tricks or just "sales techniques," but are ways to be PREPARED, POSITIVE, AND PROFESSIONAL

(48)

You will soon receive a list of questions and objections you can expect from prospects. You and some colleagues get together to think of additional questions prospects will ask you and objections they will have. Take the ones you and your colleagues think of, add them to the list we distribute, and write out your responses to these questions and objections.

Practice hearing the questions and objections, practice giving the responses. This will help you be more confident. (Prospects do not always follow the script, but this exercise is extremely valuable toward your preparation.)

We have here three pages of questions and objections you will hear from clients. I want you to write responses to these in the spaces provided. After 30 to 45 minutes we will have a discussion session. This is an extremely important exercise. You may work with one or two other persons if you want.

ELEMENTS  
OF A  
BROKERAGE  
FIRM  
COMPLIANCE  
MANUAL

# **Brokerage Firm Compliance Manual**

1

## **Compliance Manual**

**Purpose: To help ensure that personnel follow rules and procedures established by the firm.**

2

## **Compliance Manual Information**

(2) \* \* A Compliance Manual establishes rules and regulations within a brokerage firm to help ensure that personnel know and follow lawful and ethical procedures in their dealings with clients and with other professional participants

## Compliance Manual

Sample *Broker's Code of Conduct* mentions the following:

- Truth
- Fairness
- Goodwill
- Benefits

3

## Compliance Manual

Procedures for opening a client account:

- New Account Form*
  - >Information about age, financial status, investment objectives, investment experience, risk tolerance, etc.
  - >Purpose: Assist with suitability issues.
- Other necessary paperwork

4

(3) \*\* A sample *Code of Conduct* is shown below. It is intended to provide one type of model for a brokerage firm to design its own such code.

#### **BROKER'S CODE OF CONDUCT**

**TRUTH** I will conduct business in an honest, true, and clear manner that is legal and complies with securities laws and the regulations of my firm.

**FAIRNESS** I will always consider client needs before my own. I will practice fairness to all.

**GOODWILL** I will make complete disclosure of conflicts of interest and investment risk. I will always promote goodwill toward the securities industry and my firm.

**BENEFITS** I will operate with integrity, doing my best to ensure that services are beneficial to all concerned.

(4) \*\* A section in the manual should be devoted to specifics involved in opening an account for a client. This includes information about and samples of the necessary paperwork \* (*New Account Form*, for example). It is advised that brokerage firms help each other design standardized forms in this regard. The SMMA and FMSA can take leadership roles. \* The *New Account Form* should include information about the client's age, financial status (income and net worth), investment objectives, ID number, employer, investment experience, and risk tolerance. Other information can be included over time as the needs arise. \* The *New Account Form* is designed to help brokers and their firms determine which investments are most suitable for an individual client. *New Account Forms* should be updated periodically for active accounts, especially when there are substantial changes in a client's financial situations. \* Other paperwork in addition to the *New Account Form* may be required by the firm to open an account.

## **Compliance Manual**

### **Procedures for handling money:**

- Receipts and other forms
- No commingling of funds

### **Procedures for handling client's certificates**

5

## **Compliance Manual**

### **List of approved products**

### **Discretionary accounts and their supervision**

### **Taking orders from clients**

### **Commissions and fees for services**

### **Delivery of securities**

6

(5) \* \* Specific instructions should be included regarding how money is handled between client, broker, and firm, \* including how receipts are given for payments received The mixing of a broker's own funds with those belonging to a client (commingling) is generally prohibited

\* Instructions are necessary regarding the handling of a client's securities certificates

(6) \* \* Brokers are to sell only the securities approved by their firm A firm should develop a list of the products approved for sale

\* Special supervision must be given to the establishment of discretionary accounts (if such accounts are authorized by the Securities Law) In addition, once discretionary accounts are established, supervisors are to take extra measures to see that activities in them are proper

\* Brokers are to receive instructions regarding taking orders from clients For example, will telephone orders be allowed? If so, what safeguards are built in so that the client cannot "back out" of a deal claiming that he or she did not put in such an order? Perhaps only written orders are allowed In that case, the industry should attempt to standardize such written forms

\* Information about commissions involved in securities transactions should be addressed in the firm's Compliance Manual, especially regarding the broker's latitude (if allowed) in adjusting what a client pays in commissions The same is true for markups and markdowns

\* Instructions regarding delivery of securities for settlement purposes are necessary

**Compliance Manual**

- Fees paid for cancellations and errors**
- Transactions that need prior approval from supervisor**
- Communications with the public**
- “Identifiers”**
- Brochures and other educational material**

7

**Compliance Manual**

**Records to be kept in client file:**

- **Correspondence and notes about contact**
- **Copy of *New Account Form***
- **Confirmations of transactions**
- **Account Statements**
- **Sales material or advertising given**
- **Other material deemed necessary**

8

(7) \* \* Information regarding who pays fees (if any) for cancellations of orders should be included in the Manual. In addition, the Manual should include information about who is responsible for paying costs or losses associated with the broker effecting an order in error which results in a loss for the client and/or the firm when the error is corrected.

\* Some firms will have a list of certain types or sizes of transactions that will need prior approval of a supervisory person before the order is input into the system.

\* Instructions about communications with the public should be covered in the Manual. Communications include correspondence, advertisements, circulars, research reports, market letters, performance reports, form letters, telephone scripts, seminar texts, audio or video (including electronic) presentations, sales literature, and other similar material to be sent to clients or potential clients by any means.

\* The firm should see that the business cards and other "identifiers" used by brokers and the firm are within the guidelines established by the Securities Law. Lacking such guidelines, the firm should standardize identifiers for its staff. This includes the use of logos, for example.

\* Forms intended for educational purposes, such as brochures explaining details about stocks, bonds, markets, etc. should be developed by firms for their clients and instructions for the use of such forms by brokers should be included in the Compliance Manual.

(8) \* \* Brokers are to be made aware of the records they are to keep in each client's file. \* Such records include copies of correspondence, notes about contacts in person or by telephone, a copy of the *New Account Form*, confirmations of transactions, copies of the client's account statements, copies of sales material or advertising sent or given to the client, and other paperwork (or computer data) deemed necessary by supervisory personnel.

## Compliance Manual

### Sales practices:

- Suitability based on facts disclosed by client
- Recommendations
  - > Information to client must be accurate, complete, and timely
  - > No misrepresentations or misleading statements
  - > No manipulative, deceptive, or fraudulent devices
  - > Disclose all unfavorable and favorable facts <sup>9</sup>

## Compliance Manual

### Sales practices:

- “Churning” prohibited
- No guarantees
- Need information from *New Account Form*
- Unsuitable unsolicited orders
- Telephone solicitations
- Predictions
- Inside information

10

(9) \*\* A prominent section of the Compliance Manual concerns sales practices. Some of the important provisions are noted below.

- ✓ \* **SUITABILITY** Every securities recommendation must be suitable for the client based on facts disclosed by the client related to other security holdings, previous investment experience, situation, and needs.
- ✓ \* **RECOMMENDATIONS** Brokers must have reasonable and adequate factual basis for any recommendation. Information communicated to a client in support of a recommendation must be accurate, complete, and timely. Make no misrepresentations or misleading statements, \* nor use any manipulative, deceptive, or other fraudulent device.

Brokers must disclose to clients all unfavorable and favorable material facts about a recommended investment so the client can make an informed decision about the investment risk. Sales presentations must follow the principle of "full disclosure." Ignorance of the facts on the part of the broker is no excuse for failing on this point.

Hold all client contacts in the highest confidentiality.

- ✓ \* \* \* (10) **"CHURNING"** Excessive trading in a client's account is strictly prohibited.
- ✓ \* **GUARANTEES** Brokers must never make statements guaranteeing gains or guaranteeing against losses, including statements that could be misunderstood as a guarantee regarding any securities account or securities transaction.
- ✓ \* **NEW ACCOUNT FORM** Prior to making a recommendation, the broker must have all the information necessary to complete the *New Account Form* for the client.

In the case of a client who refuses to disclose all suitability information requested on the *New Account Form*, the client should state this under the "Comments" section of the *New Account Form* and sign it. Before proceeding to make a recommendation to such a client, the broker should contact his or her supervisor.

- ✓ \* **UNSOLICITED ORDERS THAT ARE UNSUITABLE** Brokers should not accept unsolicited orders that are clearly unsuitable for a client.
- ✓ \* **TELEPHONE SOLICITATIONS** Never make a recommendation during a telephone contact prior to obtaining information necessary to complete the *New Account Form*. Pre-qualify the client to make sure the investment is suitable for him.
- ✓ \* **PREDICTIONS** Make no predictions of future investment performance. Statements about investment safety must be based on facts. Temper any statements of benefit with disclosure of any accompanying risk.
- ✓ \* **INSIDE INFORMATION** Brokers are to be made aware that severe penalties can result from making recommendations or trading in personal accounts based on material non-public information, also known as inside information.

## Compliance Manual

**Broker discloses any type of outside employment or business activity to firm.**

**Broker notifies supervisor about account in another brokerage firm.**

**Broker and immediate family are not allowed to buy "hot issues."**

**Firm has procedures for handling complaints.**

11

## Compliance Manual

**Record keeping requirements for brokers:**

- *Client Book*
- *Securities Book*
- **Compliance file**
- *Client Accounts Activity Report*

12

(11) \* \* A broker must disclose any type of outside employment and business activity to his or her firm. These activities should be pre-approved in writing by supervisory personnel.

\* If a broker has or opens a brokerage account at another firm, the broker's supervisor must be notified in writing. Arrangements are to be made to supply the broker's firm with duplicate trade confirmations and account statements.

\* A new issue in the primary market that subsequently opens for trading in the secondary market at a price higher than the Public Offering Price is known as a "hot issue." Brokers and their immediate family members are not allowed to purchase hot issues in the primary market. The purpose of the rule is to ensure that when a public offering is "hot," the issue is distributed to the public, and not to a few favored individuals who are essentially "insiders." There is no prohibition against brokers or their families buying these same issues in the secondary market.

\* A complaint is defined as any written statement of a client or any person acting on behalf of a client alleging a grievance involving the activities of the firm or its associated persons with respect to any matter involving the client's account. Brokers and other staff shall refer all complaints immediately to a supervisor who shall contact the complainant to resolve the issue. Correspondence between the firm and the complainant is the responsibility of supervisory personnel. A separate file of all written complaints of clients and the actions taken shall be maintained at the firm's main office.

(12) \* \* Record keeping requirements

- ✓ \* A broker should maintain a *Client Book* which records the transactions of each client. This may be a simple ring binder with loose leaf pages, or any format which demonstrates that the broker knows the transaction history of each client, including the costs.
- ✓ A broker should maintain a *Securities Book* which records the transactions in each security. This may be in any format which demonstrates that the broker knows which clients are holding a given security, and their cost basis.
- ✓ Keep a compliance file containing the Compliance Manual and any updates.
- ✓ Maintain a record of daily purchases and sales of securities on a "Client Accounts Activity Report." This record is to be made available for inspection by supervisory personnel.

## **Compliance Manual**

### **Violations:**

**Disregard for the policies and procedures of the firm can result in restriction, fine, suspension, termination of activities, and may lead to official complaint proceedings with securities regulatory authorities.**

(13) \* \* Violations of compliance policies can have a serious impact on the firm and all its personnel due to resulting disciplinary actions by the SEI. Disregard for the policies and procedures of the firm can result in restriction, fine, suspension, termination of sales activities, and may lead to official complaint proceedings with securities regulatory authorities. Brokers are therefore strongly encouraged to take the time to assure full compliance of policies and procedures in all their activities.

# OVERVIEW OF CORPORATE GOVERNANCE

# **Overview of Corporate Governance**

1

## **Overview of Corporate Governance**

- The success of a company in the long term depends on many important factors
- Sound relationships are important
- Investors, before entrusting their money, will want to see evidence of sound and stable relationships
- Sound and stable relationships depend on sound procedures, behavior, and standards.

2

# OVERVIEW OF CORPORATE GOVERNANCE

(2)

The success of a company in the long term depends not only on having a sound strategy, competent management, valuable assets, and a promising market. Success also hinges on the company maintaining a sound relationship with the various constituencies on which it depends: customers, shareholders, lenders, employees, the community in which it operates, government, and local authorities. Lenders and investors who take a long-term view before entrusting their money to a company, will want to satisfy themselves that it has a sound and stable relationship with these factors. Doing so is an integral part of their due diligence efforts before they make their commitments.

Sound and stable relationships depend on sound procedures, behavior, and standards. Thus the long-term success of a company and its ability to attract capital depends on establishing and meeting these standards.

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## **Overview of Corporate Governance**

**We are going to focus on the standards for which to aim and to which to be committed regarding RELATIONSHIPS WITH SHAREHOLDERS. This is the core aspect of corporate governance.**

**We will take a global perspective and then look at some specifics of Armenia.**

3

## **Global Perspective**

**Shareholders are the owners of the company**

**Relationship between management bodies and shareholders is critical**

**Investors need to understand how shareholders can oversee management and participate in key decisions.**

4

(3)

The focus of this presentation is on the kinds of standards to aim for and be committed to regarding **relationships with shareholders**, also known as **corporate governance**. We will take a general look at the types of governance issues on a global perspective, and then get into specifics about the Armenian situation.

(4)

**GLOBAL PERSPECTIVE**

The shareholders are the owners of the company. The relationship between management bodies and shareholders is critical. Investors and lenders need to understand clearly and be satisfied with the manner in which shareholders can oversee the performance of management and participate in key decisions.

## **Global Perspective**

### **Sound Principles of Corporate Governance**

- Roles and responsibilities of management bodies and shareholders are defined in Company Charter
- Should have disclosure of voting rules and of ownership of major blocks of shares
- Need protection of minority shareholders against share dilution
- Requires protection of integrity of registry
- Need systematic and open communication through audits, information about progress, and explanations of major decisions taken

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### **Global Sound Principles of Corporate Governance**

- Need to provide shareholders with information on matters to be decided, including procedures for holding meetings and making decisions at them
- Need a well-functioning Board of Directors with the skills, time, and information to be effective
- The Board should act on behalf of entire shareholding and includes some Directors who are independent from Executive Management
- Need a policy of disclosure of Board's personal financial interest and other conflict-of-interest situations
- Need established division of authority among governing bodies

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(5)

Sound principles of corporate governance include the following

- setting out in legal form in the Company Charter the roles and responsibilities of management bodies and shareholders,
- existence of a transparent shareholding structure with disclosure of voting rules and of the beneficial ownership of major blocks of shares,
- respect for the right of minority shareholders to be protected against share dilution,
- procedures for the protection of the integrity of the shareholders' registry,
- systematic and open communication with shareholders through the provision of properly audited accounts, information about the progress of the company, and explanations of the major decisions taken by management included in the Annual Report,

(6)

- providing shareholders with adequate information on matters to be decided by them, including observance of the precise rules that govern the holding of shareholder meetings and decision making at the meetings,
- a well-functioning Board of Directors who have the skills, the time, and the access to information needed to discharge their responsibilities effectively In the case of larger companies, independent committees of the Board with clear responsibility for matters such as overseeing the preparation of financial statements and deciding on management compensation and contract terms will often be appropriate,
- a Board of Directors that is acting in a fiduciary capacity on behalf of the entire shareholding and that includes a sufficient number of Directors who are truly independent from the Executive Management Companies need to address concerns that may arise when government officials or representatives are appointed as Directors Directors should be appointed for a strict term of office (which can be renewed),
- a policy of disclosure of personal financial interest of Board members in company-related transactions and other conflict-of-interest situations as well as a policy of non-involvement of Directors with a personal interest in matters to be decided,
- clearly established and well-understood division of authority among the various governing bodies of the company For example

**Global Sound Principles Division of Authority**  
**Board of Directors is typically responsible for**

- selection of Chief Executive and monitoring of performance
- directing strategy and assessing general conduct of business
- approving major transactions
- endorsing financial statements prior to submission to Shareholders' Assembly
- providing recommendations to shareholders on issues on which they will vote
- monitoring financial resources

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**Global Sound Principles Division of Authority**

- Typical role of the Shareholders' Assembly is to
- elect Directors to sit on company's Board
  - approve the company's accounts
  - appoint the auditors
  - approve changes in the Charter
  - approve major decisions involving reorganization or change in activities
  - approve payment of dividends

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(7)

**The Board of Directors is typically responsible for the following**

- ❑ the selection of the Chief Executive and the monitoring of his or her performance,
- ❑ directing the strategy and assessing the general conduct of the business,
- ❑ approving major transactions,
- ❑ endorsing the financial statements prior to submission to the Shareholders' Assembly
- ❑ providing recommendations to shareholders on issues on which they have to vote,
- ❑ monitoring the financial resources of the company to ensure that the company does not continue to trade if it is becoming insolvent

(8)

**The typical role of the Shareholders' Assembly is to**

- ◇ elect Directors to sit on the company's board,
- ◇ approve the company's accounts,
- ◇ appoint the auditors,
- ◇ approve changes in the charter,
- ◇ approve major decisions involving a reorganization of the company or a change in its activities,
- ◇ approve the payment of dividends (although the Board can often approve interim payments)

## **Specifics of Armenia**

### **Rights of Shareholders Owning Common Shares**

*(from Article 39 of The Law of The Republic of Armenia on Joint Stock Companies)*

A shareholder owning common shares is entitled to

- participate with voting right at general meeting
- participate in management of Company
- receive dividends from Company profits
- acquire allocated shares on priority basis

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### **Armenia Rights of Shareholders**

A shareholder owning common shares is entitled to

- receive information on Company activities
- authorize a third person to represent his rights at the Company Constituent Meeting
- make proposals at the shareholders' meetings
- vote at the shareholders' meeting according to the number of voting shares fully paid by him
- appeal to the court regarding decisions at shareholders' meeting that contradict current laws and other legislative acts

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(9)

That finishes the generic, general look at the global perspective of corporate governance Now we will go over some information about the Armenian situation

### SPECIFICS OF ARMENIA

#### **Rights of Shareholders Owning Common Shares** (from Article 39 of *The Law of The Republic of Armenia on Joint Stock Companies*)

Each common share of the Company grants the shareholder owning it the same rights The shareholder owning the common share is entitled to

- participate with the voting right in the Company general meeting on the issues within its authority,
- participate in the management of the Company,
- receive dividends from the profit generated from Company activity (although the payment of dividends for common shares is not guaranteed by the Company),
- acquire the shares allocated by the Company on a priority basis, if the present Law and the Company Charter do not define different provisions,

(10)

- receive, according to procedures defined by the Charter, any type of information on Company activities, except secret documents, including getting acquainted with the balance sheet and other accounting statements, and the Company production-economic activity Shareholders owning at least 5% voting shares of the Company Charter Capital can require the checking of the statements and secret documents referring to Company activity by an expert or expert group The checking expenses are reimbursed by the shareholders requiring the checking,
- authorize a third person to represent his rights at the Company Constituent Meeting (the first annual general meeting of the Company shareholders),
- make proposals at the Company's shareholders' general meeting,
- vote at the Company's shareholders' general meeting according to the number of voting shares fully paid by him,
- appeal to the court regarding decisions taken by the Company's shareholders' general meeting that contradict current laws and other legislative acts,

## **Armenia Rights of Shareholders**

A shareholder owning common shares is entitled to

✓ receive the part pre-determined for him in case of Company liquidation

✓ receive the relevant number of shares in the case of Company Charter Capital Accumulation

✓ sell or transfer owned shares to other persons

✓ use other rights determined by the Company Charter

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## **Armenia...MANAGEMENT**

There are three levels of management in a joint stock company

✓ The Company Shareholders' General Meeting

✓ The Company Board /  
Charman of the Company Board

✓ The Executive Body /  
Company Executive Director

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(11)

- in case of Company liquidation, receive the part pre-determined for him,
- in the case of Company Charter Capital accumulation, receive free of charge the relevant number of common shares at the expense of Company funds,
- sell or somehow transfer shares owned by him to other persons,
- use other rights determined by the Company Charter

(12)

MANAGEMENT

There are three levels of management in a joint stock company

- ✓ The Company Shareholders' General Meeting
- ✓ The Company Board/Chairman of the Company Board
- ✓ The Executive Body/Company Executive Director

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**Excerpts**  
**from**  
***The Law of the Republic of Armenia***  
**on**  
***Joint Stock Companies***

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**Excerpts from *The Law of the Republic of Armenia on Joint Stock Companies***

**Chapter X The Company Shareholders' General Meeting**

**Article 69 The Company Shareholders' General Meeting**

**The Company shareholders' general meeting is the supreme body of the Company management. The Company should hold the general meeting once a year**

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(13) (14)

**The Company Shareholders' General Meeting** (from Article 69 of *The Law of The Republic of Armenia on Joint Stock Companies*)

The Company shareholders' general meeting is the supreme body of Company management. The Company should hold the meeting once a year.

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**Article 69 The Company Shareholders' General Meeting**

The meeting is held according to the timing defined by the Company Charter, within 2 - 6 months after the end of the regular fiscal year of the Company

The time period between the Company annual meetings should not exceed 18 months

If the Company Board fails to hold the annual meeting within the timing defined by the Company Charter, the state body carrying out the registration of enterprises can hold the meeting

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**Article 70. Authority of the Company Shareholders' General Meeting includes:**

• approving the Company Charter, making amendments and changes in it, approving a new version of the Company Charter,

• reorganization of the Company,

• liquidation of the Company, appointment of the Liquidation Commission, approval of the Company intermediate and summarizing liquidation balances,

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(15)

The meeting is held according to the timing defined by the Company Charter, within 2 to 6 months after the end of the Company's regular fiscal year. The time between Company annual meetings should not exceed 18 months. If the Company Board fails to hold the meeting within the defined time frame, the state body carrying out the registration of enterprises can hold the meeting. The Company can also hold additional general meetings - extraordinary meetings - held for discussions of urgent issues.

(16)

**Authority of the Company's Shareholders' General Meeting** (from Article 70 of *The Law of The Republic of Armenia on Joint Stock Companies*)

The authority of the Company shareholders' general meeting includes

- approving the Company Charter, making amendments and changes in it, approving a new version of the Company Charter,
- reorganization of the Company,
- liquidation of the Company, appointment of the Liquidation Committee, approval of the Company intermediate and summarizing liquidation balances,

**Article 70. Authority...includes:**

- approval of the quantitative composition of the Company Board, election of its members and termination of their rights ahead of schedule;
- definition of the maximum number of authorized Company shares,
- increase in Charter Capital size via increase in share face value and allocation of additional shares,
- decrease in Charter Capital via certain means,
- establishment and termination of executive body (Executive Director, Administration),

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**Article 70. Authority...includes:**

- election of Control Commission members,
- approval of person carrying out audit,
- approval of annual financial statements,
- decision-making on annual dividend payment,
- approval for annual activity results of Company branches and representations,
- decisions concerning non-implementation of certain priority rights of shareholders or holders of securities convertible to shares,

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(17)

- approval of the quantitative composition of the Company Board, election of its members and termination of their rights ahead of schedule,
- definition of the maximum number of authorized shares,
- increase of the Company Charter Capital size through the increase of the share face value and the allocation of additional shares,
- decrease of the Company Charter Capital through the decrease of the share face value, the acquisition of allocated Company shares for the purpose of reducing the total share number, the cancellation of partially paid shares, as well as through the cancellation of shares acquired or bought back by the Company,
- establishment of the Company executive body (the Executive Director, Administration), termination of its authority ahead of schedule,

(18)

- election of the Company Control Commission members (Controller) and termination of its authority ahead of schedule,
- approval of the person carrying out the Company audit,
- approval of the Company annual statements, accounting balances, profit and loss statement, distribution of profit and loss, decision-making on the annual dividend payment and approval of the annual dividend size, as well as approval of the annual activity results of the Company branches and representations,
- decision-making on the non-implementation of the priority right of the Company shareholders owning Company shares or other securities convertible to shares,

**Article 70. Authority...includes:**

- approval of procedures on holding the general meeting and setting the counting commission,
- definition of the form of informing shareholders,
- decrease or increase of the share face value,
- conclusion of specific transactions as outlined in other articles of the *Law on JSC*;
- acquisition and buy-back of allocated shares,

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**Article 70. Authority...includes:**

- definition of payment terms for Company's leading officials,
- creation and participation in subsidiary and dependent companies,
- creation of Company branches and representations,
- adoption of other decisions defined by the present *Law* and Company Charter

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- approval of the procedures on holding the general meeting and setting the counting commission,
- definition of the form of informing the data and materials by the Company to the shareholders, including the selection of the relevant means of mass media if the message is to be sent through public announcement ,
- decrease (splitting) and increase (consolidating) of the share face value,
- conclusion of specific transactions as outlined in other articles of the Law,
- acquisition and buy-back of the Company allocated shares in cases defined by the Law,

(20)

- definition of payment terms for the Company's leading officials,
- creation of subsidiaries by the Company and participation in subsidiary and dependent companies,
- creation of Company branches and representations,
- adoption of other decisions defined by the present Law and Company Charter

**Article 71. Comments about  
Decisions of the Company  
Shareholders' General Meeting:**

- holders of common stock are entitled to vote,
- most decisions are made on basis of simple majority, but some require 75% majority,
- procedures for decision-making at meeting is defined by Charter or by meeting itself,
- the meeting is not entitled to change agenda or take decisions on issues not in agenda;

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**Article 71. Decisions...General Meeting:**

- shareholders should be informed within 45 days about voting results and decisions taken,
- a shareholder is entitled to appeal to the Court a decision taken by the general meeting that is a violation of the requirements of legislative acts and the Company Charter if he has not participated in the meeting or has voted against it, and his legal rights and interests have been violated by the decision

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(21)

**Decisions of the Company Shareholders' General Meeting** (from Article 71 of *The Law of The Republic of Armenia on Joint Stock Companies*)

- shareholders holding common shares are entitled to vote,
- most decisions are made on the basis of a simple majority of votes, while other decisions require a 75% majority,
- the procedures for decision-making at the general meeting are defined by the Company Charter or by the general meeting itself,
- the Company shareholders' meeting is not entitled to change the meeting agenda, or to take decisions on issues not included in the agenda,

(22)

- shareholders should be informed within 45 days concerning decisions taken at the meeting, as well as voting results,
- a shareholder is entitled to appeal to the Court a decision taken by the general meeting that is a violation of the requirements of legislative acts and the Company Charter if he has not participated in the meeting or has voted against it, and his legal rights and interests have been violated by the decision

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**Chapter XI The Company Board and Executive Body**

**Article 88 Elections of the Company Board and its Staff**

• Board members are elected at the Company shareholders' annual general meeting for 1 year,

• shareholders owning 10% or more of the Company voting shares are entitled to be included in the Board without an election,

• in a Company with shareholders owning more than 500 voting shares of the Company, the elections of the Board are carried out through cumulative voting,

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**Article 88 Elections of the Company Board**

• during cumulative voting, each voting share has the number of votes equal to the number of members being elected and the voting shareholder is entitled either to grant the votes to one candidate or to distribute the votes among several candidates,

• the quantitative composition of the Board is defined by the Company Charter or by the decision of the shareholders general meeting  
In a Company with shareholders owning more than 500 voting shares, the Board cannot consist of fewer than 7 persons,

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(23)

**Elections of the Company Board and Its Staff** (from Article 88 of *The Law of The Republic of Armenia on Joint Stock Companies*)

- the Board members are elected at the Company shareholders' annual general meeting for 1 year,
- shareholders owning 10% or more of the Company voting shares are entitled to be included in the Board without an election,
- in a Company with shareholders owning more than 500 voting shares of the Company, the elections of the Board are carried out through cumulative voting,

(24)

- during cumulative voting, each voting share has the number of votes equal to the number of members being elected and the voting shareholder is entitled either to grant the votes to one candidate or to distribute the votes among several candidates,
- the quantitative composition of the Board is defined by the Company Charter or by the decision of the shareholders general meeting. In a Company with shareholders owning more than 500 voting shares, the Board cannot consist of fewer than 7 persons,

## **Article 88 Elections of the Company Board**

**any member of the Board of the Company can be any able-bodied natural shareholder or a person not being a Company shareholder as well, if that is not prohibited by the Company Charter**

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## **Chapter XI The Company Board and Executive Body**

### **Article 89 Charman of the Company Board**

**The Charman of the Company Board is elected by Board members**

**The Board can re-elect the Charman or elect a new Charman at any time**

**In a Company with shareholders owning more than 500 voting shares, the positions of the Company Board Charman and the Executive Director cannot be combined**

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- a member of the Board of the Company can be any able-bodied natural shareholder or a person not being a Company shareholder as well, if that is not prohibited by the Company Charter

(26)

**Chairman of the Company Board** (from Article 89 of *The Law of The Republic of Armenia on Joint Stock Companies*)

- the Chairman of the Company Board is elected by the Company Board members out of the Board staff by a majority vote of the total number of Board members, if the Company Charter does not define a bigger number,
- the Company Board can re-elect the Chairman or elect a new Chairman any time,
- in a Company with shareholders owning more than 500 voting shares, the positions of the Company Board Chairman and the Executive Director cannot be combined,

## **Article 89 Chairman of the Company Board**

In a Company with fewer than 500 voting shares, the Chairman of the Company Board and Executive Director positions can be held by the same person, but no other paid position in the Company may be held by the Chairman

### **The Chairman of the Board**

- ✓organizes the works of the Company Board,
- ✓holds the sittings of the Board and presides at them,
- ✓organizes the protocol-making on the sittings,
- ✓presides at the Company shareholders' general meetings unless the Company Charter has different provisions

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## **Chapter XI The Company Board and Executive Body**

### **Article 91 The Company Executive Body, the Company Executive Director**

Management of the Company's current activity is carried out by the Company executive body

If the Charter determines the existence of an Administration, it should differentiate the authority of Executive Director and Administration

In the case of existence of an Administration, the Executive Director carries out the responsibilities of the Administrative Head as well

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(27)

- in a Company with fewer than 500 voting shares, the Chairman of the Company Board and Executive Director positions can be held by the same person, but no other paid position in the Company may be held by the Chairman,
- the Chairman of the Board
  - ✓ organizes the works of the Company Board,
  - ✓ holds the sittings of the Board and presides at them,
  - ✓ organizes the protocol-making on the sittings,
  - ✓ presides at the Company shareholders' general meetings unless the Company Charter has different provisions

(28)

**The Company Executive Body, The Company Executive Director** (from Article 91 of *The Law of The Republic of Armenia on Joint Stock Companies*)

- the management of the Company's current activity is carried out by the Company executive body, which is the Executive Director alone or the Executive Director together with the Company Administration,
- if the Company Charter determines the existence of an Administration, the Charter should differentiate the authority of the Executive Director and the Administration,
- in the case of existence of an Administration, the Executive Director carries out the responsibilities of the Administrative Head as well,

**Article 91 The Company Executive Body, the Company Executive Director**

The establishment of the Company executive bodies and the suspension of their authority ahead of schedule are carried out according to the decision of the Company Board

All management issues are within the authority of the Company executive body except those that according to the Company Charter are within the authority of the shareholders' general meeting or the Company Board

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**Article 91 The Company Executive Body, the Company Executive Director**

The Company executive body organizes the implementation of the decisions taken by the shareholders' general meeting and by the Company Board

The Company Executive Director and the Administration are appointed by the Company Board unless the Charter defines such appointments as under the authority of the general meeting

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(29)

- the establishment of the Company executive bodies and the suspension of their authority ahead of schedule are carried out according to the decision of the Company Board, if so authorized by the Company Charter,
- all management issues are within the authority of the Company executive body except those that according to the Company Charter are within the authority of the shareholders' general meeting or the Company Board,

(30)

- the Company executive body organizes the implementation of the decisions taken by the shareholders' general meeting and by the Company Board,
- the Company Executive Director and the Administration are appointed by the Company Board unless the Charter defines that as under the authority of the general meeting,

**Article 91 The Company Executive Body, the  
Company Executive Director**

The contracts with the Executive Director and the Administration members are concluded by the Company Board Charman or other person as defined in the Charter. If the same person occupies the positions of the Board Charman and Executive Director, the contract with the Executive Director is concluded by one of the Board members according to the decision of the Company Board, while the contracts with Administration members is concluded by the Company Board Charman

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**Article 91 The Company Executive Body, the  
Company Executive Director**

**The Company Executive Director**

- ✓disposes the Company assets, including the financial resources, and carries out transactions on behalf of the Company,
- ✓represents the Company in the Republic of Armenia and abroad,
- ✓acts without a letter of authority,
- ✓gives letters of authority,

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(31)

- the contracts with the Executive Director and the Administration members are concluded by the Company Board Chairman or other person as defined in the Charter. If the same person occupies the positions of the Board Chairman and Executive Director, the contract with the Executive Director is concluded by one of the Board members according to the decision of the Company Board, while the contracts with Administration members is concluded by the Company Board Chairman,

(32)

- the Company Executive Director
  - ✓ disposes the Company assets, including the financial resources, and carries out transactions on behalf of the Company,
  - ✓ represents the Company in the Republic of Armenia and abroad,
  - ✓ acts without a letter of authority,
  - ✓ gives letters of authority,

**Article 91 The Company Executive Body, the  
Company Executive Director**

**The Company Executive Director**

- ✓ concludes contracts in accordance with defined procedures, including employment contracts,
- ✓ opens deposit and other accounts in banks,
- ✓ submits the Company employment regulations, separate unit regulations, and the Company administrative and organizational structure to the Company Board for approval,

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**Article 91 The Company Executive Body, the  
Company Executive Director**

**The Executive Director**

- ✓ gives orders or commands within his authority, gives instructions subject to compulsory implementation and controls their implementation,
- ✓ hires and dismisses Company employees in accordance with defined procedures,
- ✓ applies encouragement and disciplinary amendability instruments toward employees,
- ✓ has other authority as defined by the Charter

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(33)

- ✓ concludes contracts in accordance with defined procedures, including employment contracts,
- ✓ opens deposit and other accounts in banks,
- ✓ submits the Company employment regulations, separate unit regulations, and the Company administrative and organizational structure to the Company Board for approval,

(34)

- ✓ gives orders or commands within his authority, gives instructions subject to compulsory implementation and controls their implementation,
- ✓ hires and dismisses Company employees in accordance with defined procedures,
- ✓ applies encouragement and disciplinary amenability instruments toward employees,
- ✓ has other authority as defined by the Charter

**Article 91 The Company Executive Body, the  
Company Executive Director**

**The rights and responsibilities of the Company  
Executive Director and the Administration  
members are defined according to the present  
Law, other legislative acts, and contracts  
concluded by them with the Company**

**The Company Executive Director and  
Administration members can occupy paid  
positions in other organizations, but only upon  
agreement of the company Board**

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**Article 91 The Company Executive Body, the  
Company Executive Director**

**If so decided at a general meeting, the authority  
of the Company executive body can be  
transferred to another organization or individual  
manager, with the Company Board concluding  
relevant contracts**

**The general meeting is entitled to take decisions  
any time on contracts concluded with the  
Company Executive Director, Administration  
members, a managing organization or individual  
manager unless the Charter places settlement of  
that issue within the authority of the Company  
Board**

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(35)

- the rights and responsibilities of the Company Executive Director and the Administration members are defined according to the present Law, other legislative acts, and contracts concluded by them with the Company,
- the Company Executive Director and Administration members can occupy paid positions in other organizations, but only upon agreement of the company Board,

(36)

- if so decided at a general meeting, the authority of the Company executive body can be transferred to another organization or individual manager, with the Company Board concluding relevant contracts,
- the general meeting is entitled to take decisions any time on contracts concluded with the Company Executive Director, Administration members, a managing organization or individual manager unless the Charter places settlement of that issue within the authority of the Company Board