

**ARMENIAN CAPITAL MARKETS  
PROJECT TASK ORDER – PCE-I-03-99-00009-00  
WORK PLAN  
PREPARED BY PRICEWATERHOUSE COOPERS  
AUGUST, 2001**

**Task 1**

**SECURITIES COMMISSION**

**A. Institutional development of the Securities Commission**

	<b>Action</b>	<b>Consultant</b>	<b>Target Date</b>	<b>Actual Date</b>
<b>1</b>	Work with the new Securities Commission (SC) to develop staff who are competently trained to carry out their functions according to internationally recognized standards (IOSCO)	Kennedy Hippner Archerd Kostrikov Samvel Haik Papian	June 2001	<b>June 2001</b>

January Status: Each consultant will contribute his expertise to the SC focusing on the objective of bringing the commissioners and staff into compliance with the IOSCO standards for Security Regulators. Each specialist will work directly with the responsible commissioner and his staff in a one on one environment rather than a classroom environment. This is in keeping with the Chairman’s desire for fewer generalities and more specificity. In addition local and TCN experienced staff from Moscow and Moldova have continued their work on drafting and reviewing regulations. Attached are two up-to-date action plans, Exhibits I & II. I. Action Plans with SC on First Phase Activities – “Regulatory Drafting” and II. “On Professional Participant Legal Basis Development.” Gordon Hippner, SRO/Market Regulation Specialist was granted USAID Country Clearance for arrival February 1. Hippner will work with the SC on not only reviewing and drafting related regulations but also achieving compliance.

February Status: The Final Action Plan for regulatory drafting On Professional Participant Legal Basis (SRO) Development was produced. It is attached as Exhibit I. Exhibit II is attached and contains the draft Rules on SRO. These rules are developed in accordance with the Securities Market Regulation Law (number of the particular Rule corresponds to the number of the appropriate Article of the Law) and are subject to the Commission approval. The rules were submitted to the Commission on February 8. Exhibit III is attached and is a draft reflecting the evolution from the current SC/SRO division of functions and the 2002 proposed. Hippner produced a Function Training & Assistance Plan for the SC staff. It was formulated based upon the IOSCO requirements. Exhibit IV is the plan and Exhibit V contains a draft of Employee Code of Ethics and Guidelines and Exhibit VI contains Commissioner Code of Ethics and Guidelines. Review of the Ethics and Guidelines by PwC legal counsel revealed a conflict with the Labor Code but legal opinion is that the code is out of date. This will be discussed among the SC and final determination will be made. The SC was also counseled that consideration should be given to more precise definitions of concepts for ease of enforcement.

March Status: Exhibit I contains written comments from Gordon Hippner on SC regulations regarding Internal Recordkeeping, Prohibited Devices and Economic Norms. These comments were delivered to the SC and are in accord with IOSCO principles. Hippner departed Armenia on March 14 but is scheduled to return on or about April 15. Upon his return Hippner will continue the discussions on the Code of Ethics documents for Employees and its related procedure, Exhibit II. Bill Archerd worked extensively with Chief of the Securities Registration Division of the Corporation Finance Department, Artak Garsantsian and his staff. Archerd also met with the Commissioner in Charge to secure agreement on work to be accomplished. Exhibit III, an Example of Registration Statement, was the handout for the workshops on Disclosure Techniques for Prospectuses, Registration Statements and Periodic Reports. The technique advocated was “narrative disclosure” for the larger companies (more apt to be actively traded) and a less vigorous standard for smaller companies. Archerd’s next trip will divine interest in converting the example in Exhibit III into a Form 9, prospectus for a new offering or into an annual report form. Exhibit IV, Reporting of Equity Security Ownership and Other Matters by Certain Owners and by Management, a revision of proposed rules, was developed in response to IOSCO requirements on Reporting of Stock Ownership. In the process of drafting the revised Rule, recommendations for revision to the SMRL were made and documented in Exhibit V, Proposed Revision

of Certain Parts of SMRL Related to Reporting of Equity Security Ownership and Other Matters by Certain Owners and by Management. Exhibit VI, Proposed Regulations under Article 52, relating to “Disclosure, Proxies and Ballots; Protection of Voting Rights etc.” was drafted in response to a deficiency in meeting the requirement of IOSCO for such regulation. In the course of drafting the regulation there was deemed to be a need for technical changes to Article 52 of the SMRL. Exhibit VII, Proposed Changes to Article 52 of SMRL relating to “Disclosure and Proxies; Holders of Publicly Traded Equity Securities are the result of the drafting of the regulation on the same subject (Exhibit VI). During the course of the discussions on the drafting of disclosure documents the need for education of the SC staff because apparent and Archerd conducted training sessions on Due Diligence, Verification of Certain Information found in Prospectuses, Registration Statements, Annual Reports or Reporting Issuers. The materials utilized in the training sessions are contained in Exhibit VIII. When Archerd returns in June, the SC will decide if they wish to address the lack of regulations in the Tender Offer area. If so, Archerd will assist in the drafting of the required regulation. Three workshops were conducted by Archerd for the Supervision (Enforcement) Department. The first session was centered around a case study, Exhibit IX, whose purpose was to discuss the question of who is really in control of the stock and why that is the case. Various forms of indirect ownership contemplated by the SMRL, such as via affiliates, relatives and groups were discussed. Exhibit X, another case study handout was utilized in a workshop to discuss Issues Related to Goodwill. The last case study handout, Exhibit XI was utilized to stimulate discussion on Issues Related to Tender Offers.

April Status: Kennedy prepared a schedule of activities to bring the enforcement department into IOSCO compliance. This schedule of critical success factors is contained in Appendix 3 of Exhibit I. Kennedy will spend the month of May working on training materials and manuals for use in his workshops to be conducted in June. At that time Kennedy will furnish a comparison of where we are in achieving adherence to IOSCO standards.

Gordon Hippner arrived April 15 and has been working regularly on premise at the Securities Commission. Hippner reviewed the newly revised rules on Economic Normative (net capital). The revisions were driven by a desire to not impose certain standards on market participants higher than those of the Central Bank. Hippner advised the SC that higher requirements were common internationally but the SC remains firm in their belief that the status of their markets requires less stringent standards in order to promote development. That being the case, Hippner reviewed the revised proposed net capital rules with the SC. Though modest, the rules should be sufficient so long as there is compliance with the rules requiring; 1) segregation of customer funds in separate bank accounts; 2) no short sales rule; 3) DVP enforced. No further work has been done on adoption of the codes of ethics and conduct for the SC Commissioner and staff. Such professional standards are suggested by the IOSCO general principles and required by the SC draft charter. The SC legal department has a number of concerns that are Armenia specific and are being addressed with PwC project lawyer, David Sargsian.

May Status: Consultant William Archerd arrived in country May 23. He had prepared a registration statement for a hypothetical service industry company while at home and sent it to the office for translation before his arrival. This permitted Archerd, immediately upon arrival, to commence a review with the SC staff. See Exhibit I for the Registration Statement of Armenia Foods. Archerd also prepared a proxy statement and proxy form for the hypothetical manufacturing company, Yerevan Steel. And sent it ahead for translation. These two documents were received in April included in the April Report but have been used as training examples during Archerd’s May/June trip. In the brief time that Archerd has been here he continues in the mode of maintaining a presence at the SC. He has already worked with the SC in the following areas:

1. Review of proposed revisions of Company Law. Discussions have been held of various concepts to aid the SC in preparing comments on the Company Law drafts, including how to protect the rights of small shareholders.
2. Review of draft proxy regulation as suggested by Archerd. He will in turn review the SC’s version.
3. Review of draft tender offer regulation as suggested by Archerd.
4. The use of the SC web site to assist small shareholders in organizing groups large enough to consider and make proposal for action at shareholder assemblies.
5. Enhance SC’s capabilities to understand and handle inside information and material contract disclosure issues, as this has been a problem area for the staff in connection with many of the recent registration statement filings.

Consultant Gordon Hippner continued his work with the Enforcement Division staff to further develop control procedures for inspections and “administrative proceedings”, and checklists for the inspection of brokers, dealers and trust managers. The preliminary Inspections and Administrative Proceedings internal

procedures must conform to Armenian Law on Inspections. Hippner developed a basic inspections control procedure for use by the Enforcement staff. The procedure has been adopted and is Exhibit II. An Inspection Checklist and Background Interview draft (Exhibit III) has been completed and is presently being translated. In the interim, the English version has been provided to the Head of Inspections for review.

Consultant Cliff Kennedy while at home prepared a presentation on The Inspection Process, Exhibit IV, a Broker Dealer Inspection Manual, Exhibit V, and an Investigation Manual, Exhibit VI. All three have been sent for translation and will be used in workshops conducted at the SC by Kennedy during his June engagement. Kennedy is scheduled for arrival on June 4.

June Status: Consultant William Archerd completed his engagement commitment for the project on June 15. During the June portion of his last engagement Archerd accomplished the following:

1. Finalized the Tender Offer Rules 53-57, Exhibit I
2. Completed tender offer disclosure example, including the “Securities Commission Cover Statement”, “Tender Offer Statement” and the “Offer to Purchase” disclosure document of the hypothetical Hayk Industries, CJSC, which is making a bid for all the shares of the hypothetical Armenia Foods, OJSC, Exhibit II. Exhibit II, was delivered to the Corporation Finance staff for discussions while Archerd was in country and Multiple training sessions with the staff on the concepts and the document were conducted by Archerd.
3. Prepared a memorandum of analysis, Exhibit III, on “the proposed tender offer regulation” discussing relevant provisions of the joint stock company law and the securities law. In addition the memorandum included sample U.S. law, regulation and issuer offer form. The result of all this training assistance was that the Head of the Securities Registration Division has decided to move forward based upon Archer’s draft regulation.
4. Completed a revised and simplified version of the proposed proxy regulations, Exhibit IV that Archerd had drafted in March 2001 and added a new section dealing with shareholder proposals. The document has been delivered to the Corporation Finance staff. Based upon review meetings on the subject a decision was made by the Head of the Securities Registration Division to use Archerd’s draft as the basis for further drafting.
5. Chairman Edward Mouradian, Artak Garsantsian, Michael Gevorkian were engaged in a discussion of general concepts of the proposed “beneficial” ownership regulation that had been delivered to them in March. It is believed that consensus was reached on the recommended position that the statutory concepts for reporting by 10%+ and 20%+ shareholders can be combined and that there should also be a separate regulatory scheme for the ownership reporting by management. Ultimately the 20%+ idea needs to be dropped from the Securities Market Regulation Law because it is modeled on the U.S. 1934 Act section 16(a) but the short swing profit disgorgement idea of section 16(b) was not put in the SMRL making the 16(a) wording confusing and unnecessary. Exhibit V is the result of this discussion and should be the basis for the recommended changes as advanced by Archerd and agreed by the members of the SC.

Consultant Ian Gilhooley conducted a two day seminar on “Standard Operating Procedures for the Brokerage Back Office” for the Market Regulation Department of the Securities Commission. The course was attended by 34 staff members of the regulator. Industry Specialist, Armine Mirzoyan’s report on the seminar is attached as Exhibit VI.

Consultant Cliff Kennedy performed the following in June:

1. Completed a series of workshops on Inspection. The training material is contained in Exhibit VII.
2. Completed a thorough evaluation of the Securities Commission of Armenia’s adherence to international standards as advocated by IOSCO. The review is attached as Exhibit VIII. The evaluation along with cover letter was delivered to the Chairman, Edward Mouradian.
3. Completed an instructional paper on Market Manipulation, Exhibit IX.

July Status: Gordon Hippner arrived in country on June 30 and completed his engagement commitment for the project on July 22. During this time Hippner accomplished the following:

1. Two training workshops were conducted with the Supervision (Enforcement) Department staff of the Securities Commission on inspection procedures and policy. The first was a question and answer type conference held on July 6<sup>th</sup> and the second was a seminar-workshop using a PowerPoint presentation (see Exhibit I) with frequent questions and answers. As a result of these workshops and other meetings, the Securities Commission Inspection Instructions of Market Participants and SRO’s, Exhibit II, were developed. These instructions are presented in three parts Part I - Overview; Part II -

Interview Instructions; and Part III - Checklist Instructions. It is envisaged that the Securities Commission will further develop these procedures for practical application.

2. Proposed reporting requirements for SRO's (Stock Exchange and Central Depository) were translated, reviewed, discussed and comments provided in a workshop conference with the Market Regulation Department of the Securities Commission.
3. Pursuant to a request by the Market Regulation Department, additional information was researched and upon evaluation of the rules concerning market participant regulatory requirements and clearing and settlement procedures, information regarding international reporting commonality and recommendations on appropriate reporting requirements focus were provided, Exhibit III.

**August Status: Task completed in July.**

2.	Assist the SC to develop an organizational structure that meets the needs of the institution while not thwarting the development of the marketplace	Kennedy/Hertel	June 2001	<b>June 2001</b>
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**January Status:** A review of the organizational structure will be conducted along with an analysis of the workflow of the organization to achieve efficiency and confidence in the operation of the SC. The task was discussed with the Chairman and he expressed great enthusiasm and support for the consultants and the concept.

**February Status:** Kennedy is scheduled to arrive end of March for his first of two trips and Hertel will arrive the first week of May for the first of two trips. Kennedy's second trip will be June along with Hertel. Our public relations specialist worked with the SC to establish the SC's press-office and defined the communication strategy of the SC. The outcome of this effort was to 1. Define the list of print edition, TV-Radio programs and particular journalists and their editors to be considered as target media. A database of media contacts and a press-release mailing list for the SC's press service was created. On going sessions were conducted with SC personnel on good PR practices. At the completion of this assistance we should have institutionalized the PR activities in the SC.

**March Status:** Kennedy arrived at the end of March as scheduled.

**April Status:** Kennedy spent sufficient time with the Supervision (Enforcement) Department to prepare an Enforcement Focused Terms of Reference, (EFTR) Appendix 3 of Exhibit I. The purpose of the EFTR is to provide the Enforcement Department with a method to organize its work to accomplish its regulatory objectives of enforcing the SMRL. Due to her involvement in another USAID project Sue Hertel is no longer available for the Armenian project. At the time we proposed Sue for work in Armenia we did not know the outcome of the tender for a USAID project in India. This project was recently awarded to PwC and Sue is required to start her work there as the Deputy COP in May. We are currently looking into identifying a replacement for Sue and, if necessary, allocating her responsibilities to other specialists. She did, however, commence activity this month by forwarding a survey sheet prepared by Hertel to all SC Department Heads for their filling in the data required. The Survey Sheet and the responses from the SC department heads are attached as Exhibit II.

**May Status:** Consultant Sue Hertel has submitted her Recommendations for Organizational Structuring of the SC, Exhibit VII. It has been submitted to the Chairman for his review. Cliff Kennedy will meet with the Chairman to discuss the recommendations. Hertel will produce examples of procedures for the SC departments to follow along with documented guidance on procedure development. She will also produce a third paper that will address management of the SC as an organization conducting the "business" of the regulator. The management paper will round out the set of tools that PwC plans to institutionalize within the SC. Kennedy will be in country as these documents are delivered and will cover them with the Chairman and his Commissioners as appropriate.

**June Status:** Consultant Sue Hertel submitted the following documents for translation and subsequent delivery by Kennedy to the Chairman and his staff.

1. Exhibit X, Compliance & Inspections Department Operating Procedures Manual
2. Exhibit XI, Market Regulation Operating Procedures Manual
3. Exhibit XII, Enforcement Department Operating Procedures Manual
4. Exhibit XIII, Recommendations on Establishing an Internal Procedures Documentation Program

5. Exhibit XIV, Recommendations for Management

Ten copies of each in English and Armenian have been delivered to the SC by Kennedy and relevant meeting were held with the Chairman and/or his staff members to discuss the contents. Kennedy met with department heads of the SC to guide them through the materials and answer their initial questions. This completes the task as the first volume of Hertel’s recommendation, Recommendations for Organizational Structuring of the SC was delivered to the SC in May.

July Status: Task Completed in June.

August Status: See July Status.

3.	Work with the SC to develop its proposed Activity Program and Budget for the year 2002	Vartanian	June 2001	<b>June 2001</b>
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January Status: The task has been assigned.

February Status: Initial meeting held with Chairman and work will commence after we complete assistance with reporting requirements of Year 2001 Plan. This should be started then in April.

March Status: As stated in the February status, work will be started in April.

April Status: By the end of the month assistance towards drafting the final draft of the Year 2001 Annual Report were completed and work began on the Activity Program for year 2002. Meetings held with the Deputy Chairman to discuss and develop an outline. Although it is too early in the year to complete the entire Activity Program for 2002, it is agreed that significant work will be completed and left behind for the Securities Commission to use in drafting the final Report.

May Status: Work continued with the Securities Commission on the Activity Program for 2002 including the gathering and analysis of data on securities market activity for the first quarter of 2001 which will also be included in the 2002 Program. Meetings also took place with the Deputy Chairman and Chief Accountant of the SC to help them prepare their 2002 budget for submission to the Government for approval.

The CMMU manager, Ruben Gevorkyan in consultation with T. Karapetyan, Deputy Chairman of the SC discussed the issues related to 2002 Annual Program. During the discussions it was decided that the first part of the Program representing the analysis of the market should considerably differ from the analysis presented in the Annual Report of the Commission. In this case the main purpose of the analysis should be for presentation of the problematic issues of the market and identification of the proposed solutions of the SC. In addition, since the deadline for submission of the Program is October 31, the analysis should also contain the data on the first and second quarters of 2001. The data on the first quarter of 2001 is being currently entered into the CMMU database. The analysis cannot be completed until the first quarter and second quarter have been entered into the database. However research on the database gathered so far indicates the following weaknesses in the market which, unless subsequent data proves otherwise, will be included in the 2002 Annual Program.

1. Low liquidity of shares
2. Low percentage of exchange trading
3. Block trades account for most of the volume of shares traded
4. High level of centralization of corporate capital
5. Absence of collective investment system
6. Main trading instrument of market participants is T-bills
7. Several market participants account for the majority of the volume of shares traded.

June Status: The 2002 Budget was finalized and approved by the Securities Commission and submitted to the Minister of Finance and Economy in the required format for approval. The 2002 requested budget is for 239.6 million AMD, an increase of 35.4 million from 2001. The number of staff increased by 6, increasing salaries by 24 million AMD from 2001 (see Exhibit XV for budget).

Meetings and work continued with the Securities Commission on the 2002 Annual Program. The CMMU has already drafted and provided the SC with 25 pages of analysis on the following topics:

1. Analysis of the situation in the securities market, identification of existing problems and development of a schedule of measures directed at solving such problems;
2. Securities market regulation mechanisms directed at:
  - protection of investors;
  - securities market transparency;
  - improvement of price formation system of securities, and
  - development of settlement and clearing system for transactions in securities

This represents approximately 50% of the work on the 2002 Annual Program to be provided to the SC.

The CMMU will continue to work as PwC employees for the SC during the no cost extension period of July and August. After that time it is expected that per the discussions between PwC and the SC, the CMMU will become the responsibility of the SC.

**July Status:** Meetings continued with the Securities Commission on the 2002 Annual Program. According to prior agreement with the Securities Commission, the CMMU completed drafting and provided to the Securities Commission draft working documents to be incorporated in the final 2002 Annual Program, Exhibit IV. The CMMU will continue to assist the SC in further developing the 2002 Annual Program during and after its transition to the SC during August.

Upon the transition of the CMMU to the SC, this task will be considered complete.

**August Status:** *CMMU continued working with the Securities Commission on the 2002 Annual Program and submitted the second draft of the working documents for inclusion. A translation of this second draft is included as Exhibit II.*

*Meetings took place with the Chairman and Deputy Chairman of the Securities Commission on the transition of the CMMU to the Commission. The CMMU includes a staff of two financial market analysts and an IT specialist to maintain and further develop the CMMU database. The CMMU database combines data reported to the SC by securities market participants and other relevant information to support market analysis.*

*On August 24, the CMMU physically transitioned into the Office of the Chief Economist of the Securities Commission. The CMMU Manager will take the position of Chief Economist. The Office's primary objective will be to gather information on professional securities market participants as well as securities market activities, and to analyze and report on same to the SC. With this transition, this function is now institutionalized at the Securities Commission.*

4.	Promote/facilitate dialogue amongst regulators in the region for purposes of sharing lessons learned	Vartanian Hippner	June 2001	<b>May 2001</b>
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**January Status:** In discussion with the Chairman, the format for the dialogue was agreed upon. It was decided that a subject matter expert(s) should make an hour or less presentation followed by a roundtable discussion by all invitees. The PwC consultant, the subject matter expert, would chair the discussion. Each invitee would be required to prepare a "lesson learned" to share and have questions to ask of the other participants. The countries selected have not been decided. The activity is in the early planning stage and subject matter will depend upon consultant available at the time of the scheduled meeting. Interest on the part of the prospective invitees would also dictate whether the activity ever comes to fruition.

**February Status:** The letters soliciting interest have been prepared and sent to the Security Commissions of Georgia and Azerbaijan. Request was made of Michael Wyzan for assistance from AED in funding the travel, living and meeting venue expenses. On February 26 Michael said that he had passed on my request to the next person in the process. Exhibit VII is a copy of the letter sent. Gordon Hippner and Cliff Kennedy are the anticipated PwC consultants who would be available as the subject matter experts who would facilitate the discussions.

**March Status:** No response has been received from Azerbaijan but a positive response was received from Georgia. Because it would be desirable to have at least three countries at the start and the fact that Bulgaria shares the same trading software as Armenia and Georgia, it was decided to send a letter of invitation to Bulgaria. The letter was sent via fax to the Chairman of the Securities Commission of

Bulgaria on March 29. Chairman Eduard Muradyan of the Armenia SC formally expressed his support for this effort expressing a desire to participate in the preparatory activities to the fullest extent possible.

April Status: An indication of interest was received from Bulgaria. Two dates, May 10 and May 24 have been offered and a brief description of subject matter to be covered by the ex-pat expert, Gordon Hippner, was communicated via e-mail to both Georgia and Bulgaria. The communiqué is attached as Exhibit III. A positive response to either date was received from Bob Singletary, Chairman of the Georgia Securities Commission. We were able to get faxes through to both Georgia and Bulgaria. We will call Bulgaria on May 2.

May Status: The one day conference held on May 24 was well attended by the host securities regulator, Armenia and the two invited regional regulators, Bulgaria and Georgia. Attempts to establish contact with Azerbaijan were not successful so Bulgaria was substituted for the third regional securities regulator. Also in attendance were all the Armenian newspapers and TV stations. We already have seen published articles and TV reportage all favorable to the conference. In a telephone conversation with Edward Muradyan he informed me that the newspaper and TV coverage of the Regional Regulators conference was equal to the coverage of the CIS Conference. Ed was highly complimentary of the PwC/USAID public relations specialist. In addition Sosi Martirosian of USAID/Yerevan also attended the conference for the full day.

Attendees were:

National Securities Commission of Georgia, represented by its Chairman, Robert Singletary and two of its Commissioners, Vano Sturna and Tengiz Akhobadze.

Bulgarian National Securities Commission represented by two heads of department, Tzvetan Radev Head of Issuer Department and Marusia Ruseva Head of Investment/Management Company Department and Legal Adviser Mirela Mincheva.

Securities Commission of the Republic of Armenia, represented by its Chairman, Edward Muradyan, Commissioners Amalia Sribekian, Khachik Khachatryan, Heads of Departments Michael Gevorkian Enforcement and Sisak Mkhitasyan SRO Regulation. Armenia also had the heads of the two Self Regulatory Organizations in attendance, Armen Melikyan, CEO of the Armenia Stock Exchange and Tigran Davtyan, CEO of the Central Securities Depository.

As stated in the invitation sent to the security commissions, the purpose of the conference is to have a subject matter expert impart valuable international experience and then have each delegation present lessons they have learned related to the selected subject matter which was Compliance and Enforcement. Subject matter expert was Gordon Hippner, the PwC consultant with 30 years of experience in Compliance in the United States and internationally. Hippner made a ninety-minute presentation, which was well received by the regulators. They were very appreciative for the level of detail and the practicality of the advice given to emerging markets regulators. After the question and answer period, lunch was served followed by a tour of the Armenia Securities Regulator premises, the Armex and the Central Securities Depository. While touring the premises, a demonstration was given of the Broker/Dealer Training System developed by PwC/USAID for the broker/dealers and the regulator. This system trains the broker/dealers and permits the regulator to test them prior to licensing them. Copies of the system and its documentation were provided to Bulgaria and Georgia. The demonstration had been specifically requested in advance of the conference. Both Bulgaria and Georgia were aware of the system developed here.

Following the tour the conference continued then at the Hotel Armenia and all three delegations made presentations of their successes and failures in the area and questions and answers flowed naturally. Project staff noted the ease with which all three delegations dealt with one another on an inter-personal level. The conference ran over by a half an hour and disbursed to regroup at dinner, held at the Alcon Restaurant. The dinner went well with appropriate toasts and excellent camaraderie was displayed and promises were made by the delegations to follow through on keeping the regional regulators group together with at least an annual meeting if not more frequently.

A copy of the Hippner slides, complete guest list, and agenda are included as Exhibit VIII.

June Status Task was completed in May.

July Status: See June Status.

**August Status:** See June Status.

**B. Software development and hardware**

	<b>Action</b>	<b>Consultant</b>	<b>Target Date</b>	<b>Actual Date</b>
<b>1</b>	Assist the SC to enhance current web-site to help the institutions comply with disclosure requirements for new regulations to the Securities Market Law (SMRL)	Local web-site specialist CMMU Archerd	June 2001	<b>June 2001</b>

January Status: No Progress

February Status: Archerd is scheduled for arrival March 1. His tasks have been covered with the Chairman who will assume responsibility for guiding Archer’s activities in my absence Mar 3-24.

March Status: Archerd suggested that the SC staff could develop a series of model disclosure documents for posting on the web site for use in an educational setting. It was also suggested that typical annual meeting information statements and perhaps one for a special meeting to approve a charter capital increase should be placed on the web-site. Archerd will follow up with the CMMU on his return visit in June.

April Status: Several meetings took place with the Chairman to enhance the design and structure of the web-site (see Exhibit IV for enhanced web-site structure). Exhibit IV references color-coding in the electronic version of the exhibit. Anyone desiring an electronic copy may request one from me. Support was continued in adding new draft regulations and other relevant information to the web-site.

May Status: Work continued with the Securities Commission to redesign and enhance the web-site. PwC has hired a Web designer to work with the Chairman on style attributes. We continue to place data on the web site ([www.seccom.am/new](http://www.seccom.am/new)). We continue to use the web-site to publish draft regulations and information for market participants and public. Archerd has made his suggestion to the SC to provide provincial office web sites to assist small shareholders.

June Status: The Chairman approved the concept, structure and design of the Securities Commission web site after numerous discussions, and the web site was accordingly redesigned. The Armenian part of the web site, which is close to completion, provides information about the Commission’s mission and activities, members, staff, structure, charter, annual report, minutes of meetings, laws regulating the securities industry, code of rules, proposed regulations, press releases and statements, publications, useful links and other relevant information. Assistance was provided to translate documents for the English section of the web site. Since the Project Translator resources are now swamped with other work and cannot provide sufficient time to bring the English section of the web site in balance with the Armenian, this work is postponed until the second part of July and first part of August. In the meantime we continue to update the Armenian sections of the web site with draft regulations and other relevant information for market participants and the public.

July Status: A new menu option “Participants” was added to the Securities Commission web site. It contains information about brokerage companies in Armenia. Translation of the Armenian sections of the web site and posting to the English section began again and will continue through mid-August.

**August Status:** *A new menu option, “Newsletter,” was added to the SC web site, which introduces the e-mail distribution system and explains how to subscribe to the Newsletter. With this we have completed development of the SC web site. The access codes for the web site were transferred to the SC IT specialist, who has been trained to further update and develop the web site in the future.*

<b>2.</b>	Develop a plan with the SC to best use existing equipment from the capital markets activity ending 6/30/2001	Local IT staff Victor Mihaliiov Vartanian	June 2001	Will be developed at end of no cost extension period – August 29
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January Status: Task has been assigned. Existing equipment involved is both computer and furniture. An inventory will be taken at the end of June and following USAID procedures the assets will be transferred to the SC.

February Status: Meetings have been held with the Chairman of the SC and the plan will be finished in March. An inventory list (Exhibit VIII) has been compiled and will be updated as necessary and used as the basis for the distribution of the existing equipment and furnishings. Whatever equipment is not needed by the SC will be given to the ASE or CDA.

March Status: Status should remain the same till June.

April Status: Reviewed the Project inventory and have earmarked equipment to provide to the Securities Commission (SC) at the end of the Project. Several meetings have taken place during the month with the SC to rationalize the SC's additional needs and begin the procurement process. As such, required specifications were developed for a meeting room where public hearing will be held, telephone switchboard system for the building and local area network and computers to complement the aging Project computers to be provided at the end of the Project. Since the SC had difficulty in making a decision on what the specifications should be for the meeting room, the services of a designer were hired to help the SC in visualizing and drafting specifications for use in the procurement process for the meeting room. By month end, we had developed final blue prints for the meeting room and are waiting to receive price bids from vendors. Computer hardware including desktops, printers, copier and fax are being procured from the United States.

May Status: Construction and renovation work commenced on the public hearing room for the Securities Commission. The computer hardware needs of the SC was re-rationalized and procured from the United States. Wrong voltage printers arrived from the U.S. so they are being returned. Given the short time available and the impossibility of finding U.S. made printers with the correct voltage, we will procure replacement printers locally. We have selected the vendor and ordered a high capacity switchboard system for Stock Exchange and Securities Commission. Work was also started on the local area network and the cabling work should be completed the first week of June.

June Status: The construction of the hearing room is complete and we will be looking to accommodate other needs and requests of the Securities Commission such as air-conditioning and window blinds during the no-cost extension as we re-rationalize the budget. Replacement printers with the proper voltage specifications were located and promptly procured. The local area network and cabling work was also completed during the month. We are told that the high capacity switchboard system for the Stock Exchange and Securities Commission will arrive in Yerevan on July 3<sup>rd</sup> and will be installed within a one-week period.

The transference of assets to the SC according to USAID procedure will be conducted by the end of the no-cost extension period, August 29.

July Status: Worked with the Securities Commission to identify their immediate capital improvement needs of priority within the limits of the Project budget. As such we have identified and have started the procurement process for the following:

1. Replacement of most of the windows on the fifth and sixth floors of the Commission
2. RAM upgrades of the computers in the Project inventory to be transferred to the Commission at the end of August
3. Limited renovation of the auditorium on the first floor of the Securities Commission building. The Central Depository is also participating in the cost of the auditorium by paying for chairs and the doors. It is intended that both the Central Depository and the Armenian Stock Exchange will also make use of these facilities for their purposes. Importantly, the Central Depository will be able to offer the space to its client companies as part of their service line to organize and facilitate the annual shareholders' meetings. This will enable the Central Depository to attract additional clients and move closer to self-sustainability.
4. Air-conditioning units for the auditorium, hearing room and server rooms.
5. Other small miscellaneous items such as Internet access, supplies, etc.

Although the PBX switchboard system has arrived, the vendor cannot install the system because of undue delays from Armentel, the local telephone company, in activating the "E1" system which will provide 30

telephone lines that will feed into the switchboard system. The Commission had made the request for activation of these telephone lines in early June. We are working with the Securities Commission to pressure Armentel to activate these lines. Upon activation of the lines, installation by the vendor will take approximately one week. We hope to resolve this problem in August. This system will also provide telephone lines to the Stock Exchange.

The process of transferring the Project assets to the SC will begin in mid-August.

***August Status:*** All procurement started in July for the Securities Commission was completed including the replacement of 98 square meters of windows on the fifth and sixth floors; RAM upgrades for computers in the Project inventory transferred to the SC; air-conditioning units for the auditorium, hearing room, server rooms and two additional rooms (for CDA and SC). The renovation of the auditorium was substantially completed during this month and the CDA will see that the vendor complete the renovation in September. The CDA is participating in the cost of renovating the auditorium.

*By the end of August, agreement was finally reached with Armentel and the “E1” dedicated telephone trunk was activated. On August 27, the technician arrived in Yerevan to complete the programming and installation of the PBX telephone switchboard system, which provides 60 dedicated telephone numbers to the SC and 40 telephone numbers to Armex. The switchboard is automated such that outside calls are directly made to each dedicated number without having to dial a main number and then transferring to an extension. Another advantage of this system is that it enables a direct internal communication link within and between the SC and Armex, similar to a room to room call in modern hotels, without having to place a call through the telephone company. The vendor will continue to provide warranty service of the PBX system for three years.*

*Project assets were packaged and delivered to the SC, Armex and CDA. A detailed table included as Exhibit III shows the description, acquisition value and current value of each asset transferred to the counterparts. Transfer and acceptance acts were signed by the respective counterparts and delivered to USAID/Yerevan.*

### C. Technical and other required Amendments to the SMRL

	Action	Consultant	Target Date	Actual Date
1	Support efforts of the SC to draft required amendments to the recently passed SMRL to correct technical issues.	David Sargsyan Haik Simonyan	June 2001	June 2001 Our staff remains ready to provide support as necessary

**January Status:** The amendments were drafted by the SC and reviewed by PwC. These amendments are subject to further discussion with the relevant government agencies prior to the submission to the GOA for its approval and delivery to the National Assembly for adoption. SC intends to conduct relevant activities aimed at the adoption of the mentioned amendments during the spring session of the National Assembly. The amendments are attached as Exhibit III.

**February Status:** The amendments drafted by the SC and reviewed by the PwC staff are still under consideration. According to the information received from the SC, the Ministry of Finance and Economy drafted some amendments to the Securities Market Regulation Law affecting the manner in which the salaries of the Commissioners are determined. The SC reviewed the proposed amendments and provided its negative comments on the subject.

**March Status:** No activity required in March.

**April Status:** The drafting is now complete. During the month PwC assisted the SC in drafting the final version of the amendments to the SMRL. The amendments refer to 1) clarification of some typos and misspelling in the text of the law; 2) regulation of the circulation of the treasury bills in the secondary market; 3) affirmation of the independence of the Securities Commission; 4) changes in the deadlines specified in the transitional provisions of the law; 5) clarification of the issues of the liability.

**May Status:** No activity required in May.

June Status: No activity required in June.

July Status: No activity required in July.

August Status: *No activity required in August.*

2.	Support effort of SC to achieve GOA approval to these amendments on a timely basis.	David Sargsyan	June 2001	June 2001 Our staff remains ready to provide support as necessary
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January Status: PwC stands ready to support SC in achieving support of these amendments. PwC will follow the lead of the SC as a more pro-active activity beyond legal consultation would involve intervention with other government agencies and such activity should be under the control of the Chairman of the SC.

February Status: The draft law on amendments to the SMRL is in the President's office pending further promotion. PwC once again expressed its readiness and willingness to provide support and lobbying efforts on behalf of the SC in an effort to get the amendments adopted by the National Assembly.

March Status: No activity required in March. PwC reiterated its readiness to provide support and lobbying for the efforts on behalf of the SC.

April Status: No activity required in April.

May Status: No activity required in May.

June Status: No activity required in June.

July Status: No activity required in July.

August Status: *No activity required in August.*

**D. Drafting of New Joint Stock Company Law in coordination with USAID Rule of Law-Commercial Law Project**

	Action	Consultant	Target Date	Actual Date
1	PwC will assure that all problematic issues in the current Joint Stock Company Law are dealt with and that there is no duplication of efforts between the two contractors	David Sargsyan	June 2001	Ongoing support

January Status: Assistance was sought and given to Chemonics, the contractor with primary responsibility for the Rule of Law Project on the issues of the regulation of the transfer of the security rights under the SMRL in connection with the draft Collateral Law (Draft Law on Pledges of Movable Property). A written response was delivered to Chemonics.

February Status: PwC legal staff is reviewing the analyses of the JSCL prepared by the IFC Governance Project. Comments will be furnished to them in early March.

March Status: PwC legal staff concluded the review of the analyses of the Joint Stock Company Law prepared by the IFC Corporate Governance Project in Armenia. Relevant comments and proposals have been provided to the IFC for the further consideration. The transmittal letter and comments are attached as Exhibit XII.

April Status: Ministry of Justice prepared draft Law on Joint-Stock Companies and circulated it to the relevant ministries and Security Commission for Review. The Securities Commission requested PwC legal counsel to join the working group within the commission to review the draft. The working group has yet to meet.

**May Status:** Several drafts of the JSCL are in circulation. PwC legal expert is enrolled in the review of the mentioned drafts as part of the legal team established by the RA Securities Commission. As soon as the conceptual approach to the draft JSCL is discussed and agreed upon with the parties concerned, the legal team could proceed with the drafting.

**June Status:** The draft law on the JSCL has been completed by IFC Corporate Governance and sent to the relevant Government authorities (including RA Securities Commission) for review. It is planned to organize conference/seminar on this draft law with the participation of the European experts during July. USAID/PwC Capital Markets legal expert will participate in this conference as part of the no cost extension arrangement. The RA Securities Commission representatives will also participate in this event.

**July Status:** The draft of the Joint-Stock Company Law prepared by the Ministry of Justice, which had been approved by the Government of Armenia (GOA), was adopted in the first reading by the National Assembly at an extraordinary session during July 23 – 26, 2001. It shall be noted that the mentioned draft law does not change the concept and structure of the acting law, but only clarifies some provisions, which were in contradiction with the requirements of the Civil Code. Therefore, this draft law can be considered to be an edited version of the acting law.

The draft JSCL prepared by the IFC Corporate Governance Project in cooperation with western experts and the Ministry of Justice was discussed during a one-day conference organized by IFC on July 3, 2001. The USAID/PwC Capital Markets legal expert, western experts, as well as representatives of the GOA including the Chairman of the Securities Commission, Edward Mouradian and Member, Artsvi Minassian, attended this conference. Chairman Mouradian presented his concerns regarding the draft, emphasizing the necessity of corporate governance enforcement from the standpoint of the protection of minority shareholder rights and information disclosure. The draft was circulated to the interested parties for final approval and later will be presented to the GOA for approval and sent to the National Assembly for adoption. We do not expect the draft JSCL to be heard by the National Assembly within the timeframe of this Project.

**August Status:** *Task completed in July.*

**E. Work with SC to ensure compliance of issuers/enterprises with requirements of SMRL**

	<b>Action</b>	<b>Consultant</b>	<b>Target Date</b>	<b>Actual Date</b>
<b>1.</b>	Work with the SC to develop a procedure for disclosing financial information	Archerd	June 2001	<b>June 2001</b>

**January Status:** Task Assigned-Awaiting Consultant

**February Status:** Archerd arrival schedule Mar 1. The SC has a 60 days period in which they have to communicate to all unregistered companies the requirements for registration. The PwC staff including Archerd will assist in the work plan attached as Exhibit IX that includes public relations activities and training at seminars for the issuers in financial disclosure.

**March Status:** See Task 1.A.1 for discussion on Financial Disclosure. The presently existing SC rules for prospectus and registration statement preparation include the requirement for IAS level financial information. Specifically, Rule 10.1c-1 requires the use of financial statements meeting the 1999 “IAS. Decree of the Ministry of Finance. It will take a long time before even the largest companies will be fully converted to IAS. This practicality suggests that the SC should not propose any significant additional accounting requirements such as Regulations S-X of the U.S. SEC until IAS is reasonably well implemented by a large number of “Reporting Issuers”. The SC should insist, through its oversight role with the ASE that the listing requirements for at least the “top board” mandate that IAS is fully implemented by these companies.

**April Status:** Bill Archerd prepared a thought provoking issues paper, Exhibit V for the Chairman to think about. Archerd is questioning the wisdom of broad enforcement of current complex disclosure rules and the proposed top board listing rules at the Armex. The paper was translated and delivered to the Chairman for his consideration. Archerd will be back in June for further discussion should it be desired. Archerd is preparing teaching documents for his June return. This give PwC the opportunity to translate in sufficient time to permit the pre-class circulation of the documents for discussion by the SC staff and assures Archerd of the availability of the training materials when he arrives in country. Given the time that

it takes to prepare and translate training materials, both Archerd and Kennedy have adopted a schedule of preparing training materials while out of country for electronic submission to the PwC translators in sufficient time for review and discussion by SC staff before Archerd or Kennedy arrive in country. This is viewed as a much more efficient utilization of the subject matter experts time which can then be spent almost exclusive in training sessions with the regulator.

Archerd transmitted an Information Statement Example, Exhibit VI, which is also referred to as a Proxy Statement. Archerd also transmitted an Authorization Form Example, Exhibit VII, which is also referred to as a Proxy Card. Both of these examples are in translation and will be delivered to the regulator when available but in plenty of time before Archerd's June arrival.

Archerd delivered an Example of Registration Statement, Exhibit VIII, required by Article 9, SMRL. This too shall be utilized in training sessions at the SC.

Archerd determined that the IOSCO Standards for International Disclosure Standards for Cross-Border Offerings and Initial listings by Foreign Issuers was a must for the SC library both for reference and as a training tool for his June trip. The document was translated into Armenian. The document is available on the IOSCO web-site and because of its length, sixty-six pages, it is not included here as an exhibit.

May Status: See discussion under Task I.A.1, Archerd's work with the SC.

June Status: See discussion under Task I.A.1, Archerd's work with the SC.

July Status: See discussion under Task I.A.1, Archerd's work with the SC.

August Status: *See discussion under Task I.A.1, Archerd's work with the SC.*

2.	Work with the SC to develop a process for issuers/enterprises comply with disclosure requirements as contained in the SMRL.	Archerd	June 2001	<b>June 2001</b>
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January Status: Task Assigned-Awaiting Consultant

February Status: Archerd arrival scheduled for Mar 1

March Status: See Task 1.A.1 for discussion on Financial Disclosure. The approach of educating the SC will provide the process for the issuers to comply with the disclosure requirements contained in the SMRL. Compliance will come from reviews conducted by the SC of the financial documents submitted. The quality of the SC reviews will be a direct result of the education and training afforded by Archerd to appropriate SC staff. Archerd will return in June to complete his work in this area.

April Status: See status for Task I.E.1 regarding new training materials.

May Status: See discussion under Task I.A.1, Archerd's work with the SC.

June Status: See discussion under Task I.A.1, Archerd's work with the SC.

July Status: See discussion under Task I.A.1, Archerd's work with the SC.

August Status: *See discussion under Task I.A.1, Archerd's work with the SC.*

3.	Contemporaneously with E2 educate issuers/enterprises about the benefits of financial disclosure according to international standards	Archerd Vartanian	June 2001	<b>June 2001</b>
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January Status: Task Assigned-Awaiting Consultant

February Status: Archerd arrival scheduled for Mar 1

March Status: Educating the issuers about the benefits of financial disclosure according to international standards has been re-assigned to the newly hired staff accountant who will assume responsibility for the task under the direction of John Vartanian.

April Status: Work began in drafting a white paper on the benefits of financial disclosure. This will be posted to the Securities Commission web-site and sent to issuers upon the completion of an email distribution list (see March Status of Task II.C.2 for description) comprised of issuers and other market participants.

A video clip to promote the disclosure and registration of securities is being prepared. The draft scenario was written and approved by both ASE and SC Commission chairmen. PwC is now choosing the TV advertisement company to prepare the clip. The preparation will be completed early May.

May Status: By month end drafting of the white paper explaining the benefits of financial disclosure was completed (see Exhibit IX). This will be published on the Securities Commission web-site and will be sent to issuers and other market participants (in Armenian) through the email distribution list under development.

The video clip mentioned in the April status is being prepared by the AR TV Channel Advertisement Group. All preparations are finished and the clip will be available the first week of June. The text for the one-minute clip was approved by the Chairman of the SC. The primary arrangements concerning the broadcasting are already done. The final decision concerning the broadcast scheme will be made in consultation with the Chairman. The text of the clip and the broadcast scheme options are contained in Exhibit X.

June Status: The white paper on the benefits of financial disclosure is available on the Securities Commission and Armex web site and will be sent to issuers and other market participants when the domain email address "SecuritiesMarket.am" is registered next week.

The Chairman and other Commissioners gave final approval to the video clip intended to promote financial disclosure and registration of securities. The first of 10 broadcasts of the clip appeared on the National TV Channel "H1" on June 22 and will continue through June 30. The Chairman has requested that the clip be broadcast an additional 10 times in July.

July Status: The Securities Commission sent the white paper on the benefits of financial disclosure to issuers and other market participants via the email distribution system.

Per the request of the Chairman, ten additional broadcasts of the video clip on financial disclosure and registration of securities were made on the National TV Channel "H1."

August Status: *Task completed in July.*

4.	Assist the SC to develop a surveillance system and punitive actions against those enterprises found in non-compliance with SMRL	Archerd Kennedy Hippner	June 2001	<b>June 2001</b>
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January Status: Task Assigned-Awaiting Consultant

February Status: Archerd arrival scheduled for Mar 1

March Status: The assistance provided here is a combination. Archerd contributed through his education and training in how to spot non-compliance in a financial statement and Kennedy will contribute in his technical assistance in institutionalizing the enforcement practices at the SC. Archerd will return in June to complete his work in the area. Kennedy is currently in Armenia, and is scheduled to return in June as well.

April Task: Kennedy developed a discussion paper, titled The Concepts and Components of a Market Surveillance System. It is included as Appendix 2 in Exhibit I. This paper discusses the purpose of a Market Surveillance system and makes recommendations for development of one in Armenia. For Archer's contribution see Task I.E.1.

Hippner is preparing detailed inspections procedures for the Enforcement Division Staff starting with assignment and control format and procedure, Exhibit IX, for use by the Enforcement staff. In addition Hippner is conducting a workshop on inspection programs for the Enforcement staff utilizing the outline contained in Exhibit X.

May Status: See discussion of Hippner’s work in Task I.A.1.

June Status: See discussion of Kennedy’s work in Enforcement under Task I.A.1. Gordon Hippner will be here the first half of July and should the regulator desire further discussion in this area, Hippner will be available. Should the regulator desire no further activity in the area then the task is complete as of June 2001.

July Status: See discussion of Hippner’s work in Task I.A.1.

August Status: *Task completed in July.*

**Task II**

**ARMENIAN STOCK EXCHANGE**

**A. Installation of Trading System**

	Action	Consultant	Target Date	Actual Date
1.	Conduct Tender for hardware/expendables/furniture to support installation of RTS-Georgian version in ASE premises	Gorman Victor Mihaliiov Vartanian	Jan 2001	<b>February 2001</b>

January Status: **TRADING FLOOR**--Several inspections of the proposed premises for the Trading Floor were made and plans were drawn for several different floor layouts. The plans were discussed and reviewed by PwC staff and the ASE Management Team lead by the President Armen Melikyan. Agreement was reached and several local firms will be submitting bids for furnishing the Trading Floor. Cost will be the major factor in deciding which floor layout will be installed.

TRADING SYSTEM HARDWARE—The final hardware configuration was agreed upon. Three vendors were selected to submit bids. Bids are expected by February 15. Cost is the primary consideration for selecting the winning bid.

EXPENDABLES—This is a minor expenditure and procurement will be through our normal office purchasing channels for expendables. These will not be reported on in future reports.

February Status: **TRADING FLOOR**—The tender was released on February 23 with bids to be received by Feb 28. Three bidders made the deadline. Visits will be made to the three vendors to examine quality and answer questions.

TRADING SYSTEM HARDWARE—Because of the Geographic Code 000 specified in the tender offer and required by the SEGIR contract, no bids were received by the February 15 deadline as no Armenian vendor was willing to bid. A waiver from the 000 code has been submitted and is in the process of being evaluated by USAID authorities. In an effort to not lose precious time, the vendors were requested to submit bids assuming that the waiver was granted. Three bids were received by the new deadline of February 28. All three bids were within budget and at first glance meet the technical specifications. The bids are under technical review now. The waiver, however, has not been received and no purchase order will be issued until such time as the waiver is received. If the waiver is not granted, the Task may be cancelled.

March Status: **TRADING FLOOR**—PwC visited the trading floor site with the three bidders to confirm understanding of requirements. We then evaluated the three proposals and selected a winning bidder. By month end, we sent a package of all tender documents to DAI/Washington and requested the required down payment. When down payment is made, work will commence. We expect that this payment will be made during the week of April 2. The specifications for Local Area Network and all other cabling requirements to support the Trading Floor were drawn and released for bidding. The bids were evaluated by PwC technical staff and the vendor was selected. DAI will sign the contract with the vendor and work will begin during the first week of April. Exhibit XIII is the Terms of Reference for the trading floor cabling requirements.

**TRADING SYSTEM HARDWARE**—On March 7 USAID granted a waiver to DAI to procure the trading system hardware under the restrictions of Geographical Code 935 rather than 000. This has permitted the local vendors to procure all equipment through their normal suppliers and provide the necessary warranties. The winning bidder was selected. On March 19 DAI issued the Purchase Order to the winning bidder. The hardware should be available in time for installation when construction of the Trading Floor and its cabling infrastructure are completed, scheduled for the end of the first week of May.

**April Status:** **TRADING FLOOR** – Significant progress was made in the construction of the trading floor during the month including the installation of electric wiring, lighting, and renovations to the hall. The trading floor will be ready for hardware installation during May. Specification for the local area network and cabling were modified and installation commenced in April.

**TRADING SYSTEM HARDWARE** – Eighty percent of the hardware has arrived and was delivered to the Project site for preliminary software installation. It is envisaged that by the end of May, construction of the trading floor will be completed and hardware will be installed at the Stock Exchange.

**OFFICES** - Renovation and furnishing needs of the offices of the Stock Exchange were assessed and blue prints developed and distributed to vendors for bids.

**May Status:** **TRADING FLOOR** – Construction of the trading floor was completed which includes raised floor, furniture, lighting, cosmetic renovations to the hall cabling and wiring for the LAN, electric and telephones. **TRADING SYSTEM HARDWARE** – All hardware equipment, including desktops, copier and printers have been received and installed at the Stock Exchange.

**OFFICES** – A vendor has been selected and works started on the renovation of three office spaces for the Stock Exchange.

**June Status:** All renovations to support the inauguration of the Armex have been completed. There will be additional small renovations of infrastructure during the no-cost extension period as time and funds allow.

**July Status:** We provided additional miscellaneous support for the opening ceremonies of the Armenian Stock Exchange on July 6, 2001, including flags with the Armex logo, printed invitation letters, catering, rental of speaker system etc. In particular, we received compliments for the layout design of the trading floor.

The PBX switchboard system primarily being installed for the Securities Commission will also provide telephone extensions for use by the Stock Exchange. The vendor is waiting for the activation of telephone lines (“E1” System) by Armentel, the local telephone company, to be able to install the switchboard system. See Task I.B.2 for more details.

**August Status:** *By the end of August, agreement was finally reached with Armentel and the “E1” dedicated telephone trunk was activated. On August 27, the technician arrived in Yerevan to complete the programming and installation of the PBX telephone switchboard system, which provides 60 dedicated telephone numbers to the SC and 40 telephone numbers to Armex. The switchboard is automated such that outside calls are directly made to each dedicated number without having to dial a main number and then transferring to an extension. Another advantage of this system is that it enables a direct internal communication link within and between the SC and Armex, similar to a room to room call in modern hotels, without having to place a call through the telephone company. The vendor will continue to provide warranty service of the PBX system for three years.*

2.	Installation of RTS-Georgian version in ASE premises	Gorman George Fornea Victor Mihaliiov Vlad Medvedev	May 2001	<b>May 2001</b>
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**January Status:** Contract for installation is in final review in Washington and Moscow. RTS Technical Center, the implementation contractor is committed to meeting our schedule to have the system operational by the end of May 2001. Contract will be signed in early February.

**February Status:** An RTS Budget and Schedule were provided to CTO William Baldrige at his request. Because of the sensitivity of salary data, this is not included as an attachment but a request to Ruckrich will result in an e-mail delivery of the data. The RTS Implementation Work Plan is included as Exhibit X. On

February 26 PwC Arlington received the signed contract for the RTS software and forwarded to DAI for execution. Contract not signed by DAI as of close of business February 28. As the signing by DAI is expected to be a formality, there will be no delay in the installation as a result of this.

March Status: A team of five people were sent to Moscow for RTS training. The training was at two different levels. Two people were trained in the Information Technology aspects and Three were trained in the Business Logic. Attendees were two PwC personnel, one for IT and one for Business Logic. The President of the Stock Exchange, Armen Melikyan, was sent for Business Logic training and the new IT specialists for the ASE was sent for IT training. One member of the Securities Commission was sent for Business Logic training. RTS will install the prototype on PwC Yerevan premises the week of April 10. This will permit the ASE/PwC the opportunity to finalize business logic and make required minor changes to the system.

April Status: Technical specials of the RTS TC arrived from Moscow and performed the installation of the trading system prototype for Armex. The prototype is based on the most current version of RTS Plaza. The prototype is installed on the equipment acquired for the stock exchange. The model environment for stock exchange operations is set up on the fourth floor of the PwC Project Offices. The testing of the trading system's prototype and hardware for the stock exchange has begun.

May Status: The prototype of the Trading System for Armenian Stock Exchange was installed and tested on PwC premises in late April by the RTS and PwC specialists. Based on the prototype testing a list of suggestions for minor changes was discussed and agreed with the representatives of the ARMEX and Securities Commission. The suggested changes included the following:

1. Install timer for one-side transaction;
2. Provide possibility to enter five significant digits before comma and two after in the price of securities;
3. For Government Securities provide ability to see expiration date of the security selected for trade;
4. Include calculation of additional parameter – weighted average price of the security, calculated at the end of the trading day.

The RTS TC specialists implemented all above-mentioned changes.

The testing of the hardware devoted for the stock exchange's trading floor has been completed. All wiring has been installed.

During the period of May 23 – 30 two specialists from the RTS TC visited Yerevan. The program of their trip included:

1. Installation of the Armenian Stock Exchange trading system. This was implemented during May 24-25. Technical description of the RTS Plaza – Concept of Development is Exhibit XI. The full set of technical documentation describing technical features and procedures of administration of the system were provided to Armex in Russian language and are not attached.
2. Train ASE IT, trade administrator and other specialists. Was accomplished during May 24-26. Documents mentioned in the previous point include instructions on how to administrate the system and set up trading parameters;
3. Provide training to the market participants, members of the exchange. Was accomplished during May 28-30. Representatives from 22 members of the Exchange attended the training. The users' operations manual was delivered to the training participants.
4. Set up basic parameters for trading describing trading hours, trading boards, etc. Was implemented during May 29-30. Instructions on how to amend, delete or add new parameters included in the set of documents mentioned above.

June Status: Consultant Bill Gorman was here the last two weeks of May to oversee the installation of the trading system and to audit the readiness of the infrastructure for commencement of trading. His report, Exhibit XVI, is attached and the shortcomings were addressed during the month of June, which puts the Armex in a "ready" position for the July 6 opening of trading. It should be noted that nothing in Gorman's report precluded the opening of trading with the exception that there was a delay in the agreement on the Settlement Bank Memorandum of Understanding between the CDA and the Central Bank. This issue seems to be under control—please see III.B.1 on clearing and settlement procedures for more detail on the Memorandum of Understanding between the Central Bank and depository banks.

**July Status:** Installation of the trading system was complete and July 6, 2001 marked the opening of the Armenian Stock Exchange. We are currently in the process of making the final payment to RTS, upon which, according to contract, RTS is required to provide the source codes for the system to Michael Wyzan, USAID/Yerevan.

**August Status:** *Task completed in July.*

<b>3.</b>	Work with ASE to commence trading activity	Vlad Medvedev Gorman Victor Mihaliiov	May 2001	<b>June 2001</b>
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**January Status:** No Activity this month. The task will involve training of brokers in use of the system

**February Status:** RTS personnel will provide 5 days of training for brokers in May per the contract.

**March Status:** No activity this month. The prototype of the trading system will be installed on PwC premises in April, which will afford some early training.

**April Status:** No activity this month.

**May Status:** See May Status for Task II.A.2.

**June Status:** Specialized training in trading and settlement has been conducted throughout the month by local PwC staff in anticipation of the July 6 opening. Three documents, 1) Armex Internal Operating Procedures Timetable, 2) Armex Operating Instructions for Employees of the Exchange Trading Assistance Service and 3) Armex Internal Operating Procedures, Exhibits XVII, XVIII and XIX, were turned over to the Armex. According to Armen Melikyan, Executive Board President, the Armex Board is ready to approve these documents.

**July Status:** July 6, 2001 marked the opening trading day of the Armenian Stock Exchange. There was approximately 28 million AMD in trading on this day.

**August Status:** *Task completed in July.*

## **B. SRO Development**

	<b>Action</b>	<b>Consultant</b>	<b>Target Date</b>	<b>Actual Date</b>
<b>1.</b>	Assist in attainment of SRO status	Hippner	Jan 2001	<b>Jan 2001</b>

**January Status:** The ASE has been granted SRO status by the Securities Commission.

**February Status:** The ASE has received its official registration as the Armenian Stock Exchange from the Securities Commission on February 13 and the presentation was made to them at a special board meeting of the ASE held on February 16 and attended by stock exchange members, the SC and PwC. PwC publicist put out newspaper articles and TV information.

**March Status:** This task is closed with the granting of the ASE license to the SRO. All other activity of assistance to the ASE in evolving as a SRO will be covered under Task II B 2.

**April Status:** See March Status.

**May Status:** See April Status.

**June Status:** See May Status.

**July Status:** See June Status.

**August Status:** *See July Status.*

2.	Work with ASE to develop all required internal rules and regulations to function as a stock exchange <ul style="list-style-type: none"> <li>◆ Listing Requirements</li> <li>◆ Trading Rules</li> <li>◆ Disciplinary rules</li> <li>◆ Dispute resolution function</li> <li>◆ Broker/dealer back office compliance requirements supported by manuals on uniform practices and procedures for monitoring capacity</li> </ul>	Hippner Samvel Medvedev	May 2001	<b>June 2001</b> <b>[work will continue on refining and institutionalizing regulations]</b>
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January Status: Hippner scheduled for February 1 arrival. Local staff experts continue work on the required regulations and will produce a new schedule of required regulations required by the SMRL in early February.

February Status: The schedule is attached as Exhibit XI. It is expected that all activities will be completed in time for the ASE to commence trading under the RTS. Exhibit XII contains first drafts of the Rule of ARMEX Information System (Rule 3000), ARMEX Trading Lists Rule 4000, Trading in Securities Rule (5000), ARMEX Disciplinary Procedures Code Rule 7000, ARMEX Arbitration Code Rule 8000.

March Status: Hippner continued his review of the rules adopted by the ASE. Exhibit XIV contains Comments and Recommendations for the Membership Regulations. Samvel drafted Regulations on Activities of the ASE Management Bodies, Exhibit XV, and submitted same to the SC and PwC in house council, David Sagsyan, for comment.

April Status: A seminar on “Clarification of Securities Market Rules and Regulations” is being conducted by staff personnel with the assistance of the Securities Commission. The seminar is scheduled for May 2-4. The objective of the seminar is to clarify the regulations required by and developed in compliance with the Law of the Republic of Armenia “On Securities Market Regulation”, as well as to highlight the significance of the public relations provided by brokerage firms and methods of implementation. The seminar will be organized for the professional securities market participants, during which reports and discussions on existing regulations and internationally accepted standards will take place. Further, the development of future envisaged rules and regulations will be discussed. The agenda is attached as Exhibit XI and two of the presentations are attached as Exhibit XII and XIII. These presentations are on Net Capital and Internal Record-Keeping respectively. While the ASE was registered as an SRO, it was done so with the SC recording two deficiencies; failure to have an arbitration facility to resolve disputes among members and between members and public customers, and failure to provide for administrative disciplinary proceedings against members for a breach of the rules. Hippner met with the President of the Armex to discuss adoption of these rules. Hippner is working with the Armex on the drafting of these rules. There is a difference of opinion on the necessity of an arbitration facility. Hippner’s position is that it is important to separate rule enforcement from dispute resolution. It is hoped that the issue can be resolved one way or the other by the end of June 2001.

May Status: The seminar on “Clarification of Securities Market Rules and Regulations” was held as planned. Local PwC specialists and Gordon Hippner conducted the seminar. S. Mkhitarian, A. Yengoyan and N. Balasanyan of the Securities Commission participated as guest speakers. Exhibits not available for last month’s status report because of the translation requirement are attached here. Exhibit XII is the presentation on Corporate Disclosure. Exhibit XIII is the presentation on Procedures for Securities Registration and Exhibit XIV is the presentation on Ensuring Public Relations. Fifteen broker/dealer participants attended the three-day program. The participants were requested to complete the results, which are summarized in Exhibit XV. The participants all were awarded a certificate of completion.

The disciplinary procedure code was adopted at an Armex member’s meeting May 29 for submission to the SC on May 31. Once the translation is completed, Hippner will provide comment to both the Armex and the SC.

June Status: Hippner completed the following:

1. Inspections Instructions, Exhibit XX
2. Regulation on Observers Council and Sessions of Observers Council, Exhibit XXI

3. Information Disclosure Procedure, Exhibit XXII
4. Securities Listing and Delisting Rules, Exhibit XXIII
5. Code of Ethics and Conduct, Exhibit XXIV.

The Disciplinary Procedure Code was e-mailed to Hippner. His comments will be available upon his return July 1.

July Status: Hippner reviewed and provided written comments and recommendations on the proposed Rules on Disciplinary Committee and Rules on Disciplinary Penalties, Exhibit V. The primary issues of concern were also verbally summarized and discussed with the CEO of Armex and the Head of the Market Regulation Department, which has primary oversight responsibility for SRO rules.

August Status: *Task completed in July.*

### C. Business Development

	Action	Consultant	Target Date	Actual Date
1.	Work with ASE to develop marketing program to support growth in trading volumes including procuring new listings	Vartanian Samvel Haik Papyan Armine	June 2001	June 2001

January Status: No progress

February Status: No progress

March Status: As part of our Business Development assistance to the ASE, PwC worked closely with the ASE and SC to organize an official reception to mark the establishment of the ASE. PwC assistance for this event included locating and renting a suitable hall, advising on the preparation of the invitation list, preparing and sending invitations, (Exhibit XVI), preparing pamphlets, press releases and ensuring press coverage. The reception was held on March 14 in the Piazzetta lobby of the Hotel Yerevan. The reception was well attended. Featured speakers were the Armenian Prime Minister, the Chairman of the Securities Commission and the Chairman of the ASE. Other dignitaries in attendance were the Chairman and Deputy Chairman of the National Assembly, Head of the Central Bank, and the Minister of Finance. USAID Mission Director, Keith Simmons and Michael Wyzan were also in attendance.

April Status: Significant progress had been made in the drafting of a series of four educational and marketing brochures being prepared for the Stock Exchange member broker/dealers to distribute to potential clients and other market participants. It is expected that final drafts for three of the four brochures will be completed during May. The brochures are 1. "Raising Capital in Financial Markets of Armenia", this brochure is intended as marketing/informational literature to be used by the ASE and Broker/Dealers with prospective clients and the public. 2. "Taking a Company Public", this brochure will describe the reasons why a company would issue new stock. It will also show the benefits of listing on a stock exchange and the listing requirements and procedures involved. This is intended to be a marketing brochure for the ASE to increase awareness of the benefits to listing in a stock exchange. 3. "Planning for the Future, Personal Savings and Investment", this will be used as a marketing brochure but geared to a wide public audience to help increase personal savings and investing for the future. Publishing houses were contacted to provide preliminary price quotes for the design and publishing of the brochures.

May Status: Drafted the text for three of four brochures that have been reviewed by the Stock Exchange and Securities Commission. At month end, a publishing house was selected and contracted to work with our staff on the design and pictures of the brochures. The fourth planned brochure ("Information Guide" for the Stock Exchange) is currently in the review process and should be ready for printing by the publishing house in June.

June Status: All three brochures described in the April Status (above) and the Armex Information Guide were reviewed by the Stock Exchange and Securities Commission, finalized, and were given to the publishing house for printing. The publisher has promised that all four brochures will be ready for their debut at the Opening of the Stock Exchange on July 6, 2001. The Stock Exchange has praised and expressed their appreciation for the hard work put into developing these brochures in a relatively short period of time. They have requested additional 700 copies of the Information Guide (see Task VI.B below for description) and the brochure on listing procedures. The text for all brochures is in Armenian only and is not attached therefore as exhibits.

July Status: All brochures were published in time for their debut at the opening of the Armenian Stock Exchange on July 6, 2001. These brochures were also posted on the Armex web site in Armenian. By the end of the month translation of these brochures had been completed (see Exhibit VI) and the English translations will be posted to the Armex web site during the first week of August.

August Status: *English translations of the four brochures prepared for Armex were posted to the web site. Additional miscellaneous English translations were posted to the web site. This task is now complete.*

2.	Work with ASE to develop marketing and other skills necessary to assume ownership of the development of the marketplace	Vartanian Gilhooley		<b>June 2001 and ongoing</b>
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January Status: No progress

February Status: Gilhooley will teach a class to all ASE brokers on the Back Office Accounting Principles and Entries according to Generally Acceptable Risk Principles. At the completion of the class, all brokers should understand the accounting transactions required and the reasons for them. Besides the course, Gilhooley will leave behind the course in Manual Format. The course will be Armenia specific and by advance preparation will cover trading, clearance and settlement as practiced in Armenia on the ASE. The course and Gilhooley's time in country is scheduled for weeks June 5 and 12.

We are planning a series of training seminars to broker/dealers to include topics on Net Capital and Recordkeeping, Corporate Disclosure, Securities Registration and Listing and Public Relation. Specialists from the Securities Commission will supplement PwC staff.

March Status: Gilhooley has commenced course preparation. Clearing and Settlement Concepts, Clearing and Settlement Rules, Trading Rules, Recordkeeping Rules and Capitalization Requirement Rules have been sent to him. Educational materials being developed in the Public Education Task VI B 1 are being developed with a dual purpose and that is to make these materials available to the ASE as promotional and informational pieces.

A work effort has been launched to institutionalize the outreach to issuer, market participants and shareholders. The first effort is the creation of e-mail distribution lists for the securities market community to unite approximately 500 issuers, 30 brokers, users of the Securities Market Institutions, investors and other interested persons. The e-mail correspondence through the distribution list will include announcements by the different SROs and SC. Discussions about this task were held with the head of the SC, ASE and CDA all of whom gave their support for the task. Exhibit XVII contains a Work Plan and the lists of e-mail addresses for 161 enterprises and 11 brokers. The task is scheduled to end May 4.

A White Paper has been commissioned to discuss the merits and composition of a Web-site for the ASE. This is intended to be the start of a creeping commitment toward an ASE Web-site. Experience continues to demonstrate that the "design as you go" approach is not any more effective in Armenia than elsewhere in the world so rather than rush into an "instant" Web-site here, there will be a specification that is explained to and agreed to by the ASE management. The actual building of the Web-site will be a task in a future Task Order.

A series of training sessions for brokers is under development. A description of the five planned sessions can be found in Exhibit XVIII.

April Status: Development of training materials for a training seminar for brokers were completed and invitations were sent to brokers to attend the seminar on May 2-4. The topics of the seminar are Net Capital, Record Keeping, Corporate Disclosure, Procedures for Securities Regulation, and Public Relations. See previous discussion Task II.B.2.

The White Paper discussed in the March status was declined by the ASE management. Old habits obviously die hard. The ASE will develop its web-site under its own direction. We will give them limited technical assistance should they require any. An example of this assistance is the request for translations into English of 200 pages of documents for the English part of the web-site.

Significant progress had been made during the month in the development of the e-mail distribution lists for the securities market community (see above) and will be completed during next month.

PwC public relation specialist continues to work closely with ASE public relations specialist to develop and institutionalize the function at the ASE. Ways are being discussed to attract the media's interest towards

the ASE and techniques for gathering newsworthy information, creating informational occasions and preparing and delivering press releases. A number of journalists have been invited to ASE to interview Edward Sandoyan, the chairman of the ASE. These interview opportunities are used to acquaint the journalists with the ASE and to encourage them to cover the capital markets through the eyes of the ASE. Ideas for articles are discussed and encouraged. Evidence of the success of this activity is found in Exhibit XV. Articles are also prepared for both Armenian and Russian newspapers.

A series of information programs for National Radio is in the preparatory phase. The possibility of launching a special program is being considered with the "Prometheus" TV Channel. Both projects were initiated and proposed by the journalists themselves but as a result of good PR and training efforts. The ASE's PR office organization is being crafted. The institutionalization of this function at the ASE will be blueprinted and include detailed recommendation concerning the structure, functioning and the scope of responsibilities of the ASE's PR office and an outline of a PR plan for an extended period. The first draft of this blueprint will be ready mid-May.

May Status: We have signed an agreement with the ACC (a local ISP) on implementation of the system of the united e-mail distribution lists which will be moderated by the Securities Commission, Central Depository and Armex. We have constructed and sent to ACC the six distribution lists with E-mail addresses of the recipient issuers and market participants. The prototype of the system has been demonstrated to the Chairman, Mouradian and approved by him. Training of the moderators from the Securities Commission, Central Depository and Armex will commence in the coming weeks.

The ASE web-site has been substantially developed. A visitor to the [www.armex.am](http://www.armex.am) Web site will find there a greeting from the Chairman of Observers Council, Edward Sandoyan, the information on the goals of the organization, its structure, regulation, officers, members, related contact information, the timeline of the main events related to exchange activities, information about the educational programs run by Armex and information on listing procedures. Some of the entries proposed in the concept of the Web site, such as "Trading Floor", "Listed Companies", "Market Information", could not be filled with information yet because currently no relevant content exists. PwC translators are performing the translation function for most data being placed on the Web site. We shall support this effort to the greatest extent possible until the current project ends.

Consultant, Ian Gilhooley has completed his Training Manual on Back Office Accounting in Armenia and his course presentation. The work is currently in translation. Gilhooley arrives in country on June 4. He will conduct his training program to the Armex brokers and other interested personnel the week of June 11. Copies of the Training Manual and Course Presentation will be included in the June report as they are both lengthy and subject to change based upon discussions in country with local experts.

Because of other priorities the first draft of the blueprint, expected in mid-May, was not produced. There was though a consensus reached which will impact the blueprint and its effectiveness positively. Edward Sandoyan and Armen Melikian, the heads of the Armex decided that there should be organized a separate information department reporting to the Armex Executive Director, Armen Melikian, which will handle the incoming and outgoing information currents and be responsible for all activity concerning the distribution of information both inside and outside the Armex. Previously it was presumed that each Armex department would deal with its own information separately-an arrangement with which we did not concur.

June Status: Consultant Ian Gilhooley arrived in country June 5th, finalized his presentation and technical manual, Exhibits XXV and XXVI. The training was conducted for 21 market participants over a three-day period, June 11-13. Industry Specialist Armine Mirzoyan coordinated the event and prepared the report, Exhibit XXVII. In brief, the objective of the seminar was to define and improve the Back Office operations of brokerage firms, emphasizing the role of back office activities that will emanate from the use of trading, clearing, settlement and depository services offered jointly between the Armex and CDA.

We have tested the prototype version of the e-mail distribution system and are waiting for the registration of the domain email address "SecuritiesMarket.am" to be granted first week in July. The first message will be a welcoming notice to the recipients explaining the electronic newsletter. The report explaining the benefits of financial disclosure will follow.

We continued to support the stock exchange in developing their web-site primarily by providing translation support in updating the both the Armenian and English parts of the web-site. This effort will be intensified and continue during the no-cost extension.

A draft of the public relations policy blueprint, originally expected in mid May is anticipated in July.

**July Status:** The e-mail distribution system is now developed and the head of the Securities Commission IT department is trained as the moderator for this system. The first welcoming notice has been sent to all potential users of the system including 184 issuers, 20 brokers, 15 mass-media outlets, 15 government users and 25 banks. No “unsubscribe” messages have been received to date. This task is now completed.

The brochures prepared for the Stock Exchange were converted into a suitable format for online posting on the Armex web site. Translation of these brochures was completed (see Exhibit VI) and the English translations will also be posted to the Armex web site in August.

A draft of the public relations policy blueprint is completed and provided to Armex (See Exhibit VII). The outline of this document includes:

1. Main Issues to be addressed by PR Activity
2. Objectives
3. Situation Analysis
4. Target Audience
5. Activities for the Target Audience
6. Organizing the PR Activities (Scope of responsibilities of the PR Department)

**August Status:** *In efforts to invite addition subscribers to the e-mail distribution system, a new menu option was added to the SC web site, which introduces the newsletter and explains how to subscribe to it.*

*English translations of the four brochures developed for the Stock Exchange were posted to the web site.*

*A draft of our recommendations for organizing the PR activities of Armex was submitted to Edward Sandoyan on August 2. The Armex Observers Council discussed the document and decided to accept it and use it as a guideline to develop the Armex PR strategy and PR activities. This task is now completed.*

<b>3.</b>	Work with ASE to develop and institutionalize programs to educate financial intermediaries	Medvedev Armine	April 2001	<b>April 2001</b>
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**January Status:** The education of the market participants (brokers) has been computerized both for training and testing. The plan will be to install the furniture and computers in a training room at the ASE. The ASE will be instructed on how to manage the system. The SC will perform the testing and keep the test under their control. As they will be sharing the new building this will be operationally simple.

**February Status:** A review of the current education program was made and a task list was prepared primarily to accommodate updates as a result of the new Securities Market Regulation Law. Exhibit XIII contains the modules to be reviewed and gives the reader a feel for the contents of the education database. A workplan was created to manage the work required for the hardware and software installation and management of it. Exhibit XIV is the workplan but a start date has not been set. Space not completely available to ASE yet. This is a temporary issue.

**March Status:** The Local Area Network, the workstations, and server have been installed. In April the software will be installed and training in the use of the system will be conducted.

**April Status:** Two versions of the software (one for testing purpose and another for training) were installed. The testing database was populated with questions used by the Securities Commission. Questions developed by the PwC specialists were delivered to the SC. Individual training was provided to the employees of the SC and Armex. The training sessions covered a variety of subjects such as administration of testing/training system, development of new reports, how to make changes to the questions database, delete and enter questions, etc. At the request of the Armex and SC some minor changes were introduced to the system. This task and its Benchmark are recorded as completed. PwC will continue to offer technical support during the remaining life of the project should such assistance be required.

**May Status:** See April Status.

June Status: See May Status.

July Status: See June Status.

August Status: See July Status.

4.	Work with ASE to develop a two year business plan that achieves self sufficiency within that timeframe	Medvedev Haik Papyan Samvel	April 2001	<b>April 2001</b>
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January Status: No Progress.

February Status: No Progress. Work will commence in March

March Status: Work has commenced on the task and a first meeting to review and discuss the proposed business plan is to be held with Ed Sandoyan on April 6. The business plan will include a model which will give the ASE the opportunity to put in their own numbers for charges, expenses and forecasted volumes, etc.

April Status: The business plan for the ASE has been drafted and delivered to Chairman of the Observer's Committee, Edward Sandoyan and Armen Melikyan, President of the stock exchange. The plan discusses three possible three possible scenarios for Armex development with the goal to achieve self-sustainability in 2003. Only two scenarios result in accomplishment of the desired goal. The plan is attached as Exhibit XIV. This Task is considered completed. Of course, if questions should be generated as more review takes places by Armex management, PwC will accommodate them.

May Status: See April Status.

June Status: See May Status.

July Status: See June Status.

August Status: See July Status.

### Task III

#### CENTRAL DEPOSITORY OF ARMENIA (CDA)

##### A. Privatization and Development

	Action	Consultant	Target Date	Actual Date
1.	Work with the GOA and CDA to finalize privatization of CDA as required by SMRL. <b>Address self sustainability Plan by April 30</b>	Kostrikov	June 2001	<b>April 30</b> <b>June 30</b>

January Status: On January 22, the Clearing Center SRO founding meeting was initiated by several broker/dealers. 22 broker/dealer companies and 13 commercial banks participated in the meet out of which 22 of the broker/dealer companies and 3 of the banks attended as SRO founder member. At the meeting the Clearing Center SRO adopted the following decision. "To establish Clearing Center SRO comprising 25 founding members and to register it following the procedure defined in the ROA legislation. To participate in the tender of the Central Depository of Armenia closed JSC. They will be the only bidder as the bidder must be a SRO which status is controlled by the SC. Complete minutes of the meeting are attached as Exhibit IV.

February Status: Exhibit XV is attached as a visual representation of the privatization process for the CDA. Exhibit XVI is attached as a Task Plan for the privatization process. As of February 1 the CDA has 347 enterprises for which it is the registry as compared to 264 last July.

March Status: The tender for the privatization of the CDA closed March 2. There was only one application submitted, the Clearing Center, which was registered as a SRO on February 22, 2001. The SC has entered into negotiations for the transference of ownership of the CDA from the GOA to the Clearing

Center. The SC is scheduled to meet with the Clearing Center on April 3 to review the terms of the transfer. If the Clearing Center accepts the terms as stated by the SC, the negotiations are concluded and the SC will then recommend to the GOA to transfer ownership of the CDA to the Clearing Center. The GOA must then approve the transfer. The SMRL requires the privatization of the CDA by July 1, 2001.

Work has begun on the CDA business plan for self-sustainability.

**April Status:** The CDA business plan to achieve self-sustainability is complete. The report is attached as Exhibit XVI.

A List of CDA Rules, Procedures and Forms was developed and reflects all CDA internal documents that must be in place by the end of June. The List includes documents related to all CDA functions (registry, depository and settlement). Ninety per cent of the documents are completed. The list will be discussed with the SC and all interested parties in order to achieve consensus on the amount of work necessary for the CDA SRO to become fully registered with the SC. The List is attached as Exhibit XVII.

**May Status:** Based upon the examination of the final version of the CDA rules and the Business Plan as submitted to the Securities Commission, on May 18 the SC announced the Clearing Center SRO as the winner of the CDA Privatization Tender and granted the Clearing Center SRO the right to use the name of the Central Depository and perform the registry/depository/settlement functions. Also on this day, the Clearing Center SRO started the procedure of changing its name to Central Depository SRO. Subsequently the SC submitted to the Government of Armenia the draft GOA decree on the CDA privatization. According to the Decree, the CDA SRO is receiving 100% ownership of the existing CDA. It is expected that the draft decree will be discussed at the June 7 meeting of the GOA. The GOA has until June 30, 2001 to approve the CDA privatization in order to fulfill the terms of the Securities Market Regulation Law.

A complete set of up to date rules and related documents were put together for circulation among the GOA, CDA, Armex and SC for use in their discussion and understanding of the Clearing and Settlement Function as it would be performed by the CDA. The booklet, Exhibit XVI is composed of the following documents.

- Interim Clearance and Settlement Concept Paper
- G30 Recommendations – Armenia Adherence
- SCA Rules on Clearing and Settlement
- List of CDA Rules, Procedures, and Forms
- CDA Rules on Clearing and Settlement
- CDA Procedures on Clearing and Settlement
- CDA Forms of Contracts with Armex and Settlement Bank
- CDA Clearing and Settlement Software Functional Specifications with C&S Forms attached

**June Status:** The GOA issued the decree privatizing the CDA on June 28. The process of converting the CDA Closed Joint Stock Company to the CDA Open Joint Stock Company will take approximately ten days.

**July Status:** Subsequent to the GOA decree issued on June 28 for the privatization of the CDA, the Minister of Finance signed a decision of the GAO to transfer ownership of the CDA Closed Joint Stock Company to the CDA SRO Open Joint Stock Company.

**August Status:** *Task completed in July.*

<b>2.</b>	Assure that CDA meets G-30 Requirements	Ruckrich	June 2001	<b>May 2001</b>
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**January Status:** As the CDA will not be implementing a fully automated depository for clearance and settlement but rather a manual interface between the Trading System and the Central Registry, there will be no attempt to achieve G-30 compliance. As a matter of record the G-30 recommendations have been superseded by Recommendations 2000 as issued by ISSA the current mantel bearer of G-30. A report on what the manual interface has achieved in the G-30 recommendations will be provided as part of the implementation of the new Trading System.

**February Status:** Draft paper (Exhibit XVII) on CDA’s compliance with G-30 was written and distributed for comment. The compliance status was based on the first concept paper on clearance and settlement.

(See III B1). In discussion with Bill Baldrige he stated that he was relieved that I was not committing to achieving G-30 status for Armenia and understood the fact that I was providing a paper which showed how the interim clearance and settlement approach would measure up against the G-30 requirements.

March Status: No change in status. A review of the draft paper on CDA's compliance with G-30, which was released in February, will be conducted after the clearance and settlement system is implemented and appropriate revisions will be made.

April Status: No change in status.

May Status: Latest version of the G-30 Adherence in Armenia is contained in the booklet referenced in III.A.1. It is not included here as a separate exhibit in the interest of conserving paper.

June Status: See May Status.

July Status: See June Status.

August Status: See July Status.

3.	Work with CDA to attain SRO status	Hippner	June 2001	<b>June 2001 and ongoing</b>
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January Status: The SRO status will be automatic because the winner of the tender must have SRO status. The task will then be for Hippner to educate the CDA in how to be a functioning SRO.

February Status: The market participants who are bidding at the tender already have SRO status.

March Status: Hippner will work with the CDA on his next trip, which is scheduled mid-April.

April Status: No activity in April but activity expected in the May leg of Hippner's engagement. Hippner's work will be recorded here but it is being done as part of Task III.A. as the overall objective for the CDA.

May Status: Hippner reviewed all CDA rules as developed by Kostrikov and made comments as appropriate. His comments were incorporated into the rules as submitted by Kostrikov and included in the booklet referenced in Task III.A.1.

June Status: No Activity Required.

July Status: See June Status.

August Status: See July Status.

4.	Work with CDA to develop all required rules and regulations so that it can function as clearance, settlement and depository	Kostrikov Ruckrich	May 2001	<b>May 2001</b>
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January Status: No progress

February Status: A work plan (Exhibit XVIII) was developed. It reflects the fact that all rules should be completed by end of May. Work is scheduled to commence in March.

March Status: A draft of the CDA rules on clearing and settlement are attached as Exhibit XIX. These rules establish the following: 1) security eligibility requirements, 2) participant eligibility requirements, 3) definition of the clearing account, 4) basic principles of the CDA interface with the ASE and the Settlement Bank, 5) requirements of the different stages of the clearing and settlement process, 6) fines, sanctions and responsibilities of CDA and its participants. The rules were submitted to the SC, CDA and ASE on March 20 for comment. A discussion of the rules will be scheduled for the week of April 10.

April Status: The April 10 meeting referenced above took place and from this meeting the consensus on future modifications of the Rules was achieved. PwC has modified the Rules to reflect the agreed

amendments and has presented the revised version of the Rules to the CDA for approval. The revised Rule 3000 on Clearing and Settlement is attached as Exhibit XVIII.

May Status: All required CDA Rules and Regulations as it relates to Clearing and Settlement are completed. They may be found in the booklet referenced in III.A.1.

June Status: Task Completed in May.

July Status: See June Status.

August Status: See July Status.

**B Implementation of Interim Clearance and Settlement Procedures**

	Action	Consultant	Target Date	Actual Date
1.	Work with CDA to develop a manual system for clearance and settlement pending eventual implementation of a fully automated CSD	Kostrikov Ruckrich	May 2001	<b>June 2001 and ongoing</b>

January Status: No Progress

February Status: Two Draft Concept Papers (Exhibits XIX and XX) on Clearance and Settlement have been prepared and distributed for discussion. It became readily apparent that the first concept paper was too ambitious to meet the ASE start up date. The second Concept Paper was prepared and distributed for discussion and while eminently more doable in the timeframe required there is still not consensus on the details. The ASE has still not accepted the fact that they did not get the securities clearance facility available with the RTS and they are having a problem accepting the idea that an entity that they don't control would have power over the settlement accounts at the bank. This is strange inasmuch as the owners of the ASE are majority owners of the CDA. This will hopefully be resolved soon. Exhibit XXI is attached as a work plan for the Clearing and Settlement internal procedures. Kostrikov will make a presentation at the weekly Bankers meeting on Mar 2 and present out position on clearance and settlement and the role of the Settlement Bank. The ASE will select an interested bank to become the Settlement Bank on an interim basis who is willing to work with the team to have the ASE operational by the end of May.

March Status: The Settlement Bank has yet to be selected and the Chairman of the SC has been alerted to the consequences of delay. The Central Bank has been engaged in discussion by the SC to become the Settlement Bank. This is not viewed as necessarily a positive development. The Central Bank will have to accept the CDA as a member, which would require approval by the board of the Central Bank. In a meeting with the Chairman on March 27, PwC made clear its concern over the foot dragging on the issue. The Chairman agreed to intercede and should the Central Bank as Settlement Bank place the clearing and settlement deadline for implementation in unison with the ASE then the HSBC bank will be designated the Settlement Bank.

A draft of the functional specifications for the CDA Clearing and Settlement Software have been drafted (in Russian) accompanied with a prototype example reviewed by Ruckrich. Kostrikov and Ruckrich will continue to work on the specifications. PwC IT Specialist met with a technical expert on the Ambersoft Registry Software in Moscow to further clarify ways of utilizing the registry in the clearance and settlement system. The meeting was informative and constructive.

An update (Exhibit XX) of the Interim Clearance and Settlement Concept Paper was released for review and comment.

April Status: Further refinements were made to the CDA Clearing and Settlement functional specifications. First version of software was completed at end of month. First tests will be first week of May.

May Status: The software specifications are to be found in the booklet referenced in Task III.A.1. The system is in test and testing should be complete by mid-June.

The Central Bank has still not signed the MoU with the CDA permitting the CDA to have an account in the Central Bank. The Chairman of the SC and the Executive Director of the CDA are aware of the problem and the consequences of a change in the Settlement Bank at this late stage of implementation.

**June Status:** The Central Bank and CDA have agreed upon a MoU, which will include the commercial banks as signers. The agreement permits the CDA to have (2) accounts in the Central Bank and lists the obligations of the commercial banks. The technical account for settlement of equity trades and the depo account for the settlement of Treasuries. Initial activity will be in equities.

Trading/Clearing and Settlement tests were conducted by PwC personnel to prove the efficacy of the clearing and settlement software system and procedures designed by project personnel. The Industry Specialist Report is attached as Exhibit XXVIII.

**July Status:** All clearing and settlement procedures were in place and the CDA settled approximately 28 million AMD in trading on July 6, 2001, the opening day of the Armenian Stock Exchange.

Seven commercial banks have signed tri-part agreements with the Central Bank and the CDA to become settlement agents. Three more commercial banks are in the process of signing agreements.

**August Status:** *Ten commercial banks have now signed tri-part agreements with the Central Bank and the CDA to become settlement agents. This task is completed.*

2.	Work with ASE & CDA to develop a settlement guarantee process	Kostrikov Ruckrich	May 2001	<b>May 2001</b>
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**January status:** As the Trading System requires money in advance and precludes short selling this is not expected to be an issue. However Buy In and Sell Out Rules will be written to cover what at this time would be called a system error.

**February Status:** Same as January

**March Status:** Same as January

**April Status:** Same as January

**May Status:** Same as January

**June Status:** Same as January

**July Status:** Same as January

**August Status:** *Same as January*

**C. Shared Utility Structure for Securities Processing**

	Action	Consultant	Target Date	Actual Date
1.	Work with ASE, CDA to assess the benefits of a shared utility structure	Gorman Victor Mihaliov	June 2001	Substantially completed June 2001. Ongoing support anticipated through mid-August

**January status:** As the ASE and CDA are committed to being in the same building. This concept, therefore, has a headstart. No progress

**February status:** Considering all the operational issues of putting the institutions in place to achieve the basic transactions of trading, clearance and settlement to form a cohesive combination it is premature to have talks on the subject. Both the ASE and the CDA are struggling to grow within their solitary structures. They do not have mutual respect at this time. ASE is still balking at the CDA performing any role other than transferring ownership under ASE's direction. We are having frank discussions with the ASE at this time.

March Status: Same as February.

April Status: A local area network is being established linking the Security Commission, the ASE and the CDA. This alleviates the technical issues relative to the shared utility structure. The political atmosphere between the ASE and the CDA still remains charged. It is not reasonable to expect discussion of a shared utility structure at this time. This will be evolutionary and should not be forced in the lifetime of this project. There are too many other important issues to be addressed.

May Status: The local area network will be installed in June. Cabling has commenced in May.

June Status: The inter-connected local area network is still in the process of installation. It will be completed in July and includes the Securities Commission in addition to the CDA and Armex. As operational plans develop, the LAN will be expanded. The expansion plans will no doubt carry into August. Technically the three organizations are capable of supporting the expansion of the linked LANs.

July Status: Installation of the local area network for the Securities Commission, CDA and Armex is completed. If time and the budget permits, we will expand the local area network to operational areas of the CDA currently under construction on the first floor.

August Status: *Task completed in July.*

#### Task IV

**Broker/Dealer Association has become the Armenian Stock Exchange, self regulated organization and as such its Task Order activities have been included under the ASE, Task II**

#### Task V

#### MARKET DEVELOPMENT

##### A. Develop SRS type sales

	Action	Consultant	Target Date	Actual Date
1.	Work with the Ministry of State Property Management (MSPM) and other USAID contractors, if required to develop additional SRS type sales of residual privatization shares similar to the programs that were completed in March 2000 using broker/dealers	Haik Papyan Stepan Mantarlyan		<b>Not complete. See description below.</b>

January status: A meeting on Jan 29 was held with Ashot Markossyan, Deputy Minister of the Ministry of State Property Management. Ann Richards/USAID, Don Hart/PWC and John Ruckrich PwC attended the meeting. At this meeting Ashot encouraged PwC to perform another SRS type of sale and promised to cooperate fully with our local staff in reviewing companies for sale either SRS or fully privatized. We are expecting a list of enterprises to examine on Feb 7. We will then estimate the costs of meeting the statutory requirements for sale of such enterprises. Only after the costs are known can we determine the feasibility of performing the task. There is no money in the approved budget for such activity. Examples of the activities, which have costs involved, are Public Audit Statements, Prospectus preparation, Registration Fee, conversion of accounting records to IAS standards.

February Status: A paper was prepared outlining the steps to be taken for an SRS to be taken. The paper is attached within Exhibit XXII. The MSPM was prepared to permit the SRS to go forward for 8 properties. Expenses of \$20,640 were required and the MSPM has no funds for the fees associated with an SRS. PwC requested USAID/Yerevan for funding to continue and was directed to Bill Baldrige, CTO USAID/Washington to see if funds were available. The request was made to Baldrige via e-mail on February 15. The e-mail and its attachments are Exhibit XXII. The CTO has informed us that he would like to discuss the financing issue with the SEC and MSPM, as well as with the local USAID mission. While we await a decision on the financing for the SRS, given that the process is expected to take 18 weeks, the complete implementation of this task under our project (by end of June 2001) does not seem feasible. Further discussion of this task with the CTO is necessary.

March Status: There is no further status to report.

April Status: There is no further status to report.

May Status: There is no further status to report.

June Status: There is no further status to report.

July Status: There is no further status to report.

August Status: *There is no further status to report.*

2.	Work with USAID, other USAID contractors, if required, and the MSPM to utilize broker/dealers to privatize enterprises through offers of new share allotments	Samvel Armine Haik Papyan Stepan Mantarlyan		<b>Not complete. See description below.</b>
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January status: No progress

February Status: The MSPM announced their plan to have consultants bid for the right to take enterprises through the privatization process. The consultants would pay all the upfront costs and then receive their compensation when the enterprise shares were sold. The suggestion was met with questions and suggestions for further meetings. There was no enthusiasm for the idea because the enterprise shares will probably be close to if not outright worthless and therefore no compensation would be gained. The consultants claimed to have no money for the upfront expenditures required and no bank would loan them money based upon the prospect of being paid from the compensations earned. As this process has no shorter timeframe than the one in Task VA1, PwC could not commit to manage the process (which it has not been requested to do by the MSPM) but we will be available to the MSPM should the advice of our seasoned senior staff be required and time is available.

March Status: No change in status.

April Status: No change in status.

May Status: No change in status.

June Status: No change in status.

July Status: No change in status.

August Status: *No change in status.*

3.	Work with the MSPM, USAID and other USAID contractors, if required, to complete privatization of strategic state owned enterprises using broker/dealers			Not complete. See explanation below.
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January status: Based upon IBTCI activity reporting and our own sense of what is happening in Armenia, this activity will not see daylight during this project duration.

February Status: Same as January

March Status: No change in status.

April Status: No change in status.

May Status: No change in status.

June Status: No change in status.

July Status: No change in status.

August Status: *No change in status.*

## Task VI

### PROFESSIONAL AND PUBLIC EDUCATION

#### A. Professional Education

	Action	Consultant	Target Date	Actual Date
1.	In conjunction with USAID's Rule of Law Commercial Law Project, the contractor will work with judges and lawyers to educate them on the business aspects of all laws affecting the development of the Armenian financial sector.	David Sargysan		June 2001

January status: The task was reviewed with the Chairman of the SC who gave his support and encouragement to anything that could be done in area.

February Status: The Ministry of Justice which was recommended by the Chairman of the SC to be the first point of contact in such a program has declined to make an appointment with PwC. It is not a reflection upon PwC but rather the amount of work and issues currently before the Ministry of Justice. Another approach was taken to accomplish the objective and that was to meet with the SC and identify target group(s) for the conducting of training on securities legislation and related issues. PwC legal counsel and SC specialists would provide the training.

March Status: PwC legal staff has met with Chemonics legal staff to devise a plan including for advancing the business education for legal professionals in Armenia. Chemonics has expressed a strong desire to be included in the educational process.

April Status: The training for judges on the provisions of the securities legislation dealing with the issues of liability (both civil and administrative) is tentatively scheduled for May 19-20. Relevant cooperation from the Chairman of the SC is secured. It is expected that judges dealing with civil and economic cases from the various courts of Armenia (around 25-30 judges) will be invited. The training will be conducted by the Chairman of the SC. The judges will be invited to lead the discussion on the issues of the civil liability under the provisions of the securities legislation. Technically the judges do not need training and would be resentful if anyone implied that they did. The format then is one of a focused discussion with a facilitator, the Chairman of the SC. It is planned to organize the seminar out Yerevan (location to be determined). The training will be organized in close cooperation with Chemonics/USAID Rule of Law Project, RA Securities Commission, and Council of Court Chairmen.

May Status: The training for the judges has been postponed due to the absence of high-level judges who were invited to a conference in Austria. It is planned to re-schedule the training for June. Organizational part of the training has been already agreed upon between the parties responsible for the training, viz. USAID/PwC Capital Market Development Project, USAID/Chemonics Rule of Law Project, and RA Securities Commission. On May 31 the Chairman of the SC spoke with the Chairman of the Cessation Court and tentatively agreed on mid-June for the training session.

June Status: Training took place at Tsakhkadzor on June 9-10. Training was intended to cover all areas of the securities legislative regulation under the requirements of newly enforced Securities Market Regulation Law. The agenda of the training was prepared jointly by the representatives of the Securities Commission and USAID/PwC project. USAID/Chemonics Rule of Law Project in Armenia provided organizational support for the training. David Sargsian, PwC Senior Lawyer's report on the training meeting is Exhibit XXIX. The meeting was deemed by all to be such a success that there is intended to be further meetings of the same and possibly more attendees. Should the participants desire to hold a further meeting during the no cost extension period, PwC will accommodate the request. A letter of appreciation

for the USAID/PwC Capital Markets Project support of the seminar was received from the Director of the Judicial Training Center of the Council of Court Chairmen.

July Status: Task completed in June.

August Status: See July Status.

**B. Public Education**

	<b>Action</b>	<b>Consultant</b>	<b>Target Date</b>	<b>Actual Date</b>
<b>1.</b>	In conjunction with USAID and other USAID contractors, if required, the contractor will institutionize outreach to issuers, market participants, shareholders and the general public about the benefits of an open, transparent capital market.	Public Education Specialist		August 2001

January status: The task was reviewed with the Chairman of the SC who gave his support and encouragement to anything that could be accomplished in this area.

February Status: A series of brochures are being developed which will help in the Public Education area and also assist in Task II C2. The brochures are 1. “Raising Capital in Financial Markets of Armenia”, this brochure is intended as marketing/informational literature to be used by the ASE and Broker/Dealers with prospective clients and the public. 2. “Taking a Company Public”, this brochure will describe the reasons why a company would issue new stock. It will also show the benefits of listing on a stock exchange and the listing requirements and procedures involved. This is intended to be a marketing brochure for the ASE to increase awareness of the benefits to listing in a stock exchange. 3. “Information Guide”, this will be used as a marketing brochure and include a welcome message from the Chairman of the ASE, Mission Statement, History, etc. 4. “Planning for the Future, Personal Savings and Investment”, this will be used as a marketing brochure but geared to a wide public audience to help increase personal savings and investing for the future.

As journalists play a role in communicating financial information to the public we are planning to offer a series of eight topical training seminars for journalists. These seminars will be 1.5 – 3 hours in length each and will explain the securities market structures and roles that they play in the capital markets.

March Status: The first two training sessions for journalists were held on March 19 and 26. Fifteen journalists attended. There are eight sessions in the series. For a description of the training sessions see Exhibit XVIII.

Fuller descriptions of the brochures under development may be found in Exhibit XVIII.

April Status: Significant progress had been made in the drafting of a series of four educational and marketing brochures described above that will serve as both marketing purposes for the Stock Exchange and Public Education. It is expected that final draft for three of the four brochures (brochures 1,2,4 in the February status) will be completed during May. Publishing houses were contacted to provide preliminary price quotes for the design and publishing of the brochures.

Five additional training sessions were delivered during the month. The topics of these training sessions included: April 2 – Corporate Governance and How Investment Decisions are Made; April 9 – Securities Market Intermediaries; April 16 – Registrar and Clearing & Settlement Process; April 16 – Fundamentals of Financial Analysis; April 23 – Stock Exchange (RTS); April 30 – Structure and Functions of Securities Commission; April 30 – Financial Analysis Techniques, Sources of Capital and Valuation.

Worked closely with the appointed person for public relations of the Stock Exchange to develop a strategy for attracting media interest and coverage of the Armenian Stock Exchange and securities market educational information and issues. On-hands training and assistance was provided in efforts to produce immediate results and institutionalize public relations’ activities of the Stock Exchange..

May Status: An additional training session was scheduled for May 7. The subject of that session was Collective investment schemes and institutional investment. That completed a series of nine training sessions. Fifteen journalists out of Seventeen invited were present at the seminar and received qualification

certificates. The participants identified in Exhibit XVII were asked to fill an evaluation form, which is attached as Exhibit XVIII.

A special public relations event was organized by PwC for May 30 presenting the Securities Commission, Armex and CDA to the journalists. Ten journalists attended the presentation. They met and interviewed the Security Commission Commissioners, Armex executives and members and CDA executives. Exhibit XIX contains the Agenda.

The text and design of the Armex Information Guide are ready and the final draft has been given to PwC specialists, Armex senior managers, and SC staff for reviewing. The brochure has been discussed with Edward Sandoyan, Chairman of Armex and Armen Melikian, Executive Director. They have reviewed the brochure and their suggestions will be incorporated into the next and final draft. The final draft will be completed the first week of June and will be ready for the printer.

**June Status:** The Armex Information Guide was reviewed, finalized and submitted to the selected publisher for printing. This brochure will be ready for its debut at the Opening of the Stock Exchange on July 6, 2001. The outline of Armex Information Guide is as follows:

1. Welcome message from Edward Sandoyan, the Armex Chairman
2. List of services provided by Armex
3. Mission statement and objectives
4. Armex membership
5. Armex as a self-regulatory organization, the basic rules and regulations
6. Organizational Chart and governance structure of Armex
7. Organization and regulation of trading sessions
8. Services and benefits of securities trading in Armex. Primary and secondary markets. Advantages of the Armex trading floor.
9. The trading cycle: how securities are traded
10. The RTS Plaza trading system
11. Admission of securities to the trading sessions: registration and listing
12. Information disclosure
13. List of Armex members and contact information of each member
14. Important facts (milestones of the securities market development)

**July Status:** The Armex Information Guide was published and presented at the Opening of the Stock Exchange on July 6, 2001. The brochure was also posted on the Armex web site. See Exhibit VIII for a translation of this brochure.

A television clip is in the process of development intended to promote savings and investment and invite viewers to meet with member brokers for information on specific investment opportunities and to view the Securities Commission and Armex web sites for additional information. Proposals were requested from seven advertising companies based on the concept and requirements developed by our public relations specialists. We expect this clip to be fully developed and broadcasting start by the middle of August.

**August Status:** *Completed a draft version of the promotional television clip for the Armenian Stock Exchange (Armex). On August 13, the Chairman of the Observers Council and President of Armex viewed the clip and gave their approval for broadcast. During August 17 – August 27, ten broadcasts of the clip were aired on public television.*

## BENCHMARKS

### 1. Privatization of CDA by 6/30/01

January Status: This benchmark has a high probability of success attached to it. The capital market participants have already formed the required SRO to respond to the expected tender offer for the CDA.

February Status: Still on schedule.

March Status: Still on schedule. The tender for the privatization of the CDA closed March 2. There was only one application submitted, the Clearing Center, which was registered as a SRO on February 22, 2001. The SC has entered into negotiations for the transference of ownership of the CDA from the GOA to the Clearing Center. The SC is scheduled to meet with the Clearing Center on April 3 to review the terms of the transfer. If the Clearing Center accepts the terms as stated by the SC, the negotiations are concluded and the SC will then recommend to the GOA to transfer ownership of the CDA to the Clearing Center. The GOA must then approve the transfer. The SMRL requires the privatization of the CDA by July 1, 2001.

April Status: Still on schedule. A List of CDA Rules, Procedures and Forms was developed and reflects all CDA internal documents that must be in place by the end of June. The List includes documents related to all CDA functions (registry, depository and settlement). Ninety per cent of the documents are completed. The list will be discussed with the SC and all interested parties in order to achieve consensus on the amount of work necessary for the CDA SRO to become fully registered with the SC. The List is attached as Exhibit XVII.

May Status: Based upon the examination of the final version of the CDA rules and the Business Plan as submitted to the Securities Commission, on May 18 the SC announced the Clearing Center SRO as the winner of the CDA Privatization Tender and granted the Clearing Center SRO the right to use the name of the Central Depository and perform the registry/depository/settlement functions. Also on this day, the Clearing Center SRO started the procedure of changing its name to Central Depository SRO. Subsequently the SC submitted to the Government of Armenia the draft GOA decree on the CDA privatization. According to the Decree, the CDA SRO is receiving 100% ownership of the existing CDA. It is expected that the draft decree will be discussed at the June 7 meeting of the GOA. The GOA has until June 30, 2001 to approve the CDA privatization in order to fulfill the terms of the Securities Market Regulation Law.

June Status: Benchmark completed on June 28 when the GOA approved the privatization of the CDA. The process of turning the ownership over to the CDA will take ten days.

July Status: Completed benchmark.

August Status: *See July Status.*

### 2. Trading systems installed, tested and functioning by 5/31/01

January Status: The wheels are in motion, there is a location to install the software and a stock exchange to receive it. Site plans have been developed bids are released and the software provider has promised complete cooperation for an end of May implementation or sooner. The system will be installed with the same functional specifications as Georgia. Adherence to the Armenia law that all printed materials must be in Armenian will be incorporated into the implementation schedule.

February Status: The absence of the waiver on the hardware required has placed this benchmark in jeopardy.

March Status: All required tenders for construction, cabling and hardware have been released, vendors have been selected, orders have been placed and contracts have been signed or are in final process. Everything remains on the ambitious schedule. Education of key players was conducted in Moscow the week of March 26.

April Status: This one is going to go right to the wire. There have been construction delays. We have everyone working week ends in May to achieve the benchmark. We knew there would be challenges in remodeling a structure like the one housing the SC, ASE and CDA. Everyone understands the importance of what they are working on. We just need the materials to show up and without defect. The computer

hardware and software is here and installed on a prototype basis in the PwC project office. We are doing everything possible to head off problems in the last two weeks of May when the hardware/software is transported to the ASE premises for re-installation.

May Status: The testing of the hardware devoted for the stock exchange's trading floor has been completed. All wiring has been installed. During the period of May 23 – 30 two specialists from the RTS TC visited Yerevan. The program of their trip included installation of the Armenian Stock Exchange trading system. This was implemented during May 24-25. The Armex Trading System is installed, tested and functioning. This benchmark is completed on schedule.

June Status: See May Status.

July Status: See June Status.

August Status: See July Status.

### **3. ASE and CDA all transformed to SRO status and registered with SC by 4/30/01**

January Status: Both the ASE and CDA have been transformed to SRO status and the registration of the ASE is anticipated February 6. No registration date known for the CDA at this writing.

February Status: The ASE has received its registration as the Armenia Stock Exchange SRO effective February 13, 2001. Exhibit XXIII is attached.

March Status: Negotiations have begun between the Clearing Center and the SC. The registration date will be set once the SC recommends the transference of CDA ownership to the Clearing Center.

April Status: Work moves forward on preparing the CDA for receipt of its license from the SC. The required negotiations have gone smoothly. The Clearing Center – SRO, the CDA, the SC and PwC remain committed to meeting the May 31 deadline.

May Status: The Securities Commission has conferred SRO status on the CDA and has sent the decree requesting the Government of Armenia to turnover the CDA and all its assets to the CDA, SRO. The GOA has until June 30, 2001 to issue the decree according to the SMRL. This benchmark is now complete.

June Status: See May Status.

July Status: See June Status.

August Status: See July Status.

### **4. Two activities completed to support development of market participants (further SRS programs, blue-chip privatization efforts or privatization through new share allotments by 6/30/01**

January Status: Cost is the driving factor in the probability of success in this area. We appear to be enjoying encouragement from the Ministry of State Property Management, but then we have to see what is really being offered in the way of enterprises before we will know if there will be interest.

February Status: See Tasks V A1&2. The achievement of this benchmark, even partially, is questionable due to financing and timing issues. It should be noted that the idea of a blue-chip privatization was dead before this project commenced.

March Status: No further activity in March.

April Status: As agreed with the CTO, for reasons outside PwC's control we will not be able to reach the benchmark associated with this activity. We are currently in the process of discussing with the CTO our role in advising the Armenian counterparts regarding future activities in this area.

May Status: No change in status.

June Status: No change in status.

July Status: No change in status.

August Status: *No change in status.*

## **5. Institutionalization of training efforts for market participants by 4/30/01**

January Status: With the GOA turning over the Yerevan Stock Exchange space to the Securities Commission there should be no problem in turning over the education and testing facilities to the ASE and the SC.

February Status: See Task II C3. The technical plans have been drawn and a workplan of activities without dates has been developed. The workplan definitely is doable within the project life.

March Status: The Local Area Network, the workstations, and server have been installed. In April the software will be installed and training in the use of the system will be conducted.

April Status: The software has been updated and installed and all training has been completed. This benchmark has successfully been met. See Task II.C.3 for details.

May Status: Completed Benchmark

June Status: See May Status.

July Status: See June Status.

August Status: *See July Status.*

## **6. Enforcement practices institutionalized at SC by 3/31/01**

January Status: Cliff Kennedy has been designated to accomplish this task. His schedule is being finalized.

February Status: Kennedy's schedule has been finalized and assuming prompt country clearance he should be here the last week of March. In the interim Kennedy has provided direction to local staff for work related to assisting Kennedy in reaching the Benchmark by 4/28/01. This date has been discussed with the Chairman of the Securities Commission and he is satisfied with the date and especially satisfied that Kennedy is returning to Armenia to assist the commission.

March Status: Kennedy arrived in Yerevan on March 27 and met with SC Chairman Edward Mouradian on March 28 to discuss the institutionalization of enforcement practices at the SC. Kennedy will achieve this benchmark by 4/28/01 and has prepared the attached memorandum, Exhibit XXI, to Chairman Mouradian in that regard. The memorandum addresses critical steps for the SC in the administration and enforcement of the new Armenian securities law and recommends prompt SC adoption of a new regulation to codify enforcement practices and procedures relating to inspections, investigations, and enforcement actions. Among other things, the regulation will institutionalize sound internationally recognized enforcement standards and practices at the Armenian SC for determining possible violations of the new Securities Law by professional participants and others, for conducting administrative enforcement proceedings and hearings before the SC, for referrals to criminal prosecutors, and for appeals.

April Status: Kennedy completed his institutionalization of enforcement practices. Attached as Exhibit I is the paper on Institutionalized Enforcement Practices at the Securities Commission. This paper reviews the current enforcement program, the staff and its activities. All the requirements for a properly functioning enforcement function are discussed. Deficiencies are noted with recommendations made for bringing the department to IOSCO standards. The paper and its attached appendices must be read in its entirety to understand what currently exists and what must be done to achieve an IOSCO compliant enforcement department. Appendix 3, the Enforcement Focused Terms of Reference organizes the work required to bring the enforcement department into IOSCO compliance. Appendix 1 contains the updated Core Regulation Draft first referenced in the March Status. Appendix 3 contains the discussion paper for Market Surveillance. The path and requirements for an IOSCO compliant enforcement department has

been defined and agreed upon by the head of the enforcement department. The work plan with completion dates and priority by the head of the department is contained in Appendix 3.

May Status: Completed Benchmark

June Status: See May Status.

July Status: See June Status.

August Status: See July Status.

## **7. Self-sustainability plans in place for ASE, SC, CDA by 4/30/01**

January Status: As the SC is a Government organization there will be no self-sustainability plan for it. In its place will be participation in preparation of Plan for 2002. As the project ends June 30 this will be a turnover of a work in progress as the SC schedule does not call for the completion of their Plan for 2002 by June 30.

February Status: No progress

March Status: Work in progress both for ASE and CDA. Deadline should be met.

April Status: The Self-sustainability plans for both the ASE and the CDA have been completed and submitted to management. Both plans achieve self-sustainability under a realistic scenario in the year 2003. The two plans are contained in Exhibits XIV and XVI. Both plans contain models, which can be adjusted by management as part of a decision making process regarding assumption on volumes, fees and rates, etc.. The plans will also assist management in making decisions on staffing requirements and further services offerings for fee.

May Status: The CMMU manager, Ruben Gevorkyan in consultation with T. Karapetyan, Deputy Chairman of the SC discussed the issues related to 2002 Annual Program. During the discussions it was decided that the first part of the Program representing the analysis of the market should differ considerably from the analysis presented in the Annual Report of the Commission. In this case the main purpose of the analysis should be for presentation of the problematic issues of the market and identification of the proposed solutions of the SC. In addition, since the deadline for submission of the Program is October 31, the analysis should also contain the data on the first and second quarters of 2001. The data on the first quarter of 2001 is being currently entered into the CMMU database. The analysis cannot be completed until the first quarter and second quarter have been entered into the database.

June Status: The 2002 Budget was finalized and approved by the Securities Commission and submitted to the Minister of Finance and Economy in the required format for approval. The 2002 requested budget is for 239.6 million AMD, an increase of 35.4 million from 2001. The number of staff increased by 6, increasing salaries by 24 million AMD from 2001 (see Exhibit XV for budget).

Meetings and work continued with the Securities Commission on the 2002 Annual Program. The CMMU has already drafted and provided the SC with 25 pages of analysis on the following topics:

1. Analysis of the situation in the securities market, identification of existing problems and development of a schedule of measures directed at solving such problems;
2. Securities market regulation mechanisms directed at:
  - protection of investors;
  - securities market transparency;
  - improvement of price formation system of securities, and
  - development of settlement and clearing system for transactions in securities

This represents approximately 50% of the work on the 2002 Annual Program to be provided to the SC.

The CMMU will continue to work as PwC employees for the SC during the no cost extension period of July and August. After that time it is expected that per the discussions between PwC and the SC, the CMMU will become the responsibility of the SC.

July Status: Meetings continued with the Securities Commission on the 2002 Annual Program. According to prior agreement with the Securities Commission, the CMMU completed drafting and

provided to the Securities Commission draft working documents to be incorporated in the final 2002 Annual Program, Exhibit IV. The CMMU will continue to assist the SC in further developing and finalizing the 2002 Annual Program during and after its transition to the SC in mid-August.

Upon the transition of the CMMU to the SC, this benchmark will be considered complete.

***August Status:*** *During the month, the CMMU continued working with the Securities Commission on the 2002 Annual Program and submitted the second draft of the working documents with additions for inclusion in the final report, Exhibit II.*

***Meetings took place with the Chairman and Deputy Chairman of the Securities Commission on the transition of the CMMU to the Commission. The CMMU includes a staff of two financial market analysts and an IT specialist to maintain and further develop the CMMU database. The CMMU database is a depository of reporting from securities market participants to the SC and other relevant information from which market analysis can be made.***

***On August 24, the CMMU physically transitioned into the Office of the Chief Economist of the Securities Commission. As the new Chief Economist, the CMMU Manager will lead this office where the primary objective will be to gather information on professional securities market participants as well as securities market activities, and to analyze and report on same to the SC. With the transition of the CMMU to the SC, this function is now institutionalized at the Securities Commission. This benchmark is now complete.***