

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

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

Contractor/Submitting Party: PricewaterhouseCoopers LLP

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Capital Markets Development Project in the Republic of Armenia

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DATE: January 18, 2000

Quarterly Report for the Period Ending December 1999

In addition to those set forth below by Task, activities during the quarterly period included various meetings and discussions with, among others, Mr. Tigran Torossyan, Deputy Speaker of the National Assembly (NA) of the Republic of Armenia (ROA), Mr. Vardan Khachatryan, Chairman of the NA Committee on Financial-Credit, Budgetary and Economic Issues (NA Committee), Mr. Manvel Badeyan, Deputy Chairman of the NA Committee, concerning the draft Law on Securities Markets (draft Law); and Mr. Vladimir Nazaryan, Chief Legal Advisor to the NA, concerning both the draft Law and necessary amendments to the Law on Joint Stock Companies; representatives of the World Bank (WB), concerning, among other things, WB support for timely adoption of the (new) draft Law and a WB loan to the Government of Armenia (GOA) for development assistance to the Central Depository of Armenia (CDA); and representatives of the Securities Markets Members Association (SMMA) and various of Armenia's four stock exchanges, concerning, among other things, suggested changes to the (new) draft Law; various of Armenia's licensed Broker and Dealer firms, concerning implementation of the SRS Program (see below Task A); the United States Securities and Exchange Commission (SEC), concerning implementation and delivery of training program provided by the SEC in Armenia in December 1999; and, as well, various meetings or discussions involving USAID Representative Michael Greene and/or representatives of various of the other USAID-sponsored economic and legal reform projects; and the USAID-funded Training for Societies in Transition Project (AED).

As reported in our Monthly Report for September 1999, for reason of the inability to date to obtain adoption of the draft Law, we have been directed by USAID Representative Richards that, for the timeframe from September 1999 to January 2000, we are to focus our activities on a discrete list of task activities, with our primary objective being to obtain adoption at the earliest opportunity of the draft Law. For a list of the activities, see **Attachment 1**.

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

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

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

- i) Obtaining passage by the NA of the draft Law. During September an “unofficial” draft Law on Securities Markets (unofficial draft) emerged. As previously reported, the unofficial draft was developed by Mr. Edward Mouradian, the Head of the SMI, during late August and early September 1999, in an effort to “flesh-out” as he then saw necessary various aspects of the draft Law which had previously been developed with our support, approved by the GOA and sent to the NA in mid-August 1999 for “priority” consideration. At the end of September 1999, copies of the unofficial draft, after having been edited by us, were distributed to various of the key Ministries, including the Ministries of Finance, Economy and Justice, and, at our urgence, a copy was provided by Mr. Mouradian to Dr. Armen Yeghiazaryan, the GOA’s Chief Economic Advisor. We also soon learned that a copy had been provided to Mr. Vardan Khachatryan, the Chairman of the NA Committee. The ultimate result was that on October 24, 1999, subject to a review by the GOA’s “economic bloc” (comprised of the Ministers of Finance and Economy, and the GOA’s Chief Economic Advisor together with the Chairman of the NA Committee), the GOA approved the unofficial draft (hereinafter “new” draft Law) to replace the draft Law. In the interim, to keep pace with these events, our efforts focused on providing support to Mr. Mouradian staying “on top” of the unofficial draft as it journeyed to become the new draft Law. In this connection, a number of detailed discussions covering all aspects of the unofficial draft were held with Mr. Mouradian involving both our expatriate and local senior attorney specialists. As a result of these efforts, the unofficial draft was revised on several occasions before ultimately going for formal consideration to the GOA. Needless to say, the existence of the unofficial draft had caused much concern for the confusion it had caused at both the GOA and NA levels, and for any further delays that it might cause in obtaining passage of a new Securities Market Law. Our immediate course of action was to make a detailed comparative analysis of the draft Law and the unofficial draft (see **Attachment 2**). Substantive time was also devoted to considering the unofficial draft from the standpoint of what it might mean strategically to the development of Armenia’s securities markets (see **Attachment 3**). On October 18, 1999, together with Mr. Mouradian, we met with the Chairman of the NA Committee (for information concerning the composition of the NA Committee, see **Attachment 4**) to discuss the unofficial draft and other aspects of obtaining early adoption of a new Securities Markets Law. As a result of these discussions, a decision was taken between Messrs. Mouradian and Khachatryan that the unofficial draft should be considered for approval by the GOA as the new “official” draft Law. To support the GOA (and NA Committee’s) decision, we reviewed and provided an opinion on the unofficial draft which was addressed to the Minister of Finance, Minister of Economy, Chairman of the NA Committee, and SMI Head (see **Attachment 5**). All of this said, when approved by the GOA on October 24, 1999, as positive as the process then looked for the NA to promptly take-up consideration of the new draft Law (once reviewed by the GOA’s “economic bloc”), the tragic assassinations of Armenia’s Prime Minister and Speaker of the NA (and others) on October 27, 1999 intervened in the process to cause (further) delays in considering the new draft Law;

During November 1999, activities continued at the GOA level to “finalize” the GOA’s approval of the new draft Law. By November 8, 1999, a review of the new draft Law by the GOA’s “economic bloc” was completed with GOA Chief Economic Advisor, Dr. Armen Yeghiazaryan and the (new) draft Law was forwarded to Mr. Vardan

Khachatryan, the Chairman of NA Committee, for review and approval by the NA Committee before going on the agenda of the NA for a “first reading”. At this time, to assist the process of review by the NA Committee, a number of copies of the (new) draft Law, a supporting rationale for same and our opinion letter were delivered at Mr. Mouradian’s request to Mr. Khachatryan’s offices. At the same time a process of review of the (new) draft Law was commenced with attorneys from the NA Legal Department. This process took approximately two weeks. By November 26, 1999, the review was completed and 10 areas for further review and consideration had been identified. The most notable of these areas (concerning which, in our review with Mr. Mouradian, we advised that he strongly resist substantial changes or amendments to be made) included Article 6.2 (the right of the Securities Commission to grant exemptions from registration); Article 31.2 (the right of the Securities Commission to suspend trading on an exchange); and Articles 37 to 41 (which deal with issuer disclosure requirements [see **Attachment 6**]).

On November 30, 1999, a working session of the Committee was convened by Chairman Khachatryan at which, in addition to our legal team and representatives from the SMI, representatives were also present from the Securities Market Members Association (SMMA) and three of Armenia’s four stock exchanges (a representative from the Giumry Stock Exchange was not present). Discussions were commenced at that time by the Chairman to entertain recommendations concerning changes or amendments to the (new) draft Law. Initial discussions lasted three hours and were essentially non-productive as representatives from the Yerevan Stock Exchange attempted to dominate and confuse discussions with an abundance of generalized criticisms. Discussions were then broken off by the Chairman, but reconvened within two hours without representatives from the aforementioned professional securities market participants present, except for a representative from the Yerevan Stock Exchange (but not its President, Mr. Sedrak Sedrakyan). Before leaving the earlier meeting, the representatives from the SMMA, United Stock Exchange and Adamand Stock Exchange generally expressed their support for the (new) draft Law. When reconvened, discussions continued until 11:00 PM that evening and continued almost daily for the next several weeks thereafter before the Committee had finished its review of the (new) draft Law. On December 23, 1999 (see **Attachment 7**) the Committee approved the (new) draft Law for placement on the agenda of the NA at beginning of the next session of the NA which is scheduled to commence on February 7, 2000. For a summary of recent activities leading up to the NA Committee’s approval of the (new) draft Law, see **Attachment 8**. For additional memoranda concerning activities affecting the status of the (new) draft Law, see **Attachment 9**.

It should be mentioned that during November 1999, the process of review of the (new) draft Law by the Committee became even more dramatic when, on November 25, 1999, the President signed a GOA resolution which accorded “emergency” status to the (new) draft law. According to the Constitution, the NA was then compelled to consider the (new) draft Law within 30 days from the date of the President’s signature.

It should also be noted that during the aforementioned meeting of the Committee which was convened on November 30, 1999, the Chairman, Mr. Khachatryan, indicated that he anticipated the Committee to consider the (new) draft Law by that weekend and that it was possible the new draft Law would be placed on the agenda of the NA for the working session for December 6 to 8, 1999. It soon became evident, however, that the (new) draft Law would not be approved prior to the conclusion of the legislative session which ended this month. In that regard, at a meeting at the offices of NA Deputy Chairman Tigran Torossyan on December 7, 1999, Mr. Torossyan and Mr. Manvel

Badeyan, Deputy Chairman of the NA Committee advised USAID Representative Greene and our Chief-of-Party, Mr. Donald Hart, that they regretted the fact that it would be impossible for the (new) draft Law to be heard before the end of the NA Session ending in December 1999, but pledged their support for the (new) draft Law and assured Messrs. Greene and Hart that the (new) draft Law would be approved and set for a “first reading” at the beginning of the next NA session commencing on February 7, 2000. Thereafter, at the suggestion of Mr. Greene, Mr. Torossyan paid also a call on US Ambassador Michael Lemmon and made a similar pledge to Ambassador Lemmon.

- ii) Assisting the institutional development of the SMI through activities including staff training, drafting assistance and meetings with the Head of the SMI (and various SMI staff) at which relevant securities market legal, regulatory and developmental issues were discussed. During the quarterly period, substantive efforts continued to provide necessary, relevant training to the staff of the SMI. For a schedule of training provided to the SMI and others during the quarterly period, see **Attachment 10**. Importantly, to assist in development of the SMI’s regulatory infrastructure, during October 1999 we submitted for the SMI’s consideration a draft “Core Regulation on Administration and Enforcement”. During November 1999, continuing efforts included both training to SMI specialists on the CMMU database (see below iv) and the use of ISIN software which had been designed and developed by our IT specialists. During December 1999, assistance in the institutional development of the SMI also took the form of a three-day seminar and workshop series which was provided by the SEC with support from AED. The seminar and workshop series attracted over 53 participants including 30 representatives from the securities commissions of Armenia, Bulgaria, Georgia and Moldova. For more details see **Attachment 11**. Throughout the quarterly period, substantive efforts continued to provide support and assistance to the Head of the SMI and the SMI staff concerning relevant issues and principles contained within and affecting the (new) draft Law;
- iii) Surveying all laws of the ROA as apply to securities market activities, including efforts to ensure the “harmonization” of the draft Law with same. In this regard, efforts continued to obtain adoption of the proposed amendments which we have recommended to the Joint Stock Company (JSC) Law, the purpose of which would be to ensure the efficient functioning of future registry and depository activities. During August 1999, the GOA reaffirmed its approval and support for the proposed amendments by returning them for action to the NA. The next step in the process, as discussed and previously agreed with the Chairman of the NA Committee, and reconfirmed in various discussions occurring during the quarterly period with the Chairman and Mr. Vladimir Nazaryan, Chief Legal Advisor to the NA, will be to have the proposed amendments to the JSC Law joined for consideration with the (new) draft Law; and
- iv) Building the functional capacity of the CMMU and expanding and improving the CMMU’s database. As previously reported, during July 1999, the CMMU database was installed in the SMI and SMI specialists were trained on how to use and maintain the database. To build on these activities, during October 1999, both for use by the SMI, but, importantly, as well, to render a complete package of technical information to USAID for potential further use by USAID in the design of CMMU databases outside of Armenia, our CMMU and IT specialists rendered in written and CD format a complete package of technical information entitled: “CMMU Software Documentation – Version 1.00”.

To further build on these initiatives, discussions took place during the quarterly period with representatives of the SMI to define further cooperative efforts on expansion and

further development of the CMMU database (see **Attachment 12**). During November 1999, training on use of the CMMU database was also provided to our local professional staff and, again, in December 1999, was provided to the staff of the SMI (see **Attachment 10**). Though not expressly stated in the Task Order, in order that we might best understand the internal workings of the SMI and assist the SMI to achieve greater institutional efficiency, the CMMU has undertaken to assist the SMI in the development of a "Policies and Procedures Manual" (PPM). In furtherance of this initiative, during October 1999, the CMMU has completed development of the PPM components for the SMI's Market Regulation and Economic Analysis Departments, including recommendations on how to improve the operating efficiency of these departments. It is also important to note that, during the quarterly period, the CMMU completed the initial drafting of its second "Stock Exchange Review". For more details concerning the CMMU's activities during the quarterly period, see **Attachments 13, 14 and 15**.

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

The first such effort focused on T/A to the MOP and SMI to facilitate the sale of state shares remaining in privatized enterprises with less than 50% state ownership remaining – the "SRS Program" – a primary purpose of which is to develop and enhance the capacity and skills of brokers and dealers to act as financial advisors and underwriters. For this purpose, two major training components were developed and delivered in April 1999 and more have been developed for delivery during implementation of the SRS Program.

During the quarterly period, despite numerous delays and the fact that the second of two required GOA "SRS" Decrees was not finalized until November 2, 1999, we were granted approval by USAID (on November 4, 1999) to proceed with the SRS Program. Once approval was determined, efforts were redoubled to mobilize the resources and means necessary to complete "pilot" sales of SRS Companies during February 2000. The first step was to obtain the MOP's prompt announcement of the "Tender" for selection of participating brokers. This took place on November 11, 1999 with the closure date for submission of tenders specified as November 22, 1999. To facilitate the tender process, together with the MOP, we convened a meeting of potential tender participants on November 15, 1999. At this time the SRS Program and tender selection process were thoroughly reviewed with representatives from 22 potential participating brokerage firms. On November 23, 1999, a "Tender Commission", comprised of three representatives from the MOP and two from the SMI, in the presence of ourselves and the 10 participating firms which had submitted tenders, announced the names of the six brokerage firms which had been selected to participate in the SRS Program and the names of the companies which had been assigned to each, with all 15 SRS Companies being allocated between the six participating brokerage firms (see **Attachment 16**). Within three days thereafter contracts had been concluded between the MOP and the participating brokerage firms, and between the participating brokerage firms and PricewaterhouseCoopers on behalf of the USAID Capital Markets Development Project. By the end of last month, our expatriate Investment Banking and Brokerage Specialist team had arrived in Yerevan and activities had moved into full swing.

During December 1999, these activities included an "Introduction Workshop" for participating brokers (see **Attachment 17**). During the workshop, each participating brokerage firm was fully acquainted with all aspects of the SRS Program and a fixed schedule of activities and deadlines was established for each firm. In addition, to assist the prompt flow of activity to provide guidance to them in the information gathering process for each company, a "checklist" was developed and provided to each firm. By the end of

December 1999, the end of the quarterly period, five prospectuses had been prepared and approved by the MOP and were in the process of being submitted for approval by the SMI, and prospectuses of the remaining ten companies were anticipated to be submitted for approval by the MOP and sent for approval by the SMI by the week of January 10, 2000. As at month-end, seven companies were in compliance with the requirement to use (had agreed to have their registers maintained by) the services of the Central Depository of Armenia. For more details, see **Attachments 18, 19, 20, 21 and 22**.

The second such effort focused on T/A to the SMI to enhance the professional skills and qualifications of brokers and dealers – the “Broker-Dealer Qualification Training and Testing Program”. This will be accomplished by expanding the SMI’s capacity to provide a more thorough qualification training and testing program for the licensing of brokers and dealers. By the end of August 1999, a total of 855 suggested questions for Broker-Dealer qualification testing had been developed, edited and consolidated into appropriate categories for administering the broker and dealer testing process (see Attachments 22 and 23 to the Monthly Report for August 1999). Despite the very substantial amount of work involved in developing the course materials for the nine training modules envisaged to be required, activities proceeded smoothly through September 1999 and by the middle of October 1999 steps had been taken to mobilize our team of expatriate Training Specialists to deliver the Broker-Dealer Qualification and Testing Training of Trainers (T-O-T) Program during the week commencing October 25, 1999. In advance of the T-O-T Program, on October 22, 1999, our Training Specialists also provided a one day seminar on “Selling Securities in the Republic of Armenia”, a seminar which had been developed and targeted to support the SRS Program (see **Attachment 23**). Though commenced on schedule, the T-O-T Program was, however, forced to be halted after three days of training due to the assassination of Armenia’s Prime Minister and others on October 27, 1999.

However, during November 1999, activities were intensified to conclude the T-O-T Training Program which was successfully concluded in training activities which were conducted between November 22 and 24, 1999. For more details, see **Attachments 24 and 25**.

In parallel with the T-O-T activities, our IT staff designed and developed the software (database management system) necessary for the SMI to administer the qualification testing process. By the end of November 1999, plans were being made to load the testing database in order that the new qualification testing system could be demonstrated and, importantly, rigorously tested and made finally ready for use by the SMI.

During December 1999, in furtherance of these activities, efforts continued to finalize the study manual which we have undertaken to assist the SMI to develop to assist examiners to study when preparing for the new qualification test and the software which we have designed to accommodate the use of a computerized testing regime. By the end of December 1999 (the quarterly period), both of these efforts were substantially completed. For a status report through the end of quarterly period, see **Attachment 26**.

2. Task B. Development of Trading System

As agreed earlier in the year with USAID Representative Richards, rather than focusing on efforts to promote the National Market System (NMS), since February 1999 our efforts have been primarily focused on how to enhance the functional and operational capacity of the National Centralized Registry (NCR) of the Central Depository of Armenia (CDA) – for more details see below Tasks C and D. During February 1999, USAID Representative Richards authorized the purchase of certain “Phase I” purchases to enhance the functional

capacity of the NCR and, in addition, other actions intended to allow the “mass” consolidation of share registries to begin as from May 1, 1999 (see Attachment 9 to the Monthly Report for February 1999 and below Task D). However, as previously reported, due to the need to temporarily relocate the NCR/CDA to another location (pending provision by the GOA of new permanent quarters for the NCR/CDA), the installation of certain of the Phase I purchases were delayed until a temporary location was determined and made ready.

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

During the month of September 1999, in reviewing activities envisaged to realize the NMS (see Attachment 6 to the Monthly Report for May 1999) with USAID Representative Richards, approval was given for the development of an “Armenian Stock Exchange” Website (see Attachment 22 to the Monthly Report for September 1999) as a first step toward realization of the NMS. During October 1999, activities continued to realize the timely development of the website, including the hiring of a local “web-master” to do the actual development of the website with support from our expatriate and third-country National IT Specialists. Further refinements were also made to the website design and project description in October 1999 (see **Attachment 27**), and copies distributed to each of Armenia’s four stock exchanges. Actions were also taken during October 1999, to assure linkage between the Armenian Stock Exchange (ASE) Website, the Armenian Development Agency’s Website (the “Gateway to Armenia” Website being developed with assistance from the WB), and the Ministry of Privatization’s Website (being developed with the assistance from USAID).

Carrying forward through the quarterly period, activities continued to finalize the design of the ASE website and to ready it for demonstration by the end of December 1999. With three of Armenia’s four stock exchanges actively participating in this project, during November 1999 an invitation was again extended to the Yerevan Stock Exchange to also participate. By the end of the quarterly period, our preliminary development efforts were realized, when, by the end of December 1999, the ASE website was ready for demonstration using our office LAN system and Internet site.

In connection with this activity and that to explore the current status of the possibility for consolidation or merger of Armenia’s four stock exchanges, it should also be noted that in September 1999, we undertook an analysis of the Yerevan Stock Exchange’s Automated Trading System (SEDGAP). Regrettably the level of cooperation and information received from the Yerevan Stock Exchange failed to permit a real analysis of SEDGAP’s capabilities. However, based upon the extent of documentation provided and a visual demonstration of the system’s functions, it would appear that while the SEDGAP system has been designed using modern technology it had not been put to rigorous testing by brokers and is not a commercial grade software.

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

As previously reported, by the end of October 1998, our Expatriate central depository, clearance and settlement system design and development specialist (CSD Specialist) had completed the initial phase of his activities and delivered a detailed draft report on the

functional specifications for an “Armenian Central Securities Depository” (CSD). More recently, efforts have, among others, been focused on the development of a detailed self-sustainability plan for the registry activities of the CDA, a copy of which, in efforts designed to encourage and facilitate a loan from the WB to the GOA to support development of the NCR/CDA, was, with consent of the GOA, provided to WB in June 1999. Other efforts in this regard have included assistance to the GOA to develop a detailed “Financing Proposal” for the CDA for consideration by WB, and support for the efforts of Mr. Tigran Davtyan, General Director of the CDA, to rally GOA support for approval of the WB Loan Proposal. In addition to providing assistance to Mr. Davtyan to draft the WB Financing Proposal, at the end August 1999, we also met with WB Representatives in Yerevan both to facilitate WB approval of the Financing Proposal and to obtain WB support for prompt passage of the draft Law and adoption of necessary amendments to the JSC Law. This resulted in certain provisions being added to the WB Strategy Mission’s “Aide Memoire” which supported both of these matters (see **Attachment 28**). Portions of these provisions also subsequently found themselves in the “Draft Terms of Reference” for a WB “Financial Sector Vulnerability Assessment” of Armenia. As a result, a considerable amount of time was spent during October 1999 reviewing the state of Armenia’s capital markets institutions with a WB Financial Sector Staff Analyst. At that time, copies of the CMMU’s reports were again shared with representatives of WB and found by them to be of considerable value.

While early in September 1999, WB approval was granted for the Financing Proposal to support development of the CDA, obtaining GOA approval of the Financing Proposal remained problematic. To reinforce the view that the WB Loan was critical to USAID support for capital markets development in the ROA, the US Government proposed “Memorandum of Understanding” between the US Government and GOA which was drafted with our assistance (beginning in December 1998) included a provision requiring the GOA to undertake this borrowing from the WB. We are pleased to report that by late October 1999, the GOA had approved and the President had signed a decree authorizing the WB loan to support development of the CDA.

Throughout November 1999 and carrying through the end of (December 1999) the quarterly period, activities continued to support the CDA. These included both consolidation (see below Task D) and other efforts designed to focus the CDA on the need to promptly bring consolidated companies “under contract” to have their registers maintained by the CDA (see details within **Attachment 29**). To further support these efforts, during the month we developed a “Marketing Action Plan” to assist in the commercialization of the CDA and revised the self-sustainability plan which we have developed for the CDA (see **Attachment 30**).

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

To implement the activities envisaged in this task, beginning in late August 1998, our Expatriate share registry design and development specialist (SR Specialist) together with our Third Country National share registry development and consolidation specialists (SRC Specialists) commenced efforts to define the parameters for shareholder registry activities in the ROA. When fully developed, the parameters will include both general (required minimum) functional and specific requirements (to meet proposed changes to the Armenian laws and regulations on maintenance of a share registry). To that end, during November 1998, our SRC Specialists reached conclusions concerning the functional requirements of the shareholder registry system. As discussed in greater detail below, the functional requirements which we identified formed the basis for determination and recommendation of shareholder registry software for use by the NCR/CDA. The specific requirements for the

NCR/CDA system will be completed as the proposed changes are adopted to the laws and regulations which govern share registry activities. In this regard, proposed amendments to the JSC Law have also been recommended to and approved by the GOA, and efforts continue to obtain adoption of same by the NA [see above Task A iii)].

As reported above, during February 1999, such sufficient progress had been made on reaching a basis of agreement between USAID and the GOA on the conditions for USAID support to the NCR/CDA that authorization was extended to make certain Phase I purchases to enhance the functional capacity of the NCR (see above Task B). At that time, efforts were also commenced to realize “pilot” and “mass” consolidation activities in accordance with a timetable and schedule which were agreed with USAID Representative Richards. In early March 1999, seven consolidation teams of two specialists each were hired and trained, and pilot consolidation activities were launched on March 22, 1999. The pilot consolidation activities were concluded by April 21, 1999 and, immediately thereafter, training for mass consolidation was commenced with mass consolidation beginning on May 1, 1999.

As previously reported, given that the estimated aggregate number of shareholders for all privatized open JSCs with 50 or more shareholders (which is currently estimated at approximately 135,621 and, for all privatized open JSCs with 25 and more shareholders and is estimated at approximately 143,427), it was agreed with representatives of USAID and the GOA that a single, centralized national shareholder register, designed as a privately-owned, non-commercial structure (either as part of or electronically connected to the CSD) was, for sustainability and other reasons, the most feasible course for Armenia to pursue. As a result, in April 1999, the CDA was created by a decree of the GOA which effectively reorganized the NCR into the CDA and added to its charter the functions of depository and clearance and settlement organization (see above Task B). To this end, efforts have and continue to focus on redefining the laws and regulations of the ROA which govern share registry activities. In this regard, we have been successful in obtaining GOA and NA Committee approval of certain proposed amendments we have recommended to the JSC Law which are now pending in the NA [see above Task A iii)].

In this connection, efforts were concluded in June 1999 (see Attachment 15 to the Monthly Report for June 1999) to obtain a Consolidation Order or “Instruction” establishing the requisite authority in the SMI to enforce the requirement that all JSCs with 25 or more shareholders use the services of the NCR/CDA. The “Consolidation Instruction” was thereafter duly published by the GOA in July 1999.

During May 1999, as a result of various meetings and discussions involving, among others, USAID Representative Richards and our SR and SRC Specialists, a decision was taken and authorization given by USAID to increase the number of consolidation teams (from seven) to ten. The additional teams were promptly hired and trained and by July 1, 1999 began to support the mass consolidation process.

During our meetings and discussions with USAID Representative Richards in May 1999, substantive efforts were also directed toward defining the amount of time required to select, purchase, modify, install and make fully operational the share registry (software) system which is to be provided to the NCR/CDA (see Attachment 11 to our Monthly Report for May 1999). At this time, further consideration was given to the two share registry systems which had been previously determined by us as available from Russian software designers and the USAID “Rumanian” share registry system. After due consideration, authorization was extended by USAID Representative Richards to proceed with the purchase of the (Russian) AmberSoft Share Registry Software (“AmberSoft”) System (see Attachment 14 to the Monthly Report for June 1999). By early August 1999, the AmberSoft System had been

installed, tested, and “accepted” by us on behalf of USAID for use by the CDA (see Attachment 25 and 26 to the Monthly Report for August 1999).

During USAID Representative Richards’ visit in September 1999, we reviewed with her an action plan framework and timeline which we had developed to ensure timely completion of all phases of the work required to provide the NCR/CDA with a fully adapted and functionally operational share registry software system by January 2000. For a status report on these efforts at the end of October 1999, see **Attachment 31**.

At that time, considerable time was also spent in reviewing our (rate of) progress to date in consolidating the share registers of privatized open joint stock companies with 50 (and 25) or more shareholders. While it was concluded that our rate of progress was satisfactory and that we were keeping to the schedule which we had developed in May 1999, mutual concerns were expressed and shared over the ability of the SMI to provide staff “in the field” to adequately support our consolidation activities outside Yerevan.

As a benchmark, as a result of mass (and pilot) consolidation activities conducted through the end of (December 1999) the quarterly period, when taking into account the number of share ownership records (24,698) maintained by the NCR prior to the commencement of mass (and pilot) consolidation, based upon the best available information, 77% of the share ownership records of all privatized companies with 25 or more shareholders have now been (or are in the process of being) consolidated and 82% of the share ownership records of all privatized companies with 50 or more shareholders have now been (or are in the process of being) consolidated. As a comparative point of reference, the benchmark we had established for ourselves during May 1999 for the percentage of consolidation activities to be completed (or in process of completion) at the end of December 1999 was 75 to 80 percent. For more details, see **Attachment 32**.

To further support development of an appropriate regulatory framework to regulate the shareholder registry activities of the CDA, by the end of September 1999, drafting was completed and a “Shareholders’ Registry Maintenance Regulation” was submitted for consideration by the SMI. To assist in the process of finalizing the regulation, the services of an expatriate Share Registry (SR) Specialist were called upon in August 1999. In addition to this task, during September 1999, the SR Specialist (whose activities were concluded that month) performed various other tasks to significantly enhance the operational and performance capabilities of the CDA.

Efforts during October 1999, to facilitate a more seamless transfer of consolidated registers to the NCR/CDA, included completion of “transfer procedures” designed to enhance and improve the process of transferring consolidated registers from our “Consolidation Unit” to the NCR/CDA (see Attachment 26 to the Monthly Report for October 1999).

Given the foregoing, we have urged and continue to urge that, as a condition to USAID support to the NCR/CDA, the MOF/SMI require all JSCs with 50 (now 25) or more shareholders to use the NCR/CDA and that enforcement of that requirement begins with companies listed and traded on Armenia’s four licensed stock exchanges. Additionally, we have in the past and would continue to recommend that all companies listed and traded on a stock exchange be required to use the NCR (CDA) regardless of the number of the company’s shareholders.

To assist in our on-going efforts to consolidate the shareholder registers of privatized open JSCs, we continue to track and maintain a privatization database containing the names and location of all privatized companies and the number of shareholders of each company. As at

the end of the month, the privatization database, taking into account information obtained through the consolidation process, contained the names of 503 privatized companies believed to have 50 or more shareholders (see **Attachment 33**) and 722 privatized companies believed to have 25 or more shareholders (see **Attachment 34**).

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

As previously reported, to facilitate the tasks set forth herein, an Expatriate specialist in trade association development and broker and dealer training (Training Specialist) was mobilized in October 1998 and was later joined in March 1999 by another such Training Specialist. This was done to provide for a successor to our initial Training Specialist, and to prepare the way for the presentation of the formal training programs designed by us to meet various of the needs and purposes of the SRS Program. More specifically, two broker-dealer training programs entitled: “Financial Advisory and Underwriting” and “Securities Firm Operations and Management” were developed beginning in February 1999, and completed and delivered in April 1999. Activities to facilitate development of these and other SRS training programs included, among other things, meetings and discussions involving the officers and/or members-at-large of the Securities Market Members Association (SMMA) and Financial Market Specialists Association (FMSA).

Building on these initiatives, since June 1999, efforts have increasingly developed to involve representatives of the SMMA, Giumry Stock Exchange and SMI in the development of a more adequate and complete broker and dealer qualification training and testing program – “Broker and Dealer Qualification Training and Testing Program” – in the ROA (see above Task A). To this end, during June, with assistance from representatives of the SMMA and Giumry Stock Exchange, we finalized preliminary efforts which led to the development of a set of 137 additional possible questions for consideration in the qualification training and testing process. These efforts were intensified during July such that, by the end of that month, our specialists had developed a total of 855 suggested questions (including those mentioned above) for consideration under the Broker and Dealer Qualification Training and Testing Program. As mentioned above (see above task A), activities during the month have focused on finalizing the training manual, question database, and testing software to be used in administering the new testing and training process.

Activities involving the SMMA (and, in general, all licensed professional securities markets participants – “PSMPs”) have and will continue to be used as opportunities for discussion of the SMMA’s (and the PSMPs’) objectives and to provide the SMMA (and the PSMPs) with guidance concerning the purposes and benefits of TAs and SROs; and, as well as, to evaluate the present level of functional development of the TAs and the PSMPs. For more details, see below Task F. For a summary of various past activities which have involved the SMMA and a description of SMMA needs going forward, see Attachment 18 to the Monthly Report for June 1999.

During September 1999, to support the efforts of the SMMA to achieve self-sustainability, discussions were held with a Senior Program Officer of Eurasia Foundation to consider a grant application which had been submitted (with our recommendation) by the SMMA to Eurasia Foundation. The purpose of the grant application was for the SMMA to obtain assistance in developing and providing a program of activities going-forward in the forthcoming year. As a result of conclusions reached during discussions with the Senior Program Officer for Eurasia Foundation, we are pleased to report that the SMMA is now receiving development grant assistance from Eurasia Foundation.

With regard to the SRS activities and with a view for their potential development as SROs, meetings have from time to time been held with representatives of the SMMA and Armenia's four licensed stock exchanges. These meetings have been taken as opportunities to exchange views on a variety of relevant topics (including the draft Law and the development of SROs) and to assist and guide the efforts of the exchanges in achieving both proper functionality and self-sustainability. We are pleased to report that as a result of these efforts and discussions held during December 1999 involving representatives of the SMI, the SMMA has been clearly identified as the future SRO for brokers and dealers. To this end, the SMMA has been selected by the SMI, as the institutional home for broker-dealer training under the Broker-Dealer Qualification Training and Testing Program and during January 2000 the first of such training efforts will be provided by us in conjunction with both the SMI and SMMA.

As indicated above (see Task B), as a result of discussions in mid-September 1999 involving USAID Representative Richards and SMI Head Mouradian, a series of one-on-one meetings were held in late September 1999 with the Presidents of each of Armenia's four stock exchanges. As also indicated above in Task B, the purpose of the meetings was two-fold: to determine the level of interest of the exchanges in participating in the "Armenian Stock Exchanges Website", and to determine from each their view concerning the possibility of a merger or consolidation of their activities with those of the other exchanges. The outcome was a clear indication of willingness on the part of all of the stock exchanges except the Yerevan Stock Exchange to participate in the proposed Armenian Stock Exchanges Website. As for the possibility of a merger or consolidation of the four stock exchanges, while all four exchanges indicated their willingness to consider this possibility, each expressed concern over practical issues in doing so and all three of the smaller exchanges expressed concern over the apparent desire of the Yerevan Stock Exchange to dominate the process.

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

As indicated above, to facilitate the activities specified in this Task and, as well, those specified in Task E, a Training Specialist was initially mobilized in October 1998. By the end of November 1998, as a result of numerous interviews and surveys which had been conducted by the Training Specialist to evaluate the needs of the TAs and brokers and dealers (and all PSMPs) in the ROA, a draft training plan (Draft Training Plan) and a draft training schedule (see Attachment 17 of Monthly Report for November 1998) was prepared. For a copy of the Training Schedule as revised through March 15, 1999, see Attachment 20 to the monthly report for March 1999. During May, a further revised "Training Program" for the project was developed and provided to USAID Representative during her site visit to the project (see Attachment 15 to the Monthly Report for May 1999). It is envisaged that all training programs developed for the TAs and brokers and dealers (and other PSMPs) will also be provided to or made available for participation by the staff of the SMI.

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

During March 1999, to implement certain of training activities set forth in the Draft Training Plan, our initial Training Specialist (who completed his activities during that month) provided training on a range of topics to a varied audience of brokers and dealers, many of whom are

members of the SMMA and FMSA (see Attachment 21 to the Monthly Report for March 1999).

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

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

Thus, during the period from April to October 1999, in order to keep the SRS Program proceeding “on track”, substantive efforts were focused on obtaining these approvals. As reported above (see above Task A), these efforts have been successful, though requiring more time than was reasonably to be expected, and in the course of November 1999 the SRS Program moved into “full swing” with activities accelerating substantially during December 1999.

In addition to the foregoing, efforts continued during the month with the SMI to realize the fullest of benefits from the Broker-Dealer Qualification Training and Testing Training-of-Trainer Program which was successfully completed at the end of November 1999 (see above Tasks A and E, and **Attachments 24** and **25**). Importantly, these efforts were successful in having the SMI recognize the SMMA as the institutional home for broker-dealer qualification training in the ROA and as the future SRO for brokers and dealers. Importantly, as well, continuing training efforts to support development of the SMI, included during the month the delivery in Yerevan by the SEC of a securities market training program which attracted over 53 participants including 30 representatives of the securities commissions of Armenia, Bulgaria, Georgia and Moldova. For more details and a description of the program, see **Attachment 11**.

For a complete schedule of training activities for the quarterly period for professional securities market participants, see **Attachment 10**.

Respectfully submitted,

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

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

- Attachment 1 Focused Areas of Activity between September 1999 and January 2000 as Discussed and Agreed in Meetings Held with Ann Richards during September 15 to 21, 1999
- Attachment 2 Memorandum on Comparison of “Official” and “Unofficial” Draft Laws on Securities Market dated October 11, 1999
- Attachment 3 Armenia Securities Law Strategy
- Attachment 4 Memorandum on Composition of the NA Committee on Financial-Credit, Budgetary and Economic Issues dated October 12, 1999
- Attachment 5 Opinion-letter on Draft Securities Market Law dated October 21, 1999
- Attachment 6 Memorandum on Disclosure and Summary Suspension Reference dated November 29, 1999
- Attachment 7 Memorandum on Latest Update on Draft Securities Market Regulation Law dated December 23, 1999
- Attachment 8 Memorandum on Summary of Discussion of Draft Securities Market Regulation Law dated December 28, 1999
- Attachment 9 Memorandum on Information on Status of Draft Securities Market Regulation Law dated December 22, 1999
- Attachment 10 Training Schedule for the Quarterly Period Ending December 1999 dated as of December 30, 1999
- Attachment 11 Memorandum on “Issues Affecting Securities Market Development” Training Program dated December 17, 1999
- Attachment 12 Memorandum on Meeting with SMI Deputy Head, Artsvi Minasyan on CMMU Software Issues dated November 23, 1999
- Attachment 13 Memorandum on CMMU Activities during October 1999 dated November 1, 1999
- Attachment 14 CMMU Work Plan from November 1, 1999 to November 26, 1999
- Attachment 15 Memorandum on CMMU Activities during November and December 1999
- Attachment 16 Memorandum on SRS Tender Results dated November 23, 1999
- Attachment 17 Outline of “Induction Workshop for Brokers Participating in SRS Sale Program”
- Attachment 18 Memorandum on Pilot SRS Status Report dated December 4, 1999
- Attachment 19 Memorandum on SRS Status Summary dated December 17, 1999
- Attachment 20 Memorandum on SRS Status Summary (2) dated December 23, 1999
- Attachment 21 Memorandum on SRS Status Summary (3) dated December 24, 1999
- Attachment 22 Memorandum on SRS Status Summary (4) dated January 5, 2000
- Attachment 23 “Selling Securities in the Republic of Armenia” Training Materials
- Attachment 24 Memorandum on Assessment of Train the Trainer; Market Participant Certification Training dated December 3, 1999
- Attachment 25 Memorandum on Assessment of Train the Trainer; Market Participant Certification Training dated December 6, 1999
- Attachment 26 Memorandum on Status Report for Broker/Dealer Certification and SRS Program dated January 3, 2000
- Attachment 27 E-mail with Attachment to USAID Representatives Michael Greene and Ann Richards on Armenian Website Document dated October 18, 1999

- Attachment 28 E-mail to USAID Representatives Michael Greene and Ann Richards on WB Strategy Mission Aide Memoire dated October 22, 1999
- Attachment 29 Memorandum on CDA Related Issues dated November 23, 1999
- Attachment 30 Draft Marketing Action Plan for Commercialization of Activity of the Central Depository of Armenia dated December 1, 1999
- Attachment 31 Memorandum on Share Registry Software (AmberSoft): Status, Schedule and Other Issues dated October 22, 1999
- Attachment 32 Memorandum on Consolidation Results vs. Benchmark dated January 10, 2000
- Attachment 33 Information on Privatized JSCs with 50 or More Shareholders dated December 30, 1999
- Attachment 34 Information on Privatized JSCs with 25 or More Shareholders dated December 30, 1999