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**MOLDOVA CAPITAL MARKETS
INFRASTRUCTURE VIABILITY PROJECT
FINAL REPORT**

**Contract # EPE-1-00-95-00043
Task Order # 1-10-95-00043-00**

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Subject Transmission of final report for the Moldova Capital Markets Infrastructure Viability Project (Contract # EPE-1-00-95-00043, Task Order # 1-10-95-00043-00)

Dear Ms Wohlsen and Ms Williams

PricewaterhouseCoopers LLP ("PwC") is pleased to present this final report in execution of the contract between our two organizations. This report is designed to assist the Moldova Capital Market with recommended approaches to improving the commercial viability of the Moldova Stock Exchange, enhancing the operational and regulatory capabilities of the State Commission on Security Markets and strengthening the legal and regulatory framework of the Capital Market.

It has been a pleasure for PricewaterhouseCoopers LLP to work with the people of USAID, the Moldova Stock Exchange and the State Commission on Security Markets. We all look forward to mutually beneficial relations between our organizations in the future. If I can be of further assistance, please do not hesitate to call me at 1-703-741-1684, or by fax at 1-703-741-1616. Thank you for choosing PricewaterhouseCoopers for this important assignment.

Sincerely,



J. Richard Breen
Managing Director
Capital Markets

cc Walter Coles, Bill Penoyar, USAID/Washington Acquisition Unit

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I. GLOSSARY

CM	Capital Market
CMMU	Capital Markets Monitoring Unit
FEAS	Federation of Euro Asian Stock Exchanges
FM	Fiduciary Management
GOM	Government of Moldova
G 30	Group OF 30
IF	Investment Fund
ISIN	International Standardization for Numbering
ISO	International Organization for Standardization
IT	Information Technology
JSC	Joint Stock Companies
LAN	Local Area Network
MCM	Moldova Capital Markets
MSE	Moldova Stock Exchange
NBM	National Bank of Moldova
NSDM	National Securities Depository of Moldova
OTC	Over the Counter Market
PP	Professional Participant (Licensed Broker Dealer)
SCSM	State Commission on Security Markets
T	Trade Date
T-Bills	Government Treasury Bills (A Bond Product)
Y2K	Year 2000

II. EXECUTIVE SUMMARY

A Background

With the opening of the Depository and the essential operational procedures and legal practices in place, the basic foundation for a CM (Capital Market) in Moldova was completed. Since the inception of the CM in late 1993, over 3000 enterprises were privatized and auctioned, with 800 of these listed on the MSE (Moldova Stock Exchange) for trading. During this period, substantial legal and regulatory structures were established to both monitor and enforce the principles of a fair and orderly market that would be transparent. During the development and growth of this market, enforcement of its own rules and regulations became difficult. An influential group of broker dealers controlled the MSE Board of Directors and the MSE management. These broker dealers, who generate most of the market's volume, developed trading strategies that were beneficial to them, but these practices were not necessarily in compliance with the MSE rules or beneficial to the average investor. The MSE management is influenced by the broker dealers in power, and therefore adopted a passive stance on their improper practices, allowing their trades to occur and be printed. The MSE did not provide additional settlement services for these transactions, no settlement, surveillance or proper reporting and transparency services are provided.

During this same period, the SCSM (State Commission on Security Markets) was developing its oversight capabilities of the market with the assistance of the previous contractor, violations were uncovered and documented. The SCSM, however, did not provide direction on enforcement for the market or its violators. With these existing deficiencies the Project's tasks encompassed assistance in developing a fair and orderly marketplace that would provide investor protection that was unbiased and would help to develop the integrity of the CM.

The success of the MCM (Moldova Capital Market) is further complicated by the existing financial difficulties that the country is experiencing, and by the financial problems that one of its trading partners, Russia, is experiencing.

B The Project

In this very difficult international financial and CM environment, the Project has met the objectives and we are leaving the MCM with the focus and the direction to become a marketplace that will meet the nine standards set by the G30 (Group of 30)

- 1 The MSE is commercially viable on a day to day basis. Financially, it is meeting its daily expenses and has only one outstanding unpaid debt, past due rent, which it is hoped that the State, its landlord, will waive. The MSE Board of Directors, while approving many of the plans and recommendations prepared by this Project and by previous CM projects, has consistently rejected recommendations that include future funding. There are no funds that are in reserve, or that are being reserved, for future capital expenditures. Plans for expansion include listing additional equity securities that are presently traded in an OTC (Over the Counter) market,

trading new issues, and developing a Government securities bond market with the first product being T-Bills (Government Treasury Bills)

- 2 The SCSM has been honing its operational and regulatory skills but had followed a passive, unobtrusive policy that was dictated by its Chairman. If rules were broken, the violations were ignored or the offenders were advised of the violation with no penalties or follow up of the infraction. PPs (Professional Participants) were trading and settling trades at the time and price of their own choosing. Poor records were kept of investment funds and the trading practices associated with the funds were beneficial to only a select few, not for the general class of investors or fund participants.

The Chairman of the SCSM was replaced in July 1998. The new Chairman, though inexperienced in CMs, is a capable manager who understands the need to regulate the marketplace and who can provide the leadership for the SCSM to utilize the operational procedures and policies provided by this project.

It is already evident that the capabilities of the SCSM are being utilized to provide Moldova with a fair and orderly marketplace, which can be seen in decrees that have been issued and recent changes in staffing at the SCSM. Most telling are the complaints from brokers who were previously offenders, but who now must trade in a market that is being governed by internationally accepted rules and regulations. Local newspapers have published anonymous articles criticizing the improvements at the MSE.

- 3 Although a strong legal and regulatory framework has been provided for the CM, much of the legislation prepared by this Project is still pending due to the slow movement of governmental and parliamentary processes. The two most important laws that govern the financial industry and the SCSM were written in 1995 and have not yet been enacted. Many of the newer rules governing the MSE, NSDM (National Securities Depository of Moldova) and investment funds are still under review by government agencies.

In addition to the legislation governing the CM, a formal request has been presented to the government, the NBM (National Bank of Moldova), and the Parliament to amend three banking laws that restrict the successful operation of the new NSDM, these are pending enactment.

- 4 To complete the three tasks in the Project an Action Plan was developed with 93 individual action steps. An existing organizational structure of 5 units was continued, and the staff based on the previously developed skills was assigned to these units.

- Finance/Administration Unit 6 people
- Capital Markets Monitoring Unit 8 people
- MSE/NSDM Unit 8 people
- Investment funds Development Unit 6 people
- Legal Unit 7 people

One U S professional manager was present at all times to oversee and assist all areas

III. TASKS

A Commercial Viability of the MSE

1 Business Plan Objectives

During the second quarter of 1998, a business plan was finalized for the MSE. The goal of the plan was to assist the MSE in developing a market that would meet G30 requirements and provide Moldova with a fair, orderly, and transparent marketplace that would attract additional listings and foreign investors, and increase local participation.

The MSE and its Board of Directors accepted the plan. However, it became apparent, during the Project, that the Board was selectively choosing those items in the plan which were serving the needs of some individuals, and that the plan's objectives were being ignored in order to serve the needs of the select group. These needs were inconsistent with conducting a fair and orderly marketplace.

The business plan had eight specific objectives to be met:

- a) Financial Stability: The MSE's financial problems were twofold. It was not generating enough income to meet its daily operational expenses and it had a large outstanding debt for rent and utilities owed to the GOM (Government of Moldova).

The plan provides for increased listings, dissemination of financial information, and establishment of a secondary T-Bill market. The MSE has followed the plan and therefore has the ability to meet its daily expenses.

Subsequently, the Board of Directors elected to reduce the rates charged for trades, which would have recreated the original financial problem. The Project manager was able to convince the Board of Directors that future expenses necessitated the need to continue, if not increase, the rates charged for trades. The Board agreed, and rates have remained the same.

- b) NSDM The NSDM was completed and opened for business with 5 eligible stocks on June 23, 1998. The NSDM met opposition from MSE Board members who feared that it represented exposure for the way trades were presently settling, which did not meet international standards. In early September, the first deposit into and trade at the NSDM took place. Mandatory enrollment of all additional stocks will begin in October and will be completed by May 1999 according to the direction of the SCSM.
- c) Systems The trading and NSDM systems have been upgraded and are fully operational. The Y2K (Year 2000) problems have been identified and solutions are being developed. At present it appears that the Y2K solutions are working, but continued testing is required to insure full operational success. The Software is provided by Microsoft and we assume that the company will back its claims that it is Y2K "compliant".
- d) Expand Listings The MSE has tried to further expand its listings by attracting existing securities from the OTC environment and by attracting new listings. In addition, the first steps have been taken to develop a new secondary market for trading T-Bills at the MSE.
- e) Expand Trading Facilities and Trading Tiers The MSE is presently identifying trading tiers for grouping securities, particularly OTC securities, into groups for MSE eligibility. Each group will have separate listing requirements. The MSE will also publish indications of market interest for infrequently traded securities. Expanded trading is to include continuous trading. This step has not yet been approved by the Board of Directors, but is likely to be implemented as the number of eligible NSDM securities increases and brokers are required to ensure proper pricing of trades.
- f) New Business The MSE has begun to sub lease its unused facilities to supplement its income. It has also begun to publish monthly statistics and financial information that can be purchased by PPs and other interested subscribers. To date there are seven subscribers to this publication. A new product, T-Bills, will be traded when the NBM and GOM approvals are completed.
- g) Market Transparency and Compliance The publication of individual stock prices and the traded volume by individual security has improved market transparency. The figures are published weekly with volume indications in Moldovan currency, lei, and not shares. These figures are also published in the newly developed MSE bulletin. The figures are provided to the FEAS (Federation of Euro Asian Stock

Exchanges) for wide spread distribution. In addition to this trading information, the MSE now publishes a realistic figure for market capitalization. The previous capitalization figures included all securities that could be traded. Many of these securities have never traded and therefore do not have established market values. The present figures include only securities that have been traded and have an established market price. The revised published figures are realistic and provide areas for financial improvement as additional issues start to trade. The change in tracking capitalization figures has reduced the markets' previous unrealistic figure by 92%. The MSE has set up a Compliance and Surveillance Department with the help of the Project. Daily guidelines were developed and the SCSM has also assigned a member of its monitoring unit to oversee and assist the MSE in policing its trading activity.

- h) MSE Training. The MSE staff has been increased by two to insure staffing for the NSDM. The newly employed staff has local brokerage experience. Additional staff has been trained in operating the trading system and in the new clearing and settlement procedures that have been implemented at the NSDM. The NSDM has an acting president and vice president who have been trained in depository and settlement bank operations. At the MSE, another two new staff members have been added and trained in the new procedures. Training has been on going for additional IT (Information Technology) staff to insure the continued performance of both trading and depository systems. The MSE management is also considering Project recommendations for a higher salary scale for its personnel to attract and maintain a staff that is very qualified for employment in a trading environment.

2 Overall Strategy for Utilization of MSE Services

To insure the expansion of the MSE services, additional rules are necessary to govern all securities trading. Within the present Moldovan environment an individual who is not a PP can execute and complete a transaction with a non- participant. When trades are executed in this manner there are no rules governing that trade, there is no transparency, and no control. Due to the lack of information and sophistication in the MCM the individuals executing these transactions view them as being less costly as there are no PP or MSE fees. Recommendations were made to the SCSM to insure that all future stock trading be done by licensed PPs at the MSE or in a controlled OTC market. To further enhance MSE services and provide a marketplace that would entice listing by prospective issuers, the following additional steps have been implemented.

- a) Information Disclosure. System produced reports were modified to include individual trades, trading statistics and average price changes.

for public disclosure. The new statistics would provide investors with price trends in the market.

- b) **Formatted Trading Information** New programs were developed to provide daily, weekly and monthly trading information for use in publications, research and surveillance.
- c) **Additional Order Types** To attract more trading additional types of order qualifiers were added to the trading system. These include
 - IOC-immediate or cancel
 - AON-all or none
 - FOK-fill or kill

These order types will provide incentives for future institutional investors. They will also provide incentives for those who are presently executing crosses or swaps on the cash board to execute their trades at the main board in a fair, orderly and regulated market.

- d) **Trading Inconsistencies** A list of trading practices which violate existing trading and settlement rules was provided to the MSE and the SCSM. These violations, which included unrealistic pricing and settlement practices, were a deterrent to increased investor participation at the MSE and stifled the need for expanding the market's services. These practices also served to maintain the MSE as a private club rather than a national marketplace, where only insiders had the opportunity to trade profitably.

3 Product Availability

The addition of new products to the marketplace must provide an opportunity for the financial industry, issuer and investor to profit. The MSE has recently reached a point of being self-supporting. The addition of new products must also offer opportunities for the Exchange to profit and recapture developmental expenses for new products. Accordingly, the product that offers the best opportunities for success and has the greatest need at present for a successful secondary market is T-Bills. The GOM's need for financing insures continued the issuance of T-Bills. At present, investors who purchase a T-Bill are locked in financially until it matures, and in some cases maturity dates are extended, thus locking in the investor for an even longer period of time. A proposal for developing trading in a secondary market for T-Bills was prepared under this Project. This proposal has been submitted to the SCSM, the NBM and the Parliament for approval. The proposal supports the present primary market procedures that the NBM/Parliament issue T-Bills and offer them for sale through a bidding process by the commercial banks. The bank that bids for the highest percentage of the issue would then become a market maker.

at the MSE to run a secondary market for the duration of the issue. The same bank could choose to have a different bank as the market maker. This process requires that the market maker is or will become a member of the MSE. This opens the MSE not only for additional trading in the new product, but also for additional members. The membership for a market maker can be separate from the present membership. This will allow for three different types of members: an equity trader, a government bond market maker, or a combination of both. This proposal can produce additional revenues for the MSE through additional volume and also through additional membership fees. It can also provide the MSE and its Board of Directors with another perspective on the way that the MSE should operate.

4 Space Requirement (Reduction)

With the addition of the NSDM, additional space is required to operate the MSE and the NSDM, more space is also needed for the Surveillance Department. Even with this need for additional space, the MSE completed a space reduction plan for use. The MSE presently rents 816-sq m of space, which is calculated with a coefficient of 1.4 for corridors, and other auxiliary space. This allows 259-sq m of office space and 324-sq m for the trading floor. 75 sq m of office space is sublet and will continue to produce income for the MSE. 56 sq m of trading space will be turned in to office space. (This represents 1 complete row of desks or 17% of the trading floor.) The additional office space will fulfill the MSE's need, and will allow the continued sub-leasing of 75 sq m. The remaining 268 sq m of trading floor will provide adequate space for equity trading and also allow for the addition of T-Bill trading in the future.

5 Fee Structures

In April 1998 meetings were held with MSE management and the Board of Directors to restructure the trading fees. At this time most swap trades were in violation of existing rules. The fee restructuring would provide for the additional processing of swap trades executed within a legal structure at no additional cost. The MSE board totally rejected this proposal. During this same time period the MSE was finally meeting its daily expenses. The Board chose to immediately reduce transaction fees by 50% (from 0.5% to 0.25%) rather than work with this Project to restructure fees. After several meetings the Project was able to convince the Board that the 50% reduction would cause the MSE to again lose money which would threaten outside assistance. The Board finally agreed with this reasoning, and at the July 17 Board meeting the fees were returned to 0.5%, however, the Board would not agree to consider further discussions of fee structures after this time.

6 Listing Standards

The standards were revised to restructure the listing tiers and to provide a more attractive environment at the MSE for all public issues. In addition, new amendments were drafted for the MSE general rules that included

- Using the Main Board for all customer trades and the Cash Board for dealer trades only
- Changes to membership rules that were inconsistent with Moldovan civil laws
- Restructure of clearing and settlement procedures and guarantee fund requirements due to the establishment of the NSDM

7 Monthly Statistics

Both daily and monthly statistics were improved to include average price per share figures to the existing share and money figures. Average price per share figures are also provided in a graph form. The Project assisted the MSE in becoming a member of FEAS, and the MSE provided FEAS with daily and monthly statistics for volumes in dollars and also market capitalization. These figures are charted monthly and are published along with 21 other stock exchanges figures, thereby providing monthly comparisons.

B Operational Viability of the SCSM

1 Improve Skills and Capabilities to Regulate the MCM

The Project has been providing assistance to the SCSM to strengthen its organizational and professional skills and its policy-making capabilities for overseeing a fair and orderly MCM. This includes regulating activities for 140 PPs, 43 investment funds and approximately 3700 issuers. It also includes protecting the rights of shareholders, which is the majority of the Moldovan population after mass privatization.

The Project assisted the 35 SCSM staff members with

- Development of administrative and organizational activities
- Identifying its legal and regulatory powers
- Standards for conducting inspections of PPs and issuers
- Development of an operational data base
- Licensing and examination procedures

2 Existing SCSM Capabilities

This Project has been assisting the SCSM in developing its oversight organization. Rules and procedures were developed and personnel trained to provide services that included reviewing participants and their practices for trading and servicing the investors. In addition, staff was trained to document and enforce penalties for problem areas that involved both trading practices and investor protection.

The Project staff identified illegal practices in services and record keeping at some investment funds. It also identified illegal trading, clearing and settlement practices at the MSE. Under the original SCSM chairman violations were noted but no enforcement was practiced. In July of 1998 a new chairman was appointed to the SCSM. His goals include insuring that the SCSM staff would provide surveillance and enforcement of the rules of the CMs. To accomplish this, several staffing changes were necessary. It was apparent that the relationship between certain commission employees and PPs was such that violations were overlooked. The new chairman, Artur Gherman, has taken a firm position and has worked with our staff to ensure that the rules, policies and procedures that govern the MCM are enforced. The need to staff the SCSM with reliable and honest employees has resulted in replacing some existing staff with less experienced staff which has effected the number of technically competent people at the SCSM.

Major project achievements with the SCSM include

- a) Legal and Regulatory Capabilities (Normative Acts)
 - Methods and guidance for SCSM enforcement of violations in the stock market
 - Liability for stock market violations and violations of investor's rights
 - Changes and amendments to the law on securities circulation and stock exchanges which includes the SCSM's formation of courts of arbitration

- b) SCSM jurisdiction over corporate activities and enforcement of investors' rights
 - Instruction of procedures for state registration of securities
 - Standards for information disclosure by issuers of public offerings of securities
 - Methods for checking new issuers' prospecti for public offerings of securities
 - Standards to be met by Joint Stock Companies (JSC) for published reports
 - Regulations for general meeting of JSC

- c) SCSM inspections of stock market activities
 - Procedures for performing broker dealer inspections
 - Procedures for performing registrar's inspections
 - Procedures for performing listed JSC inspections
 - Procedures for performing non-mutual investment fund inspections

- d) Assisted in SCSM inspection of mutual funds as an advisor and directed the preparation of recommendation for inclusion in the Inspection Manual

- e) Assisted the SCSM by developing information systems on PPs which included
 - Monitoring the market by issuers
 - Generating forms to monitor activity and licensing processes of issuers
 - Expanding procedures for licensing PPs
 - Developing a guidance manual on database use of licensing process
 - Providing training to SCSM executive directorate on using and maintaining software products

- f) Provided the SCSM with 17 training sessions and 89 consultations that focused on regulations and actions that the SCSM would take when reviewing the activity of investment funds, trust companies, broker dealers, independent registrars, the MSE and issuers of securities
- g) Supplementary information was also provided on the following areas of concern
 - Sale of arrested securities by tax agencies
 - Pricing of shares in the secondary market for the companies of the food processing industry
 - Characteristics and expected results of trading the assets of investment fund portfolios
 - MSE membership requirements and rules

3 Prepared a Revised SCSM Compensation Package Proposal

The SCSM has difficulty in retaining its trained staff due to a GOM regulated low salary guide. As the SCSM grows and expands its jurisdiction it will be able to charge fees for services and receive income from fines levied. These steps could justify an improved wage scale, except that these funds will not be retained by the SCSM if it continues to report to the GOM as all funds collected would become part of the central GOM income.

A Project recommendation was made to have the SCSM become accountable to the Parliament, which would expand SCSM's authority and its ability to improve the pay scale. This could be achieved by following the procedures provided by the law of the Republic of Moldova, #548, enacted on July 21, 1985, which made the NBM accountable to the Parliament. In addition, a compensation package was prepared to increase SCSM financing which contained the following:

- a) A concept for additional financing for an independent SCSM which would regulate the CM
- b) A draft law on the liabilities for violating MSE rules and regulations
- c) Amendments to the law governing the MSE and circulation of securities and to allow the development of SCSM courts of arbitration to deal with market violators
- d) Additional changes to the law on circulation of securities to provide for fees to be charged for SCSM services
- e) A government resolution to improve information services provided to investors by the SCSM for a pre-determined fee

This concept paper has been presented and reviewed by the SCSM but has not yet been formally acted upon

4 Plan for folding the projects CMMU into the SCSM

- a) Synchronization of all CMMU databases with the SCSM was completed and as a final project step new software was developed for the SCSM
- b) All SCSM documents and records were copied and/or transferred to the SCSM prior to the closing of the Project
- c) A two-week, no cost extension of the Project continued using SCSM office space for the staff
- d) Several Project employees from the CMMU and MSE units have been offered positions at the SCSM through the joint efforts of Project personnel and the SCSM chairman. To date, several Project employees are considering part time employment to assist the SCSM but none have elected to accept full time positions as of this writing

C Transform and Reorganize Investment Fund Group

Reorganization assistance to funds began in June 1997 and was continued until this Project was completed in September 1998. During this period the overall goal was to resolve the following issues:

- **Development of charters and regulations that would insure compliance with the newly developed legislation**
- **Broadening of the IFs' infrastructure**
- **Completion of the IF agreements with their manager, custodian (depository), registrar, and auditor**
- **Restructuring of the IFs' assets in accordance with the normative acts and the funds' investment declaration**

At the beginning of the Project forty-two IFs were operational. On July 1, 1998 IF licenses were due for renewal. IFs were unable to meet the licensing requirements due to the GOM's failure to properly disseminate information about the requirements. A three-month extension, through September, was granted for licensing. Thirty-six IFs have registered with the state registration chamber. Of the six unregistered IFs one merged, one liquidated itself, and four cannot meet the capital requirements of 500,000 lei and are subject to liquidation. The Project's task in assisting the IFs were:

1 Develop administrative and managerial skill at pilot IFs

As part of this task the IFs' infrastructure was broadened due to the general lack of managers, legal entities and fund depositories within the privatization funds.

The Project developed ten normative acts. To date, seven have been approved and three are pending approval due to their reliance on national accounting standards for IFs.

Assistance was further provided in:

- a) Development of charters and state registration of IF managers
- b) Development of charters for state registration and licensing of IF specialized depositories
- c) Preparation and agreement of deposit pledge accounts for an IF's manager
- d) Formation of the managers and the depository's back office

In addition the following documents were reviewed with all pilot IFs and diskettes presented to them:

- Investment management agreement
- Depository agreement
- Registrar agreement

- Auditor agreement

An additional thirty-three documents were developed during the Project to provide the regulatory framework under which the IF would operate and for the SCSM to use for surveillance of IF activities

2 Assistance to IF's back office operations

This assistance included

- a) Revision of procedures on fiduciary management of IF's settlement account, existing normative acts did not cover fiduciary management Meetings were held with specialists from the commercial banks and with the NBM Instructions on the activity of the funds, its managers and the depositories were provided and accepted Two draft amendments to the normative acts for the NBM were completed and accepted by the NBM and the SCSM
- b) Opening of a deposit pledge account for a fund manager The deposit pledge account agreement was developed and approved by the BancaDe Economii, the Ministry of Justice and the SCSM It is now in use by fund managers
- c) PC programs were developed to assist the investment funds with accounting procedures for their portfolio and securities
- d) Developed specialized custodians (Depositories) Banks and registrars were selected to become an IF's depository They are authorized by the IF to maintain its securities and holders registry and to provide other market-related services Four IFs presently have depositories, with only the first IF needing Project assistance

3 Joint Venture Relationship

In discussing a joint venture with the IF managers in Moldova, many expressed a fear of losing control to a foreign partner The closed end IF "D-Invest" was chosen by the Project for the pilot joint venture due to management's willingness to create a joint venture fund "D-Invest" was assisted and provided with

- a) Development of a joint venture fund whose portfolio would specialize in securities that deal in distribution of Moldovan food products abroad
- b) Development of an internet site containing the offer of collaboration
- c) Assistance on the legal aspect of joint venture creation
- d) A list of other IFs which invest in central and eastern Europe
- e) Contact with other IFs on behalf of "D-Invest's" board of directors
- f) Preparation and dispatch offers of collaboration

Thirty-nine financial institutions were contacted in seven different countries. The only country to respond with any interest was the Czech Republic, but the commencement of their participation is to be determined at a later date. The Romanian IF expressed a willingness to participate in a joint venture with "D-Invest" and was sent all the necessary information and documents. However, progress on the joint venture ceased in August when the financial crisis erupted in Russia.

D Comprehensive Legal and Regulatory Framework

1 Law on Trust Companies

The development of a law on trust companies was not consistent with the direction the Parliament of Moldova had adopted. The Institute of Trust did not concur with the continental or European law system accepted in Moldova. When the Project started Parliament had already initiated action on amendments to the civil code that envisioned the formation of the Institute of FM. Accordingly, the Project's legal unit drafted the regulation on FM of securities and other financial vehicles. In addition to the regulation on FM, a draft was also completed for the investment declaration necessary to operate a FM company.

2 Drafting of Normative Acts

The process followed by the Project to provide final versions of proposed normative acts was

- a) Prepare and submit first draft
- b) Hold discussions and accept input from all interested parties
- c) Prepare second draft for SCSM
- d) Make additional changes, if necessary
- e) Discuss and submit final version to SCSM

Following these procedures the following normative acts were submitted to and approved by the SCSM

- a) Regulation on secondary trading of T-Bills
- b) Regulation on registry of owners of securities
- c) Regulations on licensing procedures on PP of securities market
- d) Agreement on foundation of trust (FM of property)
- e) Regulation on state registration of trust agreement (FM of property)
- f) Procedure for completion and submission of specialized reports by issuers and PP of the securities market
- g) Regulation on the National Commission on Securities

3 The following normative acts were completed for the IFs

- a) Calculation of net asset value of IF
- b) Agreement on management of mutual (interval) IF
- c) Regulation on placement, redemption, and purchase of shares of IF
- d) Rules on placement and redemption of shares of mutual (interval) funds
- e) Procedures on information disclosure
- f) Sample prospectus of closed end IF
- g) Sample prospectus of mutual (interval) IF
- h) Instruction on specialized reporting of IF, its manager and depository
- i) Instruction on depository accounting of transactions for IF securities

j) Investment declaration of IF

4 Guidance on Passage of Security Laws

Two major laws that provide governance for the entire CM industry have been pending enactment since October 1998. These laws, the Law on Securities Markets and the Law on the National Commission on Securities, were reviewed by the GOM in 1995 and set aside by the Prime Minister to insure that the GOM would continue to control the SCSM. Under the control of the GOM, the numerous market inconsistencies that the project identified were being overlooked.

The need for passage of these laws to insure a fair and orderly market was a primary concern of the project. After many meetings with government officials and with the assistance of the American Ambassador and the ambassador of the IMF mission to Moldova, a presidential order was prepared and sent to the Prime Minister for review of the laws that would then be sent to the Parliament for implementation.

The laws were reviewed by the GOM and at the request of the GOM the Project prepared subordinate legislation supporting the laws which included:

- Regulation on the registry of owners of securities
- Regulation on licensing of PP to the securities market
- Regulation on the National Commission on Securities

The laws and their subordinate legislation have been introduced to the Parliament for its consideration during the 1998 fall session. The parliamentary procedure requires that the laws be reviewed (read) twice before they are passed. At the close of the Project the first reading was completed.

IV. Recommendations

The Moldovan Capital Market (MCM) is still a fledgling market requiring assistance and guidance. The necessary infrastructure is in place, but for its successful use, in a positive manner, continued assistance is needed. During the life of the USAID CM Projects in Moldova, local employees, under the guidance of the foreign experts, directing the CM development managed four units. The knowledge and experience acquired by these people should be put to further use in developing the MCM. These four managers are

Name	Home Phone	Responsibility
Alexandra Gubogolo	[REDACTED]	Monitoring Unit
Stanislav Shapa	[REDACTED]	Investment Funds
Radu Betsiu	[REDACTED]	MSE/NSDM
Oleg Crasnojon	[REDACTED]	Legal

The MCM community has developed trading practices and procedures that are unacceptable by the world's CM standards and by the local rules and regulations that have been written to govern the industry. To achieve recognition as a fair, orderly and transparent marketplace the MCM must improve its surveillance to prevent unacceptable practices. In addition the MSE and the SCSM must insure that strict, fair, and equal enforcement of rules will be provided for all PPs and investors.

The following nineteen items have been addressed by the Project but to date are incomplete and thus create market deficiencies that still require assistance:

- 1 The law on Securities Market and law governing SCSM are both still pending enactment by Parliament
- 2 A committee is reviewing and changing the MSE rules. It would be advisable to have someone knowledgeable review the finished document
- 3 Changes to banking laws have been recommended, but are not yet implemented
- 4 The development of trust management is presently being delayed. A draft resolution was completed dealing with the government on FM of securities and vehicles for investing in securities. It is being held at the SCSM pending approval by Parliament
- 5 The pending adoption of the Securities Law is delaying the implementation of other regulations that have been drafted. These include regulations on licensing of broker dealers to the securities market, registry of owners of securities, and the composition and procedures for completing and submission of specialized statements by issuers, PPs and owners of securities
- 6 Modifications to improve IF operations are still needed in the Law on Holdings, the tax code and the registry of security holders
- 7 SCSM training has been extended, but with the new chairman making needed personnel changes, additional training will be necessary
- 8 Proposal to move the reporting of the SCSM to the Parliament with raised salaries and a proposal to shape the SCSM as a semi-profit center through fees and penalties. This proposal has not yet been acted upon

- 9 SCSM procedures for the inspection of non mutual funds have been completed, but not approved
- 10 SCSM is not prepared to conduct proper inspections and audits of the IFs
- 11 MSE/NSDM budgets have provided sufficient funds for day to day operations The MSE's only known outstanding debt is for past due rent that may be waived by the government New tax laws and future equipment (computers) replacement are expenditures not being addressed by the MSE Board of Directors, which refuses to adequately plan for the future
- 12 Trading requirements Unlicensed persons can consummate OTC stock trades Only licensed broker should be permitted to consummate trades, and these brokers should be required to service the small investor
- 13 Secondary market trading in T-Bills has been proposed and designed, but no action has taken place
- 14 The Board has rejected revised fee structure for the MSE to ensure profitability
- 15 The present make-up of the MSE Board of Directors is controlled by the IFs, it does not operate for the benefit of all investors
- 16 NSDM rules must be enforced The listing of additional securities in the NSDM as mandated by the SCSM must be insured
- 17 Existing MSE rules are not being enforced The MSE must assume the role as a self-regulatory organization providing uniform surveillance and enforcement for all its members
- 18 Instructions for ensuring the accuracy of a prospectus for a public offering of shares in a new issue has been prepared but is not yet approved
- 19 Procedures are needed to determine the value of investment funds portfolios (securities held)

V. Summary

The Project's goals have been met. The Project has provided the MCM with the necessary tools and infrastructure for the functioning of the three main components that comprise a world marketplace, to meet the G-30 recommendations.

Component #1.

The MSE is equipped with an electronic trading system and point of sale comparison. The system collects orders and processes a single trade per security on a daily basis. It is further equipped to process on-line trading when volume dictates the need. In addition to the system the MSE has been provided with the necessary legal structure, processes and procedures to function as a self supporting service organization for the CM members and their investors.

Component #2

Clearing, settlement and depository systems and operations are in place and operational. The Depository has started to process dematerialized securities in book entry form and is prepared to immobilize the few existing paper securities for book entry processing. The NSDM, like the MSE, has the legal structure, processes, and procedures in place to provide safe custody, transfer of positions (trades) by debits or credits on its books and the processing of corporate actions for its participants.

Component #3

The SCSM under the direction of a new chairman is equipped with the necessary laws, procedures, and PC programs to provide oversight for all phases of the CM industry.

The IFs have the necessary legal and operational procedures to successfully function. They also have the guidelines to insure the successful operation of their front and back office operations.

G 30 Recommendations

- 1 T+1 Comparison- T+1 comparison is accomplished by the trading system on trade date.
- 2 Positive affirmation for market participants and institutional investor can achieve positive affirmation of trade details either by using a custodial bank which is a MSE member or by maintaining their own personal Depository account.
- 3 Central Securities Depository- The NSDM is open and operational. It provides clearing, settlement, safe custody and corporate action services.
- 4 Trade Netting- Trade netting is available through the Depository. Due to the small volumes, netting is likely to occur only on the cash side of trades.

- 5 DVP-Delivery vs Purchase is achieved through the combined clearance and depository system
- 6 Same Day Funds- All Depository participants must have an account at the settlement bank where funds will be moved internally This is not the normal practice, but it will yield similar results
- 7 Rolling Settlement- Rolling settlement exists, all trades settle on T+3 for every business day
- 8 Securities Lending and Borrowing- This recommendation is not being met due to the size of the market and the lack of liquidity in securities Depository eligible securities will not fail due to the system that blocks sell transactions if the account is not long the position A guarantee fund is developing to insure payment if the buyer does not produce the funds
- 9 ISO/ISIN- ISIN numbering is being used ISO messages are not yet in use since all traffic remains on the LAN at the MSE Poor communications and the lack of funding for off site terminals hamper further expansion

All the necessary components have been provided to the MCM to achieve recognition as a world marketplace that would attract both local and foreign investors, increase its trading volume, and improve its economic growth

To achieve this recognition it is still necessary to have

- 1 Proposed laws and normative acts approved and implemented
- 2 Fair, orderly, and transparent trades guaranteed
- 3 Provisions for Investor protection
- 4 Market surveillance and enforcement insured

VI. Project No Cost Extension

The Project was completed on September 30, 1998. A no cost extension was granted and nine local employees (six full time and three part time) continued to assist the CM until October 15, 1998 (11 business days). The extension assisted the SCSM with its oversight responsibilities for the MSE, the NSDM and the IF.

Tasks completed included

- 1 Assisted SCSM to prepare an overview of the MCM
- 2 Instructed the SCSM's Department of Market Supervision newly appointed staff, employed by the Chairman to replace the previous staff, on procedures for conducting inspections of PP
- 3 Instructed SCSM on legality of IFs lending shareholder funds to assist JSCs
- 4 Instructed SCSM on recording statutory capital decreases and the results of re-valuation of financial contributions
- 5 Assisted SCSM to review charges set for NSDM depositing of securities
- 6 Submitted draft to SCSM of IF specialized reporting for their managers and depositories
- 7 Instructed SCSM on IF licensing requirements relative to stock ownership. Maximum of 10% of IF assets in a particular security
- 8 Instructed SCSM on laws governing JSCs and reorganization of JSCs, and the inspections of PPS that are also JSCs
- 9 Instructed new MSE administrator on how to calculate MSE performance indicators
- 10 Advised MSE management on continued examination of existing software to insure compliance with Y2K requirements
- 11 Instructed IF on how to evaluate a IF's portfolio shares if a fair market value does not exist
- 12 Provided a document flow scheme between a IF manager, its depository, broker dealer, MSE and the registrar for the IF's portfolio transactions

MOLDOVA CAPITAL MARKETS
PROJECT TASK ORDER
ACTION PLAN
APRIL, 1998

Task I

Establish commercial viability of Moldova Stock Exchange

Finalize and implement the MSE business plan, including preparation of an operating budget, cash flow analysis (to be monitored on a monthly basis) and revenue plan

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
1	Monitor implementation of completed business plan, providing guidance to MSE as necessary	MSE Unit (Albul)	May 15 and ongoing	Business Plan revised by MSE Board Guidance is ongoing for both MSE and CSD
2	Structure and implement at MSE a monthly cash flow analysis	MSE Unit (Albul)	June 30 and ongoing	Completed with statistical input from 1/98
3	Structure and implement at MSE a monthly variance reporting system based on the budget as approved at the shareholders meeting	MSE Unit (Albul)	June 30 and ongoing	Completed 6/30 Non-budgeted items 1-car 2-renovation 3-remote access
4	Counsel MSE on plan to meet statutory capital requirements	MSE Unit (Albul), CMMU	July 15	Completed 7/16
5	Assist in the establishment of appropriate fees as/if new products are added to MSE and CSD	MSE Unit	As needed	Approved at MSE Board Meeting on 7/16

25

	Step	Unit	Target Complete Date	Actual Complete Date
6	Identify issuers to target for MSE/CSD eligibility based on finalized MSE issuer requirements, establishing a plan for marketing to targeted issuers by MSE (See also task on listing requirements)	MSE Unit (Betsiu)	June 1	Completed 7/9 Include OTC securities and major government owned companies
7	Develop and conduct at least one training session for potential CSD participants, and provide the resulting tools to MSE to conduct additional sessions	MSE Unit (Betsiu/ Albul)	May 22	Completed 6/3
8	Develop a concept paper on adding Government Securities to the MSE/CSD system, identifying necessary system and MSE/CSD rule changes, business operational changes, revenues vs costs, etc	MSE Unit (Betsiu/ Albul), IT with assistance from Legal Unit as necessary	May 15	Completed 7/16 Market maker system recommended
9	Work with Investment Funds Unit to ensure that investment funds have their portfolio with issuers registered with the Exchange (as required by the new IF law)	MSE Unit (Betsiu) with Investment Fund Unit	June 19	Mutual funds not yet operating
10	Identify and assist in correcting where possible problems with current cash auctions that have minimized use of this MSE service	MSE Unit (Betsiu)	June 12	Identification Completed Additional programming necessary

	Step	Unit	Target Complete Date	Actual Complete Date
11	Analyze existing MSE trading capabilities to determine if system and rules can support expansion to various trade types (i.e. All or nothing, fill or kill, fixed vs continuous pricing etc)	MSE Unit (Betsiu)	July 10	Completed 4/15 Need for various order types ongoing AON scheduled for implementation
12	Work with MSE Public Relations staff to improve existing newsletter and its distribution	MSE Unit (Betsiu)	August 7	Review 4/8 Discussion will be ongoing Newsletter is being sold
13	Continue to support existing MSE Web Site and any realistic expansion as requested by MSE	IT Unit (Amariei)	Ongoing	Both physical/financial support has been ongoing

Address the issue of lack of product available for trading and determine alternative sources for increasing trade volumes, including but not limited to

*Commodities
Equities held by banks
Municipal bonds
Government securities
Privatization fund shares*

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
14	Work with other USAID contractors in developing trading of Government securities on MSE (See also task on designing and implementing a plan to foster utilization of the MSE)	MSE Unit (Betsiu)	June 26	Working concept paper scheduled for 7/13 Completed 8/10
15	Research the ability to trade additional products on the MSE, considering legal issues and system capabilities, producing a concept paper on the feasibility of adding such issues	MSE Unit (Betsiu) with IT and Legal Unit	July 24	Completed 8/12

Reduction of space requirements and subletting space to commercial entities (consolidate listing and clearance and settlement departments to the trading floor)

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
16	Assess impact of forgiveness of previous MSE rental debt and future requirement	MSE Unit (Betsiu)	May 22	Completed 4/24 Government may forgive debt
17	Reconfigure computer usage, transferring out surplus equipment	MSE Unit (Betsiu)	April 17 and ongoing	Completed 5/1-23 Terminals removed

	Step	Unit	Target Complete Date	Actual Complete Date
18	Review actual space needs vs space rented, making recommendations on more efficient usage Structure and implement at MSE a monthly cash flow analysis	MSE Unit (Betsiu)	May 1	Completed 5/1 Unused space being rented

Secure trading of government securities

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
19	Implement trading of Government securities as defined under separate tasks	MSE Unit (Betsiu/ Albul), IT	August	Will not be implemented Concept paper will be provided with trading proposal to MSE, SCSM and National Bank

Review parameters of existing fee structure

Introduction of sliding fee scale to encourage swap transactions between investment funds (after closing of second issuance)

Monthly fee for brokers trading on the MSE

Registration fee

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
20	Monitor application of fee as approved at Shareholders Meeting, comparing revenues vs ongoing expenses	MSE Unit (Albul)	July 3	Completed
	Make recommendations on fee adjustments as appropriate	MSE Unit (Albul/Betsiu)	July 10	Completed
21	Review and re-visit with Exchange management the fee structure previously recommended but not adopted, comparing actual vs potential results	MSE Unit (Albul)	July 17	Completed

Review and modify listing standards as required

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
22	Work to revise (MSE) rules listing standards as they relate to securities listed	MSE Unit (Betsiu) with Legal-Trading Unit as necessary	July 5	Completed 6/24 Committee is reviewing recommendation

	Step	Unit	Target Complete Date	Actual Complete Date
23	Expand listings to encourage movement away from the OTC to Exchange trading	MSE Unit	July 10	MSE Committee working on recommended listing changes SCSM order to assist OTC pending

Monitor the relationship between the MSE and the development of the clearance and settlement/depository operation, provide for new rules and regulations as needed

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
24	Develop and manage user test of depository	MSE Unit (Albul), IT Unit	April 24	Completed 4/24
25	Continue to train the existing staff in depository activities and system operation	MSE Unit (Albul)	April	Completed 6/14 Additional assistance will be provided
26	Provide at least one educational session for potential depository participants, providing an over-view of trading and depository services (See also task on expanding use of MSE)	MSE Unit (Albul/ Betsiu)	May 15 and As time permits	Scheduled for 5/18 Completed 6/3
27	Identify an acceptable temporary settlement bank	MSE Unit (Albul)	May 15	Completed 6/15 Permanent 8/5

	Step	Unit	Target Complete Date	Actual Complete Date
28	Work with temporary settlement bank to put appropriate agreement and procedures into place	MSE Unit (Albul)	May 22	Completed Permanent settlement bank chosen
29	Work with CSD and pilot participants as necessary to establish bank accounts at the temporary settlement bank (requires participants to MOVE their current account)	MSE Unit (Albul)	May 24	Completed "Victoria Bank"
30	Monitor daily cash settlement process	MSE Unit (Albul)	May and ongoing	First settlement day was successful
31	Identify group of banks to which tenders for permanent settlement bank should be sent	MSE Unit (Albul)	May 1	Completed 5/11
32	Develop and distribute tender	MSE Unit (Albul)	May 8	Completed 5/14
33	Review responses to tender and make recommendation on permanent settlement bank	MSE Unit (Albul)	May 29	Completed 6/17 "Victoria Bank"
34	Work with selected bank to put appropriate agreement and procedures into place	MSE Unit (Albul)	June 5	Completed 6/26 "Victoria Bank"
35	Work with CSD and pilot participants as necessary to transfer settlement bank accounts	MSE Unit (Albul)	June 5	All potential participants have attended a training session, pilot participants have been identified

	Step	Unit	Target Complete Date	Actual Complete Date
36	Compile relevant system documentation, including both technical and user information	MSE Unit (Albul) IT Unit	June 20	Completed 6/20
37	Improve system of creating and storing back-up system	IT Unit (Amariei)	June 13	Completed 6/29
38	Work with settlement bank and CSD on establishing credit line for the depository and investment opportunities for participant/guarantee fund	MSE Unit (Albul)	July 10	Concept paper presented 7/3 There is industry resistance
39	Continue addressing related banking issues with National Bank -Requirement of Payment Order, -Ability for multiple bank accounts, and -Banks having accounts with other banks National Bank	MSE Unit (Albul)	July 17	Actions being taken with National Bank and Ministry of Finance will be ongoing
40	Develop a Surveillance Department within the MSE to monitor trading activity and trade settlement through the CSD	MSE Unit with CMMU (Albul) (Betsiu)	July 3	Recommendations submitted 7/14
40 1	Develop corporate action paper	MSE Unit	July 3	Completed 7/3

Provide comparative monthly statistics on the transaction values and trading volumes of regional exchanges in Central and Eastern Europe and the CIS countries

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
41	Establish procedure to receive weekly volume statistics from MSE	MSE Unit (Betsiu)	April 24 and ongoing	Completed 4/2
42	Identify international source for monthly statistics on regional exchanges	MSE Unit (Betsiu)	May 15	Completed 5/1, FEAS
43	Structure and begin to distribute monthly report, comparing MSE to other regional exchanges	MSE Unit (Betsiu)	June 26	Completed 6/1

RESULTS/BENCHMARKS The MSE has reached a break-even point

MOLDOVA CAPITAL MARKETS
PROJET TASK ORDER
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APRIL, 1998

Task 2

Solidify operational viability of the SCSM

Improve the organizational, professional skill levels, and policy-making capabilities of the SCSM so that it can effectively regulate the Moldovan capital market

Further development of organizational and administrative needs, including but not limited to

*Enforcement
Inspections (broker-dealers/investment funds)
Broker/dealer regulations
Investment fund regulations
Corporate filings (annual reports, etc)
Corporate security offerings*

Further development of the legal and regulatory authority of the SCSM, including but not limited to

*Books and records
Inspections rights
Investigation authority*

Further development of the capability to process licensing, registration and other duties, including but not limited to standard setting/examinations

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
44	Continue to assist the SCSM in difficult inspections of professional participants of the securities market, including -Investment funds, -Broker dealers, -Independent registrars, -Stock exchange, and -Issuers	CMMU (Gublogo)	September 2	Completed 8/15
45	Prepare and submit to the SCSM expert opinions about the most difficult conflict situations in the market as appropriate	CMMU (Guboglo) (Gutsu)	May and ongoing	On schedule- ongoing 7/13 accounting, 8/11 licensing
46	Review international legislation on licensing of professional participants of securities markets	Legal Unit (Crasnojon)	May 15	Completed 5/15
47	Prepare and submit to the SCSM guidance manuals outlining procedures to be followed by the SCSM in the following areas -Filing claims in court, -Corporate securities offerings, and -Inspection of market participants	CMMU (Guboglo)	July 15 July 24 August 30	Completed 7/14 and 9/3
48	Develop and conduct training sessions for SCSM staff based on guidance manuals and other major issues	CMMU Unit	July through August 30	7/14 participant accounts Completed 8/30

	Step	Unit	Target Complete Date	Actual Complete Date
49	Provide guidance to SCSM in developing drafts of the following documents related to corporate activities in 50 through 54	CMMU	Various dates	Completed in steps 50-54
50	-Instruction on the issuance and state registration of securities	CMMU	May 22	Completed 5/18
51	-Regulation on the procedure for general shareholders meetings in open-end joint-stock companies	CMMU	May 24	Completed 5/11
52	-Drafting and submission to the SCSM of the following documents developed in conformity with the new account legislation	CMMU (Guboglo)	May 25	Completed 6/9
53	-Requirements of the Commission on the content of the issue prospectus (draft statute)	CMMU	May 25	Completed late 6/9
54	-Standards of public formation of joint stock companies (draft statute)	CMMU (Gublogo)	June 10	Completed 6/8
55	Update software for SCSM database as previously developed by CMMU to reflect changes in laws and regulations, including -Transaction monitoring, -Securities state registration, and -Other SCSM objectives	CMMU (Fornea)	June 26 and as necessary	Work done by 6/9 will be ongoing 7/14 licenses Completed 9/22 at end of project

	Step	Unit	Target Complete Date	Actual Complete Date
56	Develop regulation on licensing professional participants of securities market, including -First draft of Regulation, -Discussion of the first draft with all interested parties, and -Finalize proposed regulation and submit to SCSM	Legal Unit (Crasojon)	June 1 July 25 August 1	Submitted 7/17 Completed 7/26 Completed 8/5
57	Act as a resource for assistance to SCSM on -Application of law on joint stock companies, -Application of regulations stipulated by law on investment funds, -Issues related to reorganization of investment funds, and -Reorganization of existing custodian (depositories) for investment funds and creation of new custodians	IFU (Shapa)	Ongoing	Work continues and will be ongoing Completed 8/10 Completed 8/10 Completed 8/1 Completed 8/17, Depository operational

Prepare a market-driven compensation package (separate from civil service wage scale) in order to attract staff from private sector

Draft and circulate within the Government of Moldova, an amendment to the Securities Commission Law, securing authorization for separate and distinct compensation scales

Write a concept paper (accompanying this amendment through GOM channels) that justifies a separate wage scale apart from civil service. The concept paper will include suggestions on how such a package will be funded

Complete the plan for folding in the Capital Markets Monitoring Unit (CMMU) into the SCSM

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
58	Review and adjust SCSM's "wish list" for continued assistance under current project	CMMU Unit, IF Unit, Legal Unit	April 29	Completed 4/29 Will continue however some requests will be returned to SCSM due to expense
59	Act as primary resource to SCSM in their routine activities	CMMU Unit (All staff)	April and ongoing	Ongoing through project extension
60	Monitor and assist as necessary in passage of Law onto which will determine reporting responsibility of SCSM (Parliament vs Government)	CMMU Unit Legal Unit	June 19	Assisted by US Ambassador responded to GOM comments Prepared concept paper
61	Proceed as necessary in developing market-driven compensation package if SCSM does not report to Parliament	CMMU (Guboglo)	August 20	Delayed pending Parliament decision

	Step	Unit	Target Complete Date	Actual Complete Date
62	Provide Guidance manuals and training sessions to SCSM staff as outlined under other tasks	CMMU (Gublogo)	July3/August 14	Completed 7/14
63	Provide upgraded software for SCSM monitoring of MSE and all professional participants	CMMU (Liubash-evskaya)	September 4	Completed 9/11 and also provided hard copies of previous examinations

RESULTS/BENCHMARKS Design and obtain Government of Moldova Approval for a market-driven compensation package for SCSM employees, together with complete O&E structure, SCSM fully operational with the capacity to undertake licensing matters, providing oversight of market transactions and other policy-making and enforcement capabilities so that it can effectively regulate the Moldovan capital market

MOLDOVA CAPITAL MARKETS
 PROJECT TASK ORDER
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Task 3

Continue work with the investment fund group to transform and reorganize according to new legal mandates

On an as-needed basis, further develop administrative and managerial skills at select pilot funds

Organizational structure, including business and financial plans, fund management policy and investment objectives, remuneration policy for fund managers, and criteria for evaluating their performance

Marketing and distribution strategies

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
64	Provide assistance as necessary to reorganize investment funds in development of business plans, including financial plans, marketing (distribution) plans, and investment strategies	IF Unit (Shapa)	Ongoing start July 1 on hold	Fund licenses expired 6/31/98 Assistance being provided to SCSM & funds on accounting issues & licensing

41

On an as-needed basis, provide assistance to select pilot funds on back office operations, including but not limited to bookkeeping/accounting and Depository functions

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
65	Provide model agreement on opening the settlement account given into the investment fund's manager fiduciary management	IT Unit (Shapa)	June 14	Completed 6/14 Additional assistance provided on 9/4
66	Provide model agreement on opening the deposit collateral account of an investment fund's manager	IF Unit (Shapa)	June 12	Completed 6/10
67	Be available to assist in the reevaluation of funds portfolio shares	IF Unit (Shapa)	July 15	Work completed 7/6 Additional work may be required when accounting standard #35 is completed
68	Be available to assist in preparing specialized reporting for the first six months of 1998	IF Unit (Shapa)	July 31	Ongoing Accounting standards #26 & #27 will be used to replace #35 which is not available

	Step	Unit	Target Complete Date	Actual Complete Date
69	Act as resource to investment funds on issues related to back office	IF Unit (Shapa)	Ongoing	Continued through project also assisted with fund Depository back office
70	Act as resource for transition to new reporting system of the funds, managers, and depository	IF Unit (Shapa)	July 31	Instructions on reporting provided to SCSM, but have not been acted upon
71	Upgrade the software for accounting of operations with securities and its application by the funds' managers and depositories	IF Unit (Shapa), IT Unit (Amariei)	September 4	Started on 8/15 Completed on 9/11 Final program on portfolio values

*On an as-needed basis, complete development of essential front office fund operations
These could include*

A management strategy, including the role of a Board of Trustees, Surveillance Council, and General manager

Business and financial plans

Skills in financial, cash, risk, and portfolio management Investment and reinvestment strategies

Skills to analyze target portfolio companies in terms of their investment value

Assistance in structuring underwriting arrangements

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
72	Act as resource for managers of investment funds on risk and portfolio management	IF Unit (Shapa)	Ongoing	Work is continuing through project extension
73	Provide assistance as necessary to investment funds in corporate management of portfolio enterprises	IF Unit (Shapa)	Ongoing	Ongoing Developed law, new charter, and provided consultation
74	Provide assistance as necessary in organization of an IPO for a pilot investment fund	IF Unit (Shapa)	Ongoing	Provided to 4 pilot funds licensed by the SCSM

Complete self-teaching materials which can be used by the fund industry (and other market participants) as a guide to a transition from voucher to investment funds and include steps for compliance with new legislation

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
75	Continue to produce guidance brochures on steps to reorganization	IF Unit (Shapa)	July 31	Produced 3 -Funds Transfer, -Licensing, and -Public placement

To the extent possible, continue to seek a joint venture relation by tender or negotiated process with one of the pilot funds and a Western financial institution

RESULTS/BENCHMARKS The pilot investment funds are sufficiently versed in the mechanics of front and back office operations to comply with new reorganization legislation

MOLDOVA CAPITAL MARKETS
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Task 4

Continue work on comprehensive legal and regulatory framework

*Drafting new laws
Law on Trust Companies*

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
76	Develop a list of all legal issues, including input from all project units and prioritizing actions that need to be taken	Legal Unit with all other units (Crasnojon) (Nikolaeva)	May 15	Completed 5/15
77	Draft law on trust companies	Legal Unit	July 1	Completed 7/28
	-Study international legislation on fiduciary management,		June 26	Completed 6/26
	-Develop the first draft of the law,		August 1	Draft submitted 7/16
	-Discuss the first draft with all interested parties and make correspondent amendments, and		August 20	Completed 8/25
	-Submission of the final draft to the SCSM		September 2	Completed 9/2

Drafting of normative acts and guidance through the SCSM

- Regulations on a secondary trading of treasury bills
- Regulations supporting the Law on Securities
- Regulations supporting the Law on the State Commission on Securities Market
- Regulations supporting the Law on Trust Companies
- Regulations supporting the Law on Joint Stock Companies
- Additional regulations supporting the reorganization of investment funds
- Comments on depository regulations

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
78	Develop regulation for trading Treasury Bills on Exchange -Study international legislation on trading of Treasury Bills, -Develop first draft of Treasury Bill regulation, distribute and discuss with appropriate parties, -Finalize regulation	Legal Unit	May 1 July 15 August 15	Completed 5/1 Input provided for concept paper These two steps will not be completed unless all approvals are received
79	Develop first draft of regulation on trust agreement	Legal Unit (Crasnojon) (Nikoleava)	August 1	Completed 7/16
80	Develop first draft of regulation(s) related to Law on Securities	Legal Unit	August 1	Draft completed 8/12

	Step	Unit	Target Complete Date	Actual Complete Date
81	Develop first draft of regulation on Law of Joint Stock Companies	Legal Unit	August 1	Draft completed 8/12

	Step	Unit	Target Complete Date	Actual Complete Date
82	Discuss first drafts of all regulations with all interested parties	Legal Unit	September	Completed 8/31 Awaiting further comments
83	Draft amendments and changes to the Civil Code of the Republic of Moldova in connection to the passing of the Law on Trust Companies (Fiduciary Management)	Legal Unit	September 1	Completed 8/26
84	Finalize drafts of regulations and submit final versions to SCSM	Legal Unit	September 1	Completed 8/25 There may still be additional comments
85	Support drafting of normative acts and guidance as related to investments in Steps 86-92	If Unit (Shapa)		Completed via steps 86-92

	Step	Unit	Target Complete Date	Actual Complete Date
86	-Instruction on calculation of assets value of an investment fund	(Shapa)	July 2	Completed Submitted SCSM 6/3
87	-Finalize the model management agreement of a mutual (interval) investment fund	(Shapa)	May 13	Completed 5/29
88	-Sample Rules of placement redemption of shares of a mutual (interval) investment fund	(Shapa)	May 29	Completed 5/29
	-Sample regulations		May 29	Completed 5/29
89	-Procedures for information disclosure by an investment fund	(Shapa)	May 22	Completed 5/22 Revised 9/7
90	-Sample issue prospectus of shares of a mutual (interval) investment fund	(Shapa)	June 26	Completed 6/22
91	-Sample issue prospectus of shares of closed-end investment funds	(Shapa)	June 23	Completed 6/23
92	-Instruction on specialized reporting by an investment fund, its manager, and depository (custodian)	(Shapa)	July 14	Completed 7/15

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Guidance on the passage of the following laws

Law on State Commission on Securities Market

Law on Securities

Normative acts supporting the Law on Investment Funds

ACTION PLAN

	Step	Unit	Target Complete Date	Actual Complete Date
93	Work with IMF and others to package and prioritize pending laws to be passed by new Parliament, including but not limited to the Securities Law and Law on Securities Commission	Legal Unit (Crasnojon)	June 5	Laws passed to GOM from Ministry of Justice 6/29 to Parliament for review Presently being reviewed

RESULTS/BENCHMARKS The legal/regulatory framework has fully encompassed prevailing securities, investment fund, and depository-related issues