

**CAPITAL MARKETS DEVELOPMENT PROJECT IN  
THE REPUBLIC OF ARMENIA**

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

**QUARTERLY REPORT FOR THE PERIOD  
ENDING MARCH 1999**

**Contractor/Submitting Party: PricewaterhouseCoopers LLP**

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**Capital Markets Development Project in the Republic of Armenia**

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**DATE: April 20, 1999**

**Quarterly Report for the Period Ending March 1999**

In addition to those set forth below by Task, activities during the quarter included various meetings and discussions with, among others, representatives of the International Financial Corporation (IFC), including advisors from the IFC's Corporate Governance and Investment Projects; the US Embassy Economic and Commercial Officer; a representative of the Japanese International Cooperation Agency (JICA); the Senior Legal Advisor to USAID Administrative Law Project; Dr. Armen Yeghiazaryan, a Member of the National Assembly (NA) and Head of the NA Commission on Financial-Credit, Fiscal and Economic Issues (Commission) and other members of the Commission; the Legal Advisor to the USAID Energy Sector Privatization Project; and Speaker of the National Assembly (NA) of the Republic of Armenia (ROA), Khosrov Harutiunyan (in company with the USAID Mission Director, Diana Tsitsos, and various other USAID Representatives including Ann Richards, Walter Coles and Michael Greene, concerning the status of the draft proposed Law on Securities Markets); as well as various meetings involving USAID representatives Ann Richards, Walter Coles and Michael Greene, and others, including representatives of the USAID Privatization Support and Accounting Reform Projects, to coordinate support for the privatization activities which are to take place under this project (see below SRS Program activities set forth under Tasks A and F).

To assist in the above and various of the activities set forth below, during the month, in addition to our three long-term advisors, the technical assistance services of various Expatriate and Third Country National capital markets specialists and attorney advisors were called upon.

***1. Task A. Assistance to the SMI ("Securities Markets Inspectorate") formerly known as the Securities and Exchange Inspectorate or "SEI"***

Primary activities to provide assistance to the SMI focused on the following:

- i) Obtaining the approval of the Prime Minister (PM) and the Council of Ministers of the Government of Armenia (GOA) of the draft "Law on Securities Market" (Draft Law) so that the Draft Law may be referred for consideration and adoption by the NA. In early January, the Draft Law was placed on the agenda of the Council of Ministers and copies circulated to all relevant ministries including the Ministries of Justice, Privatization,

Industry and Trade, and the Central Bank. At the same time intensive efforts continued with Ministry of Finance and Economy (MOFE) Deputy Minister Mouradian and SMI Head Karapetyan (and various of the SMI staff) to further refine certain aspects of the Draft Law (see **Attachments 1 and 2**) and to ensure that the Armenian language version was written as clearly as possible to ensure clarity and discourage misinterpretation. On February 4, 1999, the PM and Council of Ministers approved the Draft Law and on February 9, 1999, at the request of SMI Head Karapetyan, we delivered a “courtesy” copy of the Draft to Dr. Armen Yeghiazaryan, Head of the NA Commission. On February 22, 1999, we were advised by MOFE Deputy Minister Mouradian that on that date he had personally delivered a formal document signed by the PM sending the Draft Law for consideration to the NA. On March 3, 1999, in company with Messrs. Mouradian and Karapetyan, the process for getting Draft Law onto the floor of the NA was discussed with Dr. Armen Yeghiazaryan and several key members of the Commission. Dr. Yeghiazaryan undertook to promptly review the Draft Law and to take steps for same to be presented to the NA for “first reading” on or about March 16-17, 1999. At that time, at Dr. Yeghiazaryan’s request, we also presented for his consideration and that of certain of his colleagues on the Commission, the concept for a National Market System (NMS) for Armenia. The NMS concept was presented and discussed in detail and received by those in attendance as the “right way to go” for Armenia (see **Attachment 3**). Thereafter, on March 15, 1999, the Commission unanimously approved the Draft Law for submission for reading by the NA. At that time, it was anticipated that the Draft Law would be read on “first reading” on March 17, 1999; however, this did not occur and as of the end of the quarter the Draft Law had not been placed on the Agenda of the NA (see **Attachments 4 and 5**). In the meantime, to assist MOFE Deputy Minister Mouradian in presenting the Draft Law before the NA, we prepared for him an overview or “introduction” to the general concepts behind the Draft Law which is intended by him to be read into the minutes of the NA during the “first reading” of the Draft Law (see **Attachment 6**);

- ii) Efforts to assist the institutional development of the SMI included, among other activities, drafting assistance and various meetings with the SMI Head (and SMI staff) at which relevant securities market regulatory and developmental issues were discussed. These included memoranda on proposed “SMI Staff Training” which was developed for consideration by the SMI Head (see **Attachment 7**); registration and prospectus requirements, and necessary training for the staff of the SMI in market reporting and surveillance (see **Attachments 8 and 9**). During December 1998 an Expatriate accounting specialist was mobilized to assist in the creation of an “Office of Chief Accountant” within the structure of the SMI (and, thereafter, the “Securities Commission” which is to be formed once the Draft Law is adopted). During this time, substantial effort was put forward to assist the SMI in realizing this goal and, as well, to work with our local professional staff (particularly our accounting professional) to build an understanding of “International Accounting Standards”. These efforts continued into the quarter. During the quarter, particular attention was also given to appropriate development of the share registry and central depository functions in the Republic of Armenia (ROA) and comments were provided and discussed with MOFE Deputy Minister Mouradian and SMI Head Karapetyan and others (see **Attachments 10 and 11** and below Task D) concerning proposed decrees by the GOA to establish a “Central Depository of Armenia” (CDA). As proposed, the establishment of the CDA is essentially to be accomplished by changing the name of the National Centralized Registry (NCR) to the CDA and increasing the scope of the NCR’s functions and activities (though without the technical capacity to so function or act) to include depository, and clearance and settlement. In this connection, various discussions took

place involving SMI Head Karapetyan and Advisor to the Prime Minister Davtyan concerning, among other things, the structure of proposed CDA including the use of “branches” or representative offices of the CDA throughout the ROA (see **Attachment 12**);

- iii) Activities to survey all laws of the ROA as apply to securities activities, including the Joint Stock Company (JSC) Law. In particular, substantive attention was given to determine and recommend necessary amendments to the JSC Law (see **Attachment 13** and below Task D); and, in addition, the development and adoption of new regulations on the maintenance of share registries, the purpose of which is to ensure the efficient functioning of future registry and depository activities and the “harmonization” of such regulations with the Draft Law (see **Attachment 14** and below Task D). In this regard, our Expatriate Share Registry Specialist participated in a USAID sponsored JSC Workshop which took place in Washington D.C. between January 11 to 15, 1999. In addition, in an effort to coordinate activities under this Project with those involving USAID support for the drafting of a new JSC Law, we held meetings during the quarter with Ms. Anna Tarassova, the Legal Advisor under the USAID/IRIS Commercial Law Project who has been personally tasked to assist the drafting of a new JSC Law and with representatives of AMEX International, the USAID contractor which has been formally tasked to assist the drafting of a new JSC Law and under which Ms. Tarassova will work;
- iv) Continued efforts to build the functional capacity of the CMMU. These included additional efforts to expand and improve the CMMU database and, as well, to include various CMMU staff in the “pilot” phase of share registry consolidation activities (see below Task D). During the course of the quarter, among other materials, the CMMU prepared an analysis of the volume of equity trading activities on Armenia’s four stock exchanges (see **Attachment 15**) and a substantive analysis of the functions and workings of the SMI’s “Securities Market Regulation Department” (SMRD) – for a chart of the functions of the SMRD, see **Attachment 16**; and CMMU Representatives participated in two SMI compliance inspections, one involving an issuer (see **Attachment 17**) and the other a brokerage firm (see **Attachment 18**). Most importantly, during the quarter, the CMMU released two major reports – the CMMU’s “Initial Report” and its “Review of Armenian Stock Exchanges”.

In addition to the foregoing, other areas of activity included the successful wrap-up of efforts by an Expatriate Investment Banking Specialist who was mobilized early this quarter to design and develop a program to provide technical assistance to the Ministry of Privatization (MOP) for the sale of state residual share (SRS) packets (SRS Program). A primary purpose of the SRS Program is to develop and enhance the capacity and skills of brokers and dealers to act as financial advisors and underwriters. For this purpose, a major training component was developed and included in the design of the SRS Program which received USAID approval in March 1999.

It should also be noted that during the quarter, the MOFE confirmed GOA measures to create by decree the “Securities Market Inspectorate” (as a “separate” agency of government though technically still under the MOFE) with the intention that the SMI succeed to the functions and responsibilities of the (former) SEI.

## ***2. Task B. Development of Trading System***

During the past several months, as agreed with USAID Representative Richards, rather than focusing on efforts to promote the NMS, efforts have been focused primarily on how to build the functional and operational capacity of the NCR. During the quarter, USAID Representative Richards authorized the purchase of certain “Phase I” purchases to enhance the functional capacity of the NCR so that “mass” consolidation of share registries might begin as from May 1, 1999 (see Attachment 9 to the Monthly Report for February 1999 and below Task D). In these meetings, it was preliminary agreed with USAID Representative Richards that, among other things, “pilot” consolidation activities using two consolidation teams would take place between approximately March 15, 1999 to April 20, 1999 and that between April 20, 1999 and May 1, 1999, a total of six (four additional) consolidation teams would be readied to start mass consolidation beginning from May 1, 1999 (see **Attachment 19**). It was further agreed that mass consolidation efforts would initially be focused on the Yerevan Marz (where there are about 60,000 shareholders of an entire estimated universe of about 140,000 shareholders) and thereafter proceed to the Kotayk (about 20,000 shareholders), Lori, Shirak and Armavir (about 10,000 shareholders each) Marzes. It was also discussed that consolidation efforts in the above mentioned Marzes would conceivably take until about November 1, 1999 to complete.

## ***3. Task C. Development of Clearance, Settlement Process***

As previously reported, by the end of October 1998 our Expatriate Central Depository, Clearance and Settlement System Design and Development Specialist (CSD Specialist) had completed the initial phase of his activities and delivered a detailed draft report on the functional specifications for an “Armenian Central Securities Depository” (CSD). During the quarter, in continued support of GOA efforts to define a strategy for the establishment of a national CSD, we provided comments and participated in various discussions concerning the recent GOA draft decrees to establish a CSD (to be known as the Central Depository of Armenia, referred to in this report as CDA) based on a reorganization of the NCR (see above Tasks A and B and below Task D). In addition to the foregoing, efforts moved forward to develop a detailed self-sustainability plan for the proposed CDA (see Attachment 11 to the Monthly Report for February 1999).

## ***4. Task D. Development of Independent Registry(s)***

To implement the activities envisaged in this task, our Expatriate Share Registry Design and Development Specialist (SR Specialist) together with our Third Country National Share Registry Development and Consolidation Specialists (SRC Specialists) continued efforts to define the parameters for shareholder registry activities in the ROA. When fully developed, the parameters will include both general (minimum functional) and specific requirements (to meet proposed changes to the Armenian laws and regulations on maintenance of a share registry). To that end, during the month of November 1998, our SRC Specialists reached conclusions concerning the functional requirements of the shareholder registry system. The specific requirements for the NCR system will be completed as proposed changes are adopted to the laws and regulations of the ROA which govern share registry activities. In this regard, during the quarter, proposed amendments to the JSC Law were recommended to MOFE Deputy Minister Mouradian, and discussed at length on various occasions with him, SMI Head Karapetian (and certain SMI staff), and Advisor to the Prime Minister Davtyan (see **Attachment 13**).

During the quarter, such sufficient progress was made on reaching the basis of an agreement between USAID and the GOA on the conditions for USAID support to the NCR (CDA), that authorization was extended by USAID Representative Richards to commence Phase I purchases to enhance the functional capacity of the NCR. At the same time, efforts were commenced to realize “pilot” and “mass” consolidation activities in accordance with a timetable and schedule that was agreed with USAID Representative Richards. These included steps to engage the local “consolidation” specialists by commencing their training (for pilot phase activities) by March 10, 1999 and the actual commencement of pilot consolidations as from March 15, 1999 (see **Attachments 20, 21, 22 and 23** and above Task B).

In addition to the foregoing, during the week of March 15, 1999, our SRS Specialists also participated with the SMI in an inspection of the NCR and rendered to the SMI an evaluation of the NCR’s software (see **Attachment 17**).

Given that the aggregate number of shareholders in the ROA is currently estimated not to exceed approximately 144,000, it has been agreed with representatives of USAID and the GOA that a single, centralized national shareholder registry (NCR), designed as a privately-owned, non-commercial structure (either as part of or electronically connected to the CSD) is, for sustainability and other reasons, the most feasible course for Armenia to pursue. To this end, efforts continued to redefine the laws and regulations of the ROA which govern share registry activities. In this regard, during the month, efforts continued to obtain necessary amendments to the JSC Law (see **Attachment 13**) and to define an appropriate regulation to govern share registry activities in the ROA (see **Attachment 14**).

Given the foregoing, we continue to urge that, as a condition on USAID support to the NCR, the MOFE/SMI require all JSC’s with 50 or more shareholders use the NCR and that enforcement of that requirement begin with companies listed and traded on Armenia’s four licensed stock exchanges. Additionally, we have in the past and would continue to recommend that all companies listed and traded on a stock exchange be required to use the NCR regardless of the number of the company’s shareholders.

To assist with the above efforts, we continue to track and maintain a privatization database containing the names and location of all privatized companies with more than 50 shareholders. As at the end of the quarter, the privatization database contained the names of 522 privatized companies believed to have 50 or more shareholders and 728 privatized companies believed to have 25 or more shareholders (see **Attachment 24**).

##### ***5. Task E. Assistance to Trade Associations and Self Regulatory Organizations***

During the quarter, efforts continued to encourage and assist the development of trade associations (TAs) and Self Regulatory Organizations (SROs) among professional securities market participants (PSMPs). To this end, the Expatriate specialist in trade association development and broker and dealer training (Training Specialist) which we mobilized in October 1998 was joined by another such Training Specialist. This was done as plans unfolded to provide for a successor to our initial Training Specialist and to prepare the way for presentation of the broker (and dealer) “financial advisory and underwriting” training which was designed during February and March 1999 to meet a primary purpose of the SRS Program. Specific activities to prepare for implementation of the SRS training included, among other things, meetings and discussions involving the officers and/or members-at-large of the Securities Market Members Association (SMMA) and Financial Market Specialists Association (FMSA). Other specific activities during the quarter included participation in a

SMMA “Workshop” on SRO Development held on February 25, 1999. These activities were also used as continuing opportunities for discussion of the Associations’ objectives and to provide the associations with guidance concerning the purposes and benefits of TAs and SROs; and, as well as, to evaluate the present level of functional development of the TAs and their members. For more details, see below Task F.

#### **6. Task F. *Training for Professional Market Participants***

To facilitate the activities specified in this Task and, as well, those specified in Task E, a Training Specialist was initially mobilized in October 1998. By the end of November 1998, as a result of numerous interviews and surveys conducted by the Training Specialist to evaluate the needs of the TAs and brokers and dealers (and all PSMPs), a draft training plan (Draft Training Plan) and a draft training schedule (see Attachment 17 of Monthly Report for November 1998) was prepared. For a copy of the Training Schedule as revised through March 15, 1999 see **Attachment 25**. It is envisaged that training programs developed for the TAs and brokers and dealers (and other PSMPs) will also be provided to the staff of the SMI.

During February 1999, to implement certain of training activities set forth in the Draft Training Plan, our Initial Training Specialist finalized the preparation of nine training modules (for an overview, see Attachment 24 to the monthly report of January 1999) designed to build one upon the other and to prepare and better equip brokers and dealers for success (at present, basically to sustain themselves) in the Armenian marketplace. As previously reported, on January 29, 1999, the first of the modules, “Underwriting Enterprise Securities”, was presented (using our office training facilities) to an audience of 10 brokers and dealers, various of whom are members of the SMMA and FMSA. These activities continued during the month of February 1999 as a total of 8 training sessions were presented to an audience of 15 brokers and dealers. The modules covered included “Underwriting Enterprise Securities”, “Public Offering”, and “Development of an SRO”. During the quarter, our initial Training Specialist continued to provide training on a range of topics to a varied audience of brokers and dealers, many of whom are members of the SMMA and FMSA.

To complement the activities of our initial Training Specialist and, at the same time, supplement his efforts with much needed training for company managers and directors (as well as PSMPs and others) on the (financial) advantages of good corporate governance practices, an additional Training Specialist (our second) was mobilized in late January 1999. Together, during February 1999, the two Training Specialists developed and delivered two “workshop” styled programs on “Corporate Governance and Competitiveness” – one in Gjumry and the other in Yerevan.

To further complement and supplement the activities of our initial Training Specialist, another such Training Specialist (our third) was mobilized in March 1999 to facilitate both the delivery of training under the SRS Program (see below) and to develop and deliver much needed training for brokers (and dealers) in brokerage operations and management. Such training is envisaged to be provided by this Training Specialist during April 1999.

To facilitate the objectives of the SRS Program, substantial effort was put forward during the month to realize the steps and actions necessary to formalize and implement the SRS Program. Among other things, these included efforts to establish the legal basis for the SRS Program – a GOA Decree – draft comments concerning which were provided to the MOP (see **Attachment 26**). In addition, draft Tender Procedures for Selection of Brokers for sale of shares of SRS companies were also provided to the MOP (see **Attachment 27**). To realize

the training of brokers (and dealers) to accomplish a primary purpose of the SRS Program – capacity building of brokers and dealers – substantive efforts were also put forth to develop a nine module training program (see **Attachment 28**) on financial advisory and underwriting services. In addition, various members of our local professional staff were selected to participate in the “on-the-job” training activities involving participating brokers (and dealers) which are envisaged to take place during the implementation phase of the SRS Program (see **Attachment 29**).

Other training materials either developed or targeted for development during the quarter included a training module on “Foreign Currency Trading” and a “Certification” Training Course for the testing of prospective PSMRs similar to the US “Series 7 Examination”.

Respectfully submitted,

Donald R. Hart  
Chief of Party/Project Manager  
USAID Capital Markets Development Project

**List of Attachments  
to  
Quarterly Report for the Period Ending March 1999**

- Attachment 1. Memorandum on Problematic Areas in New Draft Law on Securities Market in Armenia, dated January 4, 1999
- Attachment 2 Memorandum on Discussion of Draft Law on Securities Market in Armenia, dated January 16, 1999
- Attachment 3 Note to USAID Representative Ann Richards on National Market System and Securities Market Law, dated March 3, 1999
- Attachment 4 Memorandum on Approval of Draft Law on Securities Market by Standing Commission of National Assembly of the ROA, dated March 15, 1999
- Attachment 5 Memorandum on Current Stage of Discussion of Draft Law on Securities Market in National Assembly, dated March 17, 1999
- Attachment 6 Introduction to General Concepts behind Proposed Securities Market Law
- Attachment 7 Memorandum on Securities Market Regulation, dated January 28, 1999
- Attachment 8 Memorandum on Disclosure Requirements for Prospectuses and Registration Applications, dated March 16, 1999
- Attachment 9 Memorandum on Market Reporting and Surveillance Training, dated March 31, 1999
- Attachment 10 Memorandum on Comments on GOA Decrees, dated January 29, 1999
- Attachment 11 Issues Related with Establishment of “Central Depository of Armenia”, dated February 4, 1999
- Attachment 12 Memorandum on NCR Branches, dated March 18, 1999
- Attachment 13 Memorandum on New Modifications to Art. 34 and 41 of JSC Law, dated March 25, 1999
- Attachment 14 Memorandum on Draft Regulations on Share Register, dated March 18, 1999
- Attachment 15 Memorandum by CMMU on Equity Trading Volumes for 1998, dated March 5, 1999
- Attachment 16 Organizational Chart of Securities Regulation Department
- Attachment 17 Memorandum on Inspection Visit to “Kanaker” OJSC, dated January 15, 1999
- Attachment 18 Memorandum on Inspection Visit to “Brokland” Brokerage Firm, dated January 28, 1999
- Attachment 19 Memorandum on Registry Consolidation Schedule, dated February 17, 1999
- Attachment 20 Agenda for Registrar/Register Consolidation Seminar on March 10-12, 1999
- Attachment 21 Memorandum on Pilot and Mass Share Registries Consolidation, dated March 17, 1999
- Attachment 22 Memorandum on Projects Action Plan Weekly Report for Pilot Consolidation Activities for Week Ending March 19, 1999
- Attachment 23 Memorandum on Action Plan for Pilot Consolidation Activities for Week Starting March 22, 1999
- Attachment 24 Information on Privatized JSCs with 25 or More Shareholders, dated March 31, 1999
- Attachment 25 Revised Training Program for USAID Capital Markets Development Project, dated March 15, 1999
- Attachment 26 Comments on GOA Draft Decree on Privatization of State Shares of Non-State JSCs, dated March 26, 1999
- Attachment 27 Tender Procedures for Selection of Brokers for Sale of State Share of Non-State JSCs (Draft), dated March 25, 1999
- Attachment 28 Memorandum and Overview of “Financial Advisory and Underwriting” Broker/Dealer Workshop, dated March 14, 1999
- Attachment 29 Note on SRS Team Selection, dated March 24, 1999