

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

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

Contractor/Submitting Party: PricewaterhouseCoopers LLP

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Capital Markets Development Project in the Republic of Armenia

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DATE: October 15, 1999

Quarterly Report for the Period Ending September 1999

In addition to those set forth below by Task, activities during the quarter ending September 1999 included various meetings and discussions with, among others, Dr. Armen Yegiazaryan, Chief Economic Advisor to the Government of Armenia (GOA); representatives from the International Finance Corporation (IFC) Corporate Governance Project (concerning, among other things, coordination with the USAID Rule of Law/Commercial Law Project in the drafting of a new Law on Joint Stock Companies for the Republic of Armenia [ROA]); the Eurasia Foundation (concerning a grant request received by the Eurasia Foundation from the Armenian Securities Market Members Association [SMMA]); representatives from the World Bank Washington DC [concerning a possible WB loan to the Government of Armenia (GOA) to support development of the Central Depository of Armenia (CDA)]; the International Finance Corporation (IFC) Corporate Governance Project; the EU TACIS Technical Assistance to Armenia Project; the GTZ Promotion of Small and Medium Enterprise Project; the US Securities and Exchange Commission (SEC) concerning a proposed SEC securities market training program to be provided later in the year in Yerevan (see below Task F); and, as well, various meetings or discussions involving USAID Representatives Ann Richards, Michael Greene, and Benjamin Allen and/or representatives of various of the other USAID-sponsored economic and legal reform projects; and the USAID-funded Training for Societies in Transition Project (AED).

During the quarter USAID Representative Richards conducted a site visit between approximately September 15 to 21, 1999. During this period, numerous meetings and discussions were held with USAID Representative Richards concerning various aspects of the Project and, in particular, current and future task activities. For an outline of the discussion points prepared for our meetings with USAID Representative Richards, see **Attachment 1**. As a consequence of these meetings and discussions, a finite list of activities was authorized and agreed to be conducted during the period from September 1999 to January 2000, at which time USAID Representative Richards would again be returning to Yerevan (see **Attachment 2**). As expressed by USAID Representative Richards, of particular concern to USAID is the inability to obtain passage by the National Assembly (NA) of ROA of the draft Law on Securities Markets which the GOA approved for consideration by the NA in February 1999 and returned to the NA as “pending” legislation in August 1999. It is as a consequence of such inability, that USAID Representative Richards has directed us to reduce the level of technical assistance (T/A) to the Securities Market Inspectorate (SMI) of the GOA and to focus on the finite list of activities set forth in

Attachment 2, with obtaining passage of the draft Securities Market Law being of the highest priority.

As appropriate to each respective tasks agreed with USAID Representative Richards, remarks are set forth below by task.

To assist in the above and various of the activities set forth below, during the quarter, in addition to our three long-term advisors, the technical assistance (T/A) services of various Expatriate and Third Country National capital markets specialists and attorney advisors were from time to time called upon as necessary and appropriate to the work to be performed.

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 passage by the National Assembly of Armenia (NA) of the draft proposed Law on Securities Market (draft Law). To that end, in the aftermath of the NA elections and resulting changes in GOA which occurred during May and June 1999, efforts focused on developing an appropriate strategy to have the draft Law, which was returned in June by the NA to the GOA, accorded “priority” status by the GOA and promptly returned to the NA. For a memorandum on the status of the draft Law as at June 1, 1999 (the time it was returned from the NA to the GOA), see Attachment 1 to the Monthly Report for June 1999. To do this, numerous discussions and meetings took place during July 1999, many involving, among others, former MOFE Deputy Minister Mouradian (who, as a result of the NA elections and GOA changes referred to above, lost his office as MOFE Deputy) and SMI Head Karapetyan. It is to be noted that it was not until the latter part of July 1999, that Mr. Mouradian’s continuing role was to become clear when, on July 19, 1999, he was appointed by the Prime Minister (PM) as Head of the SMI and Mr. Karapetyan was appointed as Deputy Head of the SMI. In addition to the foregoing, working with USAID Representatives Ann Richards and Michael Greene, other efforts during July 1999 to facilitate passage of the draft Law included the drafting to substantial final form of a Memorandum of Understanding between the United States (US) Government and the GOA, which, among other things, would require the GOA to obtain early passage of the draft Law (see **Attachment 3**), and a letter from the US Ambassador to the PM of Armenia (see **Attachment 4**). Other similar activities included efforts with SMI Head Mouradian to prepare and present to the Minister of Finance (MOF) a presentation on the draft Law and related securities market development issues including the National Market System (NMS) (see **Attachment 5**);

While the latter effort failed in that a scheduled presentation on the draft Law to the MOF was indefinitely postponed in early August, the apparent impact of the US Ambassador’s letter to the PM, coupled with meetings between the US Mission Director and the MOF, was such that on August 17, 1999 the PM signed a note to the Speaker of the NA attaching, among other things, a list of prioritized draft laws (including the draft Law which was placed as priority # 11) which the GOA thereby returned for action to the NA (see **Attachment 6**). On the heels of this action, as a result of discussions with USAID Representative Michael Greene, a letter was sent by the US Ambassador to the Speaker of the NA urging that the draft Law be passed as soon as possible in order that USAID could continue to provide capital market development assistance to the Republic of Armenia (ROA) under this Project (see **Attachment 7**). At the end of August 1999,

the next phase of actions were being planned to include an early September meeting with the Chairman of the NA Commission on Financial-Credit, Fiscal and Economic Issues, the Commission responsible to approve the draft Law before it may be placed for “first reading” on the agenda of the NA. In preparation for this eventuality, efforts continued with SMI Head Mouradian (who has been designated by the GOA to present the draft Law to the NA) to prepare for presentation of the draft Law to the NA;

During September 1999, efforts continued to bring appropriate pressure to bear on the GOA to obtain adoption of the draft Law. One such effort took the form of a request from the US Government, acting through USAID, to the GOA, acting through the MOF, for execution of a Memorandum of Understanding (see **Attachment 8**) which included, among other things, provisions for the timely adoption of the draft Law. Another such effort was a meeting concerning the draft Law with Dr. Armen Yeghiazaryan, the GOA’s Chief Economic Advisor. This meeting was organized by us and included participation by USAID Representative Michael Greene. During the meeting, it was mentioned by Dr. Yeghiazaryan that he had become aware of an “unofficial” draft Law on Securities Market which he said he understood was based on the draft Law and had been developed and was being circulated by SMI Head Mouradian. Dr. Yeghiazaryan expressed concern that another “GOA” draft Law on Securities Market being circulated at this time could confuse matters and, importantly, that he had not received a copy of the same. In response, we undertook to intervene with Mr. Mouradian to request that Dr. Yeghiazaryan be given a copy of the “unofficial” draft and to suggest to Mr. Mouradian meet with Dr. Yeghiazaryan to determine and make clear the GOA’s intentions with respect to the “unofficial” draft. As a result, at the end of the month, Dr. Yeghiazaryan and other representatives of the GOA were “officially” given copies of the draft (see **Attachment 9**).

By way of background, earlier in the month of September 1999, we had become aware of the “unofficial” draft when Mr. Mouradian sought our editorial and translational assistance with regard to same. In so doing, Mr. Mouradian’s initial indications were that he now felt that certain of the provisions of the draft Law were too general and needed to be “fleshed-out”. When discussing with him that during the formal drafting process we had been told by former SMI Head Karapetyan that if the draft Law was to be adopted it should be kept free from too much detail and that “the details” should be left for development under the rule making and regulatory authority which was to be granted to the Securities Commission, Mr. Mouradian now took a contrary view in favor of a more detailed draft Law on the basis that without more clear definitions of authority and responsibility, as for instance, on issuer disclosure requirements, the NA would likely reject the draft Law fearing, among other things, that the Securities Commission would assume or take on too much latitude and stray beyond the boundaries or limitations the NA would prefer to define for an agency which is to be “independent”. At this time, we also became aware, that Mr. Mouradian had already circulated a copy of the “unofficial” draft to the Minister of Justice for his comments.

In further discussing this matter with Mr. Mouradian he indicated that he felt that it was possible that between the “first reading” and “second reading” of the draft Law, the “unofficial” draft might be substituted in its place and that he had unofficially discussed this with the Chairman of the NA Committee on Financial-Credit, Fiscal and Economic Issues.

As we undertook to provide to Mr. Mouradian the editorial and translational assistance that he had requested, this matter was promptly brought to the attention of USAID

Representative Greene. While it was initially thought that the editorial assistance Mr. Mouradian had sought would be minimal, once we began reviewing the Armenian text it became increasingly apparent that substantial editing would be required before the Armenian text could be finalized and an English translation rendered. As a result, the Armenian language version of the unofficial draft was finalized on September 22, 1999 and an English language translation of same was finalized on October 2, 1999.

To accelerate our understanding of the additional details which Mr. Mouradian said were now contained in the “unofficial” draft Law, our local Senior Project Attorney worked closely with Mr. Mouradian to edit and finalize the Armenian language version of the “unofficial” draft (see **Attachment 10**). Despite these efforts, uncertain of the fate of the unofficial draft, efforts continued during September 1999 to assist refinement of the draft Law (see **Attachment 11**). During September 1999, we also received and reviewed comments on the draft Law which had been provided to us by the United Stock Exchange.

Efforts during September 1999 to gain support for adoption of the draft Law included a “Progress” television program which was broadcast on September 6, 1999. For a copy of the transcript, see **Attachment 12**. Other efforts to “drum-up” support for the draft Law included a suggested follow-up meeting to that held with Advisor to the President Vahram Nercissiantz and USAID Representatives Richards and Greene in May 1999 and (pre-taped) radio interview on the National Radio of the ROA (see **Attachment 13**);

- ii) Assisting the institutional development of the SMI through activities including staff training, drafting assistance and meetings with the Head of the SMI (and various SMI staff) at which relevant securities market legal, regulatory and developmental issues were discussed. These activities, among others, included continuing efforts with the SMI to develop appropriate prospectus requirements and rules for periodic reporting (see **Attachments 14** and **15**). To assist in this process, relevant training materials were developed on “Going Public” (see **Attachment 16**) and “Reporting by Public Companies” (see **Attachment 17**) which were provided to both the staff of the SMI and to the CMMU beginning in early September 1999. For an outline of training provided during the quarter to the SMI, CMMU and others, see **Attachment 18**.

Importantly, activities during the quarter focused on continuing efforts to provide intensive training in relevant areas to both the staff of the SMI and that of the CMMU. Among other training activities, this included a 21 session workshop series on “Securities Market Regulation Including Insider Trading and Investigation Techniques”. These workshops were attended by 20 members of the SMI’s staff and 6 of the CMMU’s and focused, among other things, on insider trading, monitoring, detection, investigation techniques and remedies. It is important to note that during the workshops relevant provisions of the draft Law were reviewed in detail with the participants.

- iii) Surveying all laws of the ROA as apply to securities market activities, including efforts to ensure the “harmonization” of the draft Law with same. In this regard, efforts continued to obtain adoption of proposed amendments which we have recommended to certain provisions of the Joint Stock Company (JSC) Law, the purpose of which would be to ensure the efficient functioning of future registry and depository activities. During August 1999, the GOA reaffirmed its approval to the proposed amendments by returning them for action to the NA. The next step in this process will be to have the proposed amendments to the JSC Law joined for priority consideration with the draft

Law. Other such efforts during the quarter included a detailed legal analysis to determine any conflicts between the Civil Code and the JSC Law, and the Civil Code and the draft Law (see **Attachment 19**). For a memorandum on the status of the efforts to assist the IFC in drafting of a new JSC Law, see **Attachment 20**; and

- iv) Building the functional capacity of the CMMU [see above Task A ii) and **Attachment 18**] and expanding and improving the CMMU's database. During July 1999 the latter activity focused both on efforts to gather and input additional necessary information concerning securities market activities in the ROA into the CMMU's database and to facilitate the migration of the database to the SMI. We are pleased to report this effort was successful and the CMMU database was installed in the SMI in July and SMI specialists have been and continue to be trained on how to use and maintain the database.

Though not expressly stated in the Task Order, in order that we might best understand the internal workings of the SMI and assist the SMI to achieve greater institutional efficiency, the CMMU has undertaken to assist the SMI in the development of a "Policies and Procedures Manual" (PPM). In furtherance of this initiative, by the end of the quarter, the CMMU had completed development of the PPM components for two of the SMI's five departments. Importantly, during the quarter, the CMMU's fourth major publication entitled: "Investment Fund Report" was completed and published. It is also to be noted that during September 1999 the CMMU participated in an analysis of the "unofficial" draft; and, as well, to assist in efforts to assess the possibility for consolidation or merger of Armenia's four stock exchanges, prepared a detailed memorandum on "Stock Exchange Shareholders, Members and Seat Holders" (see **Attachment 21**).

In addition to the foregoing, other activities included continuing efforts by our Expatriate Investment Banking and Training Specialists to design and develop programs to provide T/A to the Ministry of Privatization (MOP) and/or the SMI.

The first such effort focused on T/A to the MOP and SMI to facilitate the sale of state shares remaining in privatized enterprises in which the State owns less than 50% of the outstanding shares – the "SRS Program" – a primary purpose of which is to develop and enhance the capacity and skills of brokers and dealers to act as financial advisors and underwriters. For this purpose, two major training components were developed and delivered in April 1999 and efforts continued through last month to obtain GOA approval of the draft "SRS Decree" required to allow the SRS Program to go forward (see below Task F). As previously reported, during July 1999, the GOA approved the draft SRS Decree and sent it to the President for his approval and signature. While obtaining the President's approval was not without some degree of difficulty which required our active involvement in overcoming certain objections which were initially raised by the Legal Department of the President's Staff, on August 5, 1999 the President approved and signed the SRS Decree. Immediately thereupon, actions were taken with the MOP and SMI to obtain prompt adoption by the Collegium of the MOP of the necessary "Tender Procedures" required to facilitate the selection of participating brokers and to draft for consideration by the GOA a "Company Decree" necessary to designate the companies to participate in the SRS Program. While, by the end of August 1999, we had been reasonably successful in these efforts (15 companies were designated by the MOP for participation in the SRS "Pilot" Program) it was not without the need for considerable pressure to be placed upon the MOP (and to a lesser extent upon the SMI) to take appropriate action and to do so in a timely manner (so that we might keep the SRS Program on track and allow SRS "pilot" sales to be concluded as envisaged during the

month of December 1999). All of this being said, while it was envisaged as we entered September 1999 that the draft SRS Company Decree would be approved by the GOA early in the month, by the end of (September 1999) the quarter, despite more than considerable efforts on our part to obtain same, the GOA had failed to consider the SRS Company Decree. For more details, see **Attachments 22, 23, 24, 25** and **26**.

The second effort focused on T/A to the SMI to enhance the professional skills and qualifications of brokers and dealers – the “Broker-Dealer Qualification Training and Testing Program” – by expanding the SMI’s capacity to provide a more thorough qualification training and testing program for the licensing of brokers and dealers. By the end of August 1999, a total of 855 suggested questions (see **Attachments 27 and 28**) for Broker-Dealer qualification and testing had been developed, edited and consolidated (or formed) into appropriate categories for the envisaged “random selection” method to be used by the SMI in administering the broker and dealer testing process (see **Attachments 29 and 30**). During the month, efforts were intensified to finalize all necessary course materials and to develop an effective “training-of-trainers” (T-O-T) delivery mechanism to build the depth and capacity among existing professional securities market participants (PSMPs) to effectively train others interested in becoming a licensed PSMP. For a timeline of activities envisaged to prepare for delivery of the T-O-T program, see **Attachment 31**.

2. Task B. Development of Trading System

As agreed earlier in the year with USAID Representative Richards, rather than focusing on efforts to promote the National Market System (NMS), our efforts since February 1999 have been primarily focused on how to enhance the functional and operational capacity of the National Centralized Registry (NCR) of the Central Depository of Armenia (CDA) – for more details see below Tasks C and D. During February 1999, USAID Representative Richards authorized the purchase of certain “Phase I” purchases to enhance the functional capacity of the NCR and, in addition, other actions intended to allow the “mass” consolidation of share registries to begin as from May 1, 1999 (see Attachment 9 to the Monthly Report for February 1999 and below Task D). However, as previously reported, due to the need to temporarily relocate the NCR/CDA to another location (pending provision by the GOA of new permanent quarters for the NCR/CDA), the installation of certain of the Phase I purchases were delayed until a temporary location was determined and made ready.

As previously reported, during May, with approval of USAID Representative Richards, we assisted the NCR/CDA to locate to temporary office facilities which were leased under the project for use by both the NCR/CDA and the project’s ten consolidation teams (see below Task D); and, during June, we installed the remainder of the Phase I purchases which were made earlier in the year and, as well as, a LAN system for use by the NCR/CDA. For more details in these and other activities designed to establish the functional capacity of the NCR/CDA to perform the shareholder register function, see below Tasks C and D.

During September 1999, in reviewing activities envisaged to realize the NMS (see Attachment 6 to our Monthly Report for May 1999) with USAID Representative Richards, a decision was taken to continue to forestall NMS activities until passage of the SM Law; and, instead, to focus on establishment of an “Armenian Stock Exchange” Website (see **Attachment 32**) as a first step to realization of the NMS. In this connection, we also discussed separately, and, in meeting with SMI Head Mouradian, exploring the possibility of Armenia’s four stock exchanges merging or consolidating their activities into one exchange. For a memorandum on the legal aspects of such a merger, see **Attachment 33**. Activities along both of these objectives were then promptly commenced and by the end of (September)

the quarter, both objectives had been discussed with all four exchanges during site visits which had been conducted to each and, in certain instances, additional meetings held at our offices. For copies of the respective site visit reports, see **Attachment 34** (Yerevan Stock Exchange); **Attachment 35** (United Stock Exchange); **Attachment 36** (Giumry Stock Exchange); and **Attachment 37** (Adamand Exchange). As a result of these activities it was determined that all four exchanges are generally amenable to the concept of merger or consolidation, but that the three small exchanges (though willing to consider merging with each other) were concerned over the Yerevan Stock Exchange's apparent attitude to dominate the process.

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 past several months, efforts have moved forward to develop a detailed self-sustainability plan for (the proposed NCR activities of) the CDA, a copy of which, in efforts designed to encourage and facilitate a loan from the WB to the GOA to support development of the NCR/CDA, was, with consent of the GOA, provided to WB. Other efforts over the past several months have included assistance to the GOA to develop a detailed draft "Financing Proposal" for the CDA for consideration by WB and support for the efforts of Tigran Davtyan, General Director of the CDA, to rally GOA support for approval of the WB Loan Proposal. In addition to providing assistance to Davtyan to fine tune or finalize the draft Financing Proposal for review and approval by WB before being submitted for GOA approval, we also met at the end of August 1999 with WB Representatives in Yerevan both to facilitate WB approval of the Financing Proposal and to obtain WB support for prompt passage of the draft Law and adoption of necessary amendments to the JSC Law [see above Task A i) and iii)].

During the quarter, efforts continued to assist the process of obtaining WB and GOA approval of the WB Loan Proposal. While early in the month of September 1999 WB approved the CDA borrowing, obtaining GOA approval remained problematic. This was, at least, in part, due to extended GOA meetings with the IMF and WB which took place in the US. To reinforce the view that the WB Loan was critical to USAID support for capital markets development in the ROA, the US Government proposed the MOU (see above Task A) between the US Government and GOA (which was drafted with our assistance in efforts which began December 1998) included a provision requiring the GOA to undertake this borrowing from the WB. By the end of September 1999 (the quarter-end), however, the GOA had not taken action to consider the WB Loan for development assistance to the CDA.

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 (required 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. As discussed in greater detail below, the functional requirements which we identified have formed the basis for determination and recommendation of certain currently available registry software for use by the NCR/CDA. The specific requirements for the NCR/CDA system will be completed as proposed changes are adopted to the laws and regulations of the ROA which governs share registry activities. In this regard, proposed amendments to the JSC Law have been recommended to and approved by the GOA and efforts continue to obtain adoption of same by the NA [see above Task A iii)].

As reported above, during February 1999, such sufficient progress had been made on reaching a basis of agreement between USAID and the GOA on the conditions for USAID support to the NCR/CDA that authorization was extended to make certain Phase I purchases to enhance the functional capacity of the NCR (see above Task B). At that time, efforts were also commenced to realize “pilot” and “mass” consolidation activities in accordance with a timetable and schedule which were agreed with USAID Representative Richards. Accordingly, during March 1999, seven newly-hired teams of two consolidation specialists each were trained and pilot consolidation activities were launched beginning as from March 22, 1999 (see Attachments 13, 14, 15 and 16 to the Monthly Report for March 1999) and conducted through the period to April 21, 1999. With pilot consolidation activities concluded, training for “mass” consolidation was conducted during the latter part of April – see Attachment 13 to the Monthly Report for April 1999 – and mass consolidation activities were launched as beginning from May 1, 1999.

During May, as a result of various meetings and discussions involving, among others, USAID Representative Ann Richards and our SR and SRC Specialists, a decision was taken and authorization extended by USAID Representative Richards to increase the number of consolidation teams (from seven) to ten. Accordingly, efforts were promptly commenced to hire three additional teams of specialists who were trained in June (see Attachment 12 to the Monthly Report for June 1999) and made ready to support the mass consolidation process as from the first of July 1999.

During these same meetings with USAID Representative Richards, substantive discussion was directed toward the time period envisaged as required to select, purchase, modify, install and bring into operational use the share registry software to be provided to the NCR/CDA (see Attachment 11 to our Monthly Report for May 1999). In this connection, further consideration was given to the two share registry systems previously determined as available from Russian software designers and the USAID “Rumanian” share registry system. After due consideration, authorization was extended by USAID Representative Richards to proceed with the purchase of one of the Russian systems – the AmberSoft Share Registry Software System (see Attachment 14 to the Monthly Report for June 1999). In furtherance of this decision, a “Share Registry Acquisition Agreement” (Acquisition Agreement) was concluded with the vendor in July 1999 and at the beginning of last month the vendor’s technical specialist spent five business days at our project offices in Yerevan installing and training our IT specialists on the installation and use of the system. In accordance with the provisions of the Acquisition Agreement, once installed and tested, the system was duly “accepted” by us on behalf of USAID for use by the CDA.

During USAID Representative Richards’ visit in September 1999 we provided and reviewed with her an action plan framework and timeline (see **Attachment 38**) designated to assure timely completion of all phases of the work required to provide the NCR/CDA with a fully adapted and functionally operational share registry software system by January 2000.

At this time, considerable time was also spent reviewing our rate of progress in consolidating the share registers of privatized open joint stock companies. For a copy of the status and action plan reviewed at that time, see **Attachment 39**. While it was concluded at that time that our rate of progress in consolidating shareholder registers had been satisfactory and to schedule, mutual concerns were expressed and shared between us over the ability of the SMI to provide staff “in the field” to adequately support our activities outside Yerevan (see **Attachment 40**).

As a benchmark, as a result of mass (and pilot) consolidation activities conducted through the end of the quarter, when taking into account the number of share ownership records (24,698) maintained by the NCR prior to the commencement of mass (and pilot) consolidation, based upon the best available information, 49.5 percent of the share ownership records of all privatized companies with 25 or more shareholders have now been (or are in the process of being) consolidated and 51.3 percent of the share ownership records of all privatized companies with 50 or more shareholders have now been (or are in the process of being) consolidated. As a comparative point of reference, the benchmark we had established for ourselves during May for the percentage of consolidation completed (or in process) at the beginning of October 1999 was 52 to 54 percent. For more details, see **Attachment 41**.

To support an appropriate regulatory framework to regulate the shareholder registry activities of the CDA, by the end of September 1999, drafting was completed and a “Shareholders’ Registry Maintenance Regulation” had been submitted for consideration to the SMI (see **Attachment 42**). To assist in the process of finalizing the regulation, the services of an expatriate Share Registry (SR) Specialist were called upon. In addition to this task, during September 1999, the SR Specialist performed a considerable number of other important tasks to significantly enhance the operational and performance capabilities of the CDA. For a list of the SR Specialist’s activities and accomplishments, see **Attachment 43**.

As previously reported (see Attachment 15 to the Monthly Report for June 1999), efforts were concluded in June to obtain a Consolidation Order or “Instruction” establishing the requisite authority in the SMI to enforce the requirement that all JSCs with 25 or more shareholders use the services of the NCR/CDA. The “Consolidation Instruction” was duly published by the GOA in July; and, thus far, we have been successful in having the SMI issue appropriate “Orders” requiring consolidation of the shareholder registers of all JSCs which have refused to voluntarily cooperate in the consolidation process.

As previously reported, given that the aggregate number of shareholders for all privatized open JSCs with 50 or more shareholders which is currently estimated not to exceed approximately 140,000 (and is estimated at approximately 148,000 for all privatized open JSCs with 25 and more shareholders), it was 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. As a result of this agreement, the Central Depository of Armenia (CDA) was created in April 1999 by a decree of the GOA which effectively reorganized the NCR into the CDA and added to its charter the functions of depository and clearance and settlement organization (see above Task B). To this end, efforts continue to redefine the laws and regulations of the ROA which govern share registry activities. In this regard, efforts were successful this month in obtaining GOA approval of the proposed amendments to the JSC Law which have now been sent for action to the NA [see above Task A iii)].

Given the foregoing, we have urged and continue to urge that, as a condition to USAID support to the NCR/CDA, the MOF/SMI require all JSCs with 50 (now 25) or more shareholders to use the NCR/CDA and that enforcement of that requirement begins 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 (CDA) 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 and the number of shareholders of each company. As at the end of (September 1999) the quarter, the privatization database, taking into account information obtained through the consolidation process, contained the names of 512 privatized companies believed to have 50 or more shareholders (see **Attachment 44**) and 727 privatized companies believed to have 25 or more shareholders (see **Attachment 45**).

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

As previously reported, to facilitate the tasks set forth herein, an Expatriate specialist in trade association development and broker and dealer training (Training Specialist) was mobilized in October 1998 and was later joined in March 1999 by another such Training Specialist. This was done to provide for a successor to our initial Training Specialist, and to prepare the way for the presentation of the formal training programs designed by us to meet various of the needs and purposes of the SRS Program. More specifically, the broker-dealer training programs entitled: "Financial Advisory and Underwriting" and "Securities Firm Operations and Management" were developed beginning in February 1999, and completed and delivered in April 1999. Activities to facilitate development of the SRS training programs 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).

Building on these initiatives, during the past several months, efforts have continued involving representatives of the SMMA, Giumry Stock Exchange and SMI in the development of a more adequate broker and dealer qualification training and testing program – "Broker and Dealer Qualification Training and Testing Program" – in the ROA (see above Task A). To this end, during June, with assistance from representatives of the SMMA and Giumry Stock Exchange, we finalized preliminary efforts which led to the development of a set of 137 additional possible questions for consideration in the qualification training and testing process. These efforts were intensified during July such that, by the end of that month, our specialists had developed a total of 855 suggested questions (including those mentioned above) for consideration under the Broker and Dealer Qualification Training and Testing Program. As mentioned above (see above task A), activities during the month focused primarily on editing and categorizing the questions for use in the testing process.

Activities involving the SMMA (and, in general, all licensed professional securities markets participants – "PSMPs") have and will continue to be used as opportunities for discussion of the SMMA's (and the PSMPs') objectives and to provide the SMMA (and the PSMPs) 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 the PSMPs. For more details, see below Task F. For a summary of activities over the past several months which have involved the SMMA and a description of SMMA needs going forward, see Attachment 18 to the Monthly Report for June 1999.

During the month, to support the efforts of the SMMA to achieve self-sustainability, discussions were held with a Senior Program Officer of the Eurasia Foundation to consider a grant application which had been submitted to the Eurasia Foundation (with our recommendation) by the SMMA to obtain assistance in a program of activities going-forward over the course of the coming year. As a result of conclusions reached during these discussions we are optimistic that the SMMA will soon be receiving a substantial development assistance grant from the Eurasia Foundation.

With regard to the activities of potential future SROs, meetings are from time to time held with representatives of various of Armenia's four licensed stock exchanges. These meetings are taken as opportunities to exchange views on a variety of relevant topics (including the draft Law and the development of SROs) and to assist and guide the efforts of the exchanges in achieving both proper functionality and self-sustainability (see Attachment 19 to the Monthly report for June 1999).

As indicated above (see Task B), as a result of discussions involving USAID Representative Richards and SMI Head Mouradian, a series of one-on-one meetings were held during the month with the Presidents of each of Armenia's four stock exchanges. As also indicated above in Task B, the purpose of the meetings was two-fold: to determine the level of interest of the exchanges in participating in the "Armenian Stock Exchanges Website", and to determine from each their view concerning the possibility of a merger or consolidation of their activities with those of the other exchanges. The outcome was a clear indication of willingness on the part of all of the stock exchanges except the Yerevan Stock Exchange to participate in the proposed Armenian Stock Exchanges Website. As for the possibility of a merger or consolidation of the four stock exchanges, while all four exchanges indicated willingness to consider this possibility each expressed concern over practical issues in doing so and all three of the smaller exchanges expressed concern over the apparent desire of the Yerevan Stock Exchange to dominate the process.

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

As indicated above, 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) in the ROA, 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 20 to the monthly report for March 1999. During May, a further revised "Training Program" for the project was developed and provided to USAID Representative during her site visit to the project (see Attachment 15 to the Monthly Report for May 1999). It is envisaged that all training programs developed for the TAs and brokers and dealers (and other PSMPs) will also be provided to or made available for participation by the staff of the SMI.

To complement the activities of our initial Training Specialist and, at the same time, supplement these 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 Giumry and the other in Yerevan.

During the month of March, to implement certain of training activities set forth in the Draft Training Plan, our initial Training Specialist (who completed his activities during the month of March) provided training on a range of topics to a varied audience of brokers and dealers, many of whom are members of the SMMA and FMSA (see Attachment 21 to the Monthly Report for March 1999).

To further complement and supplement the activities of our initial Training Specialist, another such Training Specialist (our third) was mobilized during March 1999. This was done to facilitate the further design, development and delivery of certain of the SRS training programs which we began to design in February 1999. In particular, this Training Specialist was tasked to develop and deliver much needed training for brokers (and dealers) in brokerage operations and management. The latter training, styled as a “workshop”, was provided by this Training Specialist during April 1999.

As previously reported, to facilitate the SRS Program, substantive efforts have been put forward beginning in February 1999 to realize the steps and actions necessary to formalize and implement the SRS Program. Among other things, these have included efforts to establish the legal basis for the SRS Program – a GOA Decree; draft Tender Procedures for Selection of Brokers; design and develop two broker-dealer/SRS training programs (one on “Financial Advisory and Underwriting” and the other on “Securities Firm Operations and Management”) which were provided during April 1999; and draft a “Template for Full and Short Form SRS Company Information” for completion of the offering prospectus for SRS company shares. Accordingly, by the end of April 1999, we had successfully prepared the way to promptly commence SRS Program activities once the required GOA approvals (a SRS Decree and a SRS Company Decree) had been obtained.

Thus, during the past several months, to keep the SRS Program proceeding “on track”, substantive efforts have been focused on obtaining these approvals. As reported above (see above Task A and **Attachments 22, 23, 24, 25 and 26**), these efforts have been successful and last month the President approved the SRS Decree. As also discussed above in Task A, activities have been more recently focused on finalizing appropriate “Tender Procedures” and obtaining GOA approval of a SRS Company Decree that would identify companies whose remaining state-owned shares are to be sold under the SRS Program.

In addition to the foregoing, efforts continued with the SMI to realize the Broker and Dealer Qualification Training and Testing Program (see above Tasks A and E, and **Attachments 27, 28, 29, 30 and 31**). Other continuing training efforts included working with representatives of the USAID/Washington and the US SEC in the design and delivery of a securities market training program to be provided in Yerevan in November 1999 under the auspices of USAID and the US SEC and, as well, continuing efforts to design and deliver necessary training to the staff of the SMI and to the CMMU [see above Task A ii) and **Attachment 18**].

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 September 1999**

- Attachment 1. Suggested Discussion Points with representatives of USAID Commencing September 15, 1999
- Attachment 2 Focused Areas of Activity between September 1999 and January 2000 as Discussed and Agreed in Meetings Held with Ann Richards during September 15 to 21, 1999
- Attachment 3 E-mail to USAID Representative Michael Greene on MOU – Final Draft dated July 29, 1999
- Attachment 4 E-mail to USAID Representative Michael Greene on Letter to Prime Minister of the ROA from the US Ambassador dated July 26, 1999
- Attachment 5 E-mail to USAID Representative Michael Greene on SM Law Presentation dated July 26, 1999
- Attachment 6 Note of the PM to the Speaker of the NA on the List of Priority Draft Laws dated August 18, 1999
- Attachment 7 Letter of the US Ambassador to the Speaker of the NA on Urgency of Passage of Draft Securities Market Law dated August 18, 1999
- Attachment 8 Draft Memorandum of Understanding between the Government of the United States of America and the Government of Armenia dated September 2, 1999
- Attachment 9 E-mail to USAID Representatives Ann Richards and Michael Greene on Status of Edward Mouradian’s Restatement of the Draft Securities Market Law dated September 27, 1999
- Attachment 10 Memorandum on New Draft Securities Market Law dated September 25, 1999
- Attachment 11 Discussion Paper on Insider Trading and Investigation Techniques dated July 1999
- Attachment 12 “Progress” TV Program Script dated September 6, 1999
- Attachment 13 E-mail to USAID Representative Michael Greene on Revisit with Vahram Nercessiantz dated September 3, 1999
- Attachment 14 Memorandum on Recommended Rules for Implementation of Prospectus Disclosure and Securities Sales dated August 3, 1999
- Attachment 15 Memorandum on Suggested Rules for Periodic Filing dated August 27, 1999
- Attachment 16 Training Materials: “Going Public” dated August 1999
- Attachment 17 Outline of Training Program “Reporting by Public Companies”
- Attachment 18 Training Schedule for the Period of July-September 1999 dated September 30, 1999
- Attachment 19 Memorandum on Contradictions between Civil Code and JSC Law, Draft Securities Market Law and JSC Law dated September 3, 1999
- Attachment 20 Memorandum on Status of Joint Stock Company Law dated September 2, 1999
- Attachment 21 Memorandum on Stock Exchange Shareholders, Members and Seat Holders dated September 7, 1999
- Attachment 22 E-mail to USAID Representatives Ann Richards and Michael Greene on SRS Program dated September 1, 1999
- Attachment 23 E-mail to USAID Representatives Ann Richards and Michael Greene on SRS Program dated September 3, 1999
- Attachment 24 E-mail to USAID Representatives Ann Richards and Michael Greene on SRS Program dated September 7, 1999

- Attachment 25 E-mail to USAID Representatives Ann Richards and Michael Greene on Letter from Deputy Minister of Privatization, Ashot Markossian dated September 13, 1999
- Attachment 26 E-mail to USAID Representatives Ann Richards and Michael Greene on SRS Company Decree dated September 27, 1999
- Attachment 27 Memorandum on Broker-Dealer Certification Program Accomplishments for the Month of July dated August 2, 1999
- Attachment 28 Memorandum on Broker-Dealer Certification Program Update dated July 27, 1999
- Attachment 29 Memorandum on Broker-Dealer Certification Program Update dated August 10, 1999
- Attachment 30 Memorandum on Broker-Dealer Certification Program Accomplishments for the Month of August dated September 3, 1999
- Attachment 31 Memorandum on Training of Trainers Course dated September 23, 1999
- Attachment 32 Second Daft: "Using Internet to Bring Armenia's Exchanges Together" dated September 20, 1999
- Attachment 33 Memorandum on Merger of Stock Exchanges dated September 8, 1999
- Attachment 34 Site Visit: Yerevan Stock Exchange dated September 22, 1999
- Attachment 35 Site Visit: United Stock Exchange dated September 23, 1999
- Attachment 36 Site Visit: Gumri Stock Exchange dated September 24, 1999
- Attachment 37 Site Visit: Adamand Stock Exchange dated October 1, 1999
- Attachment 38 Action Plan and Timeline for NCR/CDA
- Attachment 39 Memorandum on Consolidation Status and Action Plan dated September 13, 1999
- Attachment 40 Memorandum on Meeting at SMI dated September 23, 1999
- Attachment 41 Memorandum on Consolidation Status Report dated September 27, 1999
- Attachment 42 Memorandum on Shareholder Registry Regulations Status Report dated September 27, 1999
- Attachment 43 Weekly Action Plan of the SR Specialist dated September 20, 1999
- Attachment 44 Information on Privatized JSCs with 50 or More Shareholders dated September 30, 1999
- Attachment 45 Information on Privatized JSCs with 25 or More Shareholders dated September 30, 1999