

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

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

**QUARTERLY REPORT FOR THE PERIOD  
ENDING DECEMBER 2000**

**Contractor/Submitting Party: PricewaterhouseCoopers LLP**

**Contract Number: EPE-I-00-95-00043-00**

**Task Order Number: 11**



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Capital Markets Development Project in the Republic of Armenia

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42/1 Arami Street, Yerevan, Republic of Armenia  
Հայաստանի Հանրապետություն, ք.Երևան, Արամի 42/1

Phones: (3742) 589286, 589201, 589160  
585232, 566526  
Fax: (3742) 151275  
Gov: (3742) 5708

**TO: Ann Richards COTR, USAID/Washington  
Michael Wyzan, USAID/Yerevan  
John Irons, USAID/Yerevan**

**CC: Tessie San Martin, PricewaterhouseCoopers**

**DATE: January 15, 2000**

**Quarterly Report for the Period Ending December 2000**

In addition to those set forth below by Task, activities during the quarter included various meetings and discussions with, among others, Mr. Vahram Necessiantz, Chief Economic Advisor to the President of the Republic of Armenia (ROA) and Mr. Edward Mouradian, Chairman of the Securities Commission (SC) of the Republic of Armenia (ROA), and various Commissioners and the staff of the SC, concerning a range of issues affecting the SC and implementation of and obtaining technical amendments to the Law on Securities Market Regulation (SMR Law); Mr. Armen Melikyan, Chairman of the Securities Market Members Association (SMMA) concerning, among other matters, continued growth of the SMMA, its role as a self-regulatory organization (SRO), and its participation in the tender for a stock exchange SRO (self-regulatory organization) to receive the Russian Trading System (RTS); Mr. Tigran Davtyan, General Director of the Central Depository of Armenia (CDA), concerning, among other matters, issues affecting commercialization and self-sustainability of the CDA; together with USAID Representative Ann Richards, meetings in Tbilisi, Georgia on October 9 and 10, 2000, involving the Chairman, Commissioners and staff representatives of the Georgia Securities Commission, and various representatives of professional securities market participants (PSMPs) of the Republic of Georgia (ROG), and the Chairman of the SC of the ROA, General Director of the CDA, Chairman of the SMMA and others in a series of topical discussions concerning capital market development in the ROG and the ROA; and, as well, various meetings or discussions involving USAID Representatives Fred Claps and Michael Wyzan, and/or representatives of various of the other USAID-sponsored economic and legal reform projects.

During September 1999, for reason of the inability by that time to obtain adoption of the draft Law, we were directed by USAID Representative Richards that, for the timeframe from September 1999 to January 2000, we were to focus our activities on a discrete list of task activities, with our primary objective being to obtain early adoption of the draft Law. For a list of the activities, see **Attachment 1**.

During January 2000, a senior-level USAID Assessment Team comprised of USAID representatives Walter Coles, Richard Johnson and John Crihfield conducted a review and comprehensive assessment of the economic restructuring programs (including this Project) being implemented by USAID in the ROA. As a result of recommendations made by the USAID Assessment Team, at the end of January 2000, a decision was taken to extend the Project on a "no-cost" basis for the period from the end of February 2000 to the end of April

2000. During the period of the no-cost extension, we have been directed to focus on i) adoption of the draft Law; ii) completion of SRS Pilot Program activities (see Task A below); iii) assistance to the Securities Market Inspectorate (SMI) of the ROA with further development of the regulatory framework pertaining to stock exchanges and self-regulatory organizations (SROs); and iv) with regard to SRO development, assistance to the needs of the Securities Market Members Association (SMMA) as the nascent broker and dealer SRO in the ROA.

During March 2000, USAID Representative Ann Richards visited the Project and at that time, as a result of a series of meetings and discussions which took place between her and the local USAID Mission, USAID Representative Richards advised that a decision had been taken to extend the Project on a “no-cost” basis for the remainder of the year. She further advised that for the remainder of the year activities would “more than likely be focused on: i) further development of the SMMA, ii) finishing consolidation (meaning that all further consolidation activities were directed to be ceased at April 30, 2000), iii) work with the SMI if a securities law gets final passage, and iv) institutionalization of the CDA” (see **Attachment 2**). At that time, USAID Representative Richards also advised that the technical assistance (T/A) and “other direct costs” envisaged by us to support these activities should fit within certain funding limitations which had been established by the local USAID Mission. USAID Representative Richards then directed that for the period going forward from May 1, 2000 to December 31, 2000 we were to prepare and submit to her a pro forma budget and detailed work plan. Accordingly, the same were promptly prepared and submitted to USAID Representative Richards together with a Work-Plan Status Report for the Project at April 30, 2000 (see **Attachment 3**). As a result of these actions, on April 26, 2000, pending final negotiation and award of Task Order Modification No. 5, which was expected to occur within 30 days thereafter, USAID Contracting Officer Theresa Pollitt issued a “Notice to Proceed” (NTP) under the Task Order effective from May 1, 2000 (see **Attachment 4**). Thereafter, on June 2, 2000, Task Order Modification No. 5 was duly issued by USAID Contracting Officer Pollitt formally extending the project for the remainder of the year and incorporating into the task activities for the Project the "Supplemental" Scope of Work set forth in Attachment 1 thereto. For a copy of Attachment 1 to the Task Order Modification No.5, see **Attachment 5**.

During July 2000, USAID Representative Richards again visited the Project. At that time, an intensive series of meetings took place involving, among others, the President's Chief Economic Advisor, Vahram Nercessiantz; the Prime Minister's Economic Advisor, Dr. Armen Yeghiazaryan; Head of the SMI, Mr. Tigran Karapetyan; the General Director of the Central Depository of Armenia (CDA), Mr. Tigran Davtyan; various member firms and representatives of the SMMA; and the Presidents of several of Armenia's four stock Exchanges. As a result of these discussions, given passage of the SMR Law on July 6, 2000 (see below Task A), a decision was taken by USAID Representative Richards to recommend to the local Mission that additional funds be obligated under the Task Order budget for the remainder of the period of the Task Order (through December 31, 2000). Additional activities, among others, envisaged during the remainder of the period of the Task Order included increased T/A: i) to the newly formed Securities Commission (SC) to support development of the necessary regulatory infrastructure for transparent market activity, including regulations pertaining to the activities of PSMPs and issuers; enhanced market monitoring, surveillance and enforcement techniques; and training to the staff of the SC; ii) to the SMMA to support continued development of the SMMA as an effective broker/dealer association and SRO, including drafting assistance in the development of necessary amendments to its charter; iii) to the SMMA to build its institutional capacity; and iv) to provide for a limited number of study tours for members of the SC, CDA, SMMA and others. For more details, see **Attachment 6**. On August 3, 2000, USAID Representative Richards advised that when recommending to the local Mission that approval be given for obligation of additional funds to support the activities specified in **Attachment 6**, that she had removed the

T/A LOE (Level-of-Effort) for certain proposed activities and, accordingly, had reduced the amount sought to be obligated (see **Attachment 7**). On August 10, 2000, in accordance with USAID Representative Richards' recommendation, USAID Contracting Officer Pollitt issued Task Order Modification No. 6 formally increasing the amount of funds obligated under the Task Order Contract and incorporated into the task activities for the Project the additional activities specified between **Attachments 6** and **7**.

During September 2000, USAID Representative Richards again visited the Project. As with her prior visits, an intensive series of meetings took place involving, among others, the President's Chief Economic Advisor and representatives of various organizations, including World Bank (WB), SC, Central Bank of Armenia (CBA), CDA and SMMA (see **Attachment 8**), concerning a range of topics focusing on matters affecting the institutional development of the SC and the growth in the capital markets in the ROA, including technical amendments (as mentioned above and below) to the SMR Law. During that time, further discussions took place concerning the focus of T/A activities during the remainder of the period of the Task Order (through December 31, 2000) and the possibility of a follow-on, short-term, Task Order being awarded to us (for the first six months of 2000) to "bridge" (Bridge Task Order) the period between the end of this Task Order (Phase I) and the commencement of a follow-on long-term Task Order (Phase II) to support capital market development in the ROA. At that time, among other things, USAID Representative Richards indicated that if the local Mission was in agreement concerning a Bridge Task Order, the chances were good that we would be authorized to conduct a tender to select a stock exchange to receive the Russian Trading System (RTS).

On October 9 and 10, 2000, a conference took place in Tbilisi, Georgia, involving securities market regulators and PSMPs from the Republics of Georgia and Armenia, and others, including USAID Representative Richards and Project representatives. At that time, a series of topical discussions took place concerning capital market development in the two republics, including the legal and regulatory framework for issuers and PSMPs (primarily brokers, dealers, and stock exchanges, including listing requirements and issues affecting trade settlement). During the conference, the Georgian Stock Exchange provided a demonstration of its trading system, the RTS, to the Armenian participants. The Armenian participants were later queried and it was determined that they were favorably impressed with the functionality and capacity of the RTS Trading System and that they believed it was more than adequate to meet Armenia's present and foreseeable needs. As a result of these and other discussions and initiatives, in October 2000 USAID Representative Richards gave approval for the Project to conduct a tender to select a stock exchange SRO to receive the RTS. The tender was launched during November 2000 with the publication of a "Notice for Tender." During December 2000, upon evaluation of the tender documents submitted by the SMMA, a decision was taken to recommend to USAID that the SMMA be selected to receive assistance envisaged for a stock exchange SRO (for more details, see below Task B).

To assist in the above and in various of the activities set forth below, during the quarter, in addition to our two long-term advisors, the 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 Securities Commission (SC) formerly known as the SMI ("Securities Markets Inspectorate") and as the Securities and Exchange Inspectorate or "SEI"***

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

- i) Obtaining passage of the draft Law. As previously reported, on July 6, 2000, the SMR Law was approved on "second (and final) reading" by the National Assembly (NA) and referred for the signature of the President. On July 28, 2000, after (as we were advised by the President's Chief Economic Advisor, Mr. Vahram Necessiantz) considered deliberation by the President over the Chapter XII provisions which the NA had added to the SMR Law, the President signed and approved the SMR Law. As expressed by the President's Economic Advisor at meetings held with USAID Representatives Richards and Greene on July 17, 2000, with USAID Representatives Richards and Frederick Claps on September 15, 2000, and with USAID Representative Michael Wyzan on October 18, 2000, the President intends to seek early amendments to the SMR Law to amend or remove the troublesome provisions added to Chapter XII and those added to Article 41 which give limited jurisdiction to the SC over the secondary trading of GOA securities which have a duration of more than one-year. During the meeting of October 18, 2000, we were again advised by Mr. Necessiantz that it was the President's intention that the necessary amendments to the SMR Law would be adopted by the GOA Council of Ministers by the end of October 2000, noted as "priority" legislation for consideration by the NA and placed on the agenda of the NA for consideration before the end of December 2000. It should be noted, however, that to date, this has not occurred (see **Attachment 9**). During October 2000, we received from the SC and provided comments concerning proposed amendments to the SMR Law which had been drafted by the SC at the request of the President (see **Attachment 10**). As previously reported, the proposed amendments were found to be adequate for purposes of the above referenced concerns. Other proposed amendments were also found therein which we believe to conform to "good practices" for a securities market regulator.

As was also previously reported, on August 10, 2000, the President appointed the following members of the SC of the ROA: Mr. Edward Mourdian, Chairman; Mr. Tigran Karapetyan, Deputy Chairman; Mr. Artsvi Minasyan, Member; Ms. Amalia Saribekyan, Member and Mr. Khachik Khachatryan, Member. Immediately thereupon, as reflected in ii) below, an intensive schedule of activities was commenced with the SC to support its institutional development, including substantive assistance in the drafting of an extensive list of regulations necessary to the establishment of appropriate requirements for issuers and PSMPs.

Very importantly, it should be noted that on November 9, 2000 the Chairman of the SC advised that the GOA had allocated space for use by the SC and, as well, that it was intended that suitable adjoining space (in the office building) would also be made available for use by the CDA and SMMA (stock exchange SRO), see **Attachment 11**. During December 2000, the SC partially moved to the sixth floor of the space allocated to the SC by a GOA decree (see **Attachment 12**). Later in the month, the SC commenced with steps to evict the current tenants from the first five floors of the allocated spaces (see **Attachment 13**).

- ii) Assisting the institutional development of the SC through activities including staff training, drafting assistance and meetings with the Chairman of the SC (and various commissioners and staff of the SC) at which relevant securities market legal, regulatory and developmental issues were discussed. Importantly, substantive efforts continued to provide guidance and support to the SC in the drafting of an extensive list of regulations required to be developed under the provisions of the SMR Law. During September 2000, drafting priorities were established and our "Action Plan" for drafting assistance to the SC was revised (as it was again this month) to reflect the needs of the SC and requirements of the SMR Law. As previously reported, on September 20, 2000, the first of our expatriate capital markets specialists (whose T/A support was included in the

amendments to the Task Order which are found in Task Order Modification No. 6) arrived in Yerevan. He became immediately immersed in the drafting process and by the end of September 2000, through his efforts and, importantly, too, those of our local professional specialists, various of the required list of regulations were nearing the point of suitability for publication for comments as required by the SMR Law. During October 2000, the second, and, during November 2000, the third of our expatriate capital markets specialists (whose T/A support was included in the amendments to the Task Order which are found in Task Order Modification No. 6) arrived and activities were intensified to draft the necessary regulations – the first of which were published for comments, as required by the SMR Law, on October 23, 2000. Contemporaneous with this, development of the SC's Web Site was sufficiently completed during the month to allow for publication of the draft proposed regulations on the SC's Web Site (see **Attachments 14** and **15**). Importantly, these drafting activities were used as opportunities to provide on-the-job training (OJT) to the Commissioners and staff of the SC. During October 2000, 14 such OJT training sessions were conducted by our expatriate capital market specialist and local professional specialists (see **Attachment 16**). During this stage of the drafting process, a "Rule-Making Table" (see **Attachment 17**) was developed to track all decisions and rules to be adopted by the SC under the requirements of the SMR Law. During November 2000, in accordance with the requirements of the SMR Law, we also provided the SC with a draft plan for the dematerialization of securities (see **Attachment 18**). For an action plan and status to completion, see **Attachment 19**.

- iii) Surveying all laws of the ROA as apply to securities market activities, including efforts to ensure “harmonization” of the SMR Law with same. In this regard, efforts have been on-going to obtain adoption of the proposed amendments which we have recommended [and the GOA and National Assembly (NA) Committee on Financial-Credit, Budgetary and Economic Issues (NA Committees) have approved] to the Joint Stock Company (JSC) Law. The purpose of the amendments is to ensure the efficient functioning of registry and depository activities. As previously reported, to render "less complicated" the process of obtaining passage of the SMR Law, the GOA and NA Committee decided to defer from proposing passage at the same time of the proposed amendments to the JSC Law. This was done with the understanding that the proposed amendments to the JSC Law would be submitted for consideration of the NA at the beginning of the legislative session to commence this month. We are pleased to report that, during the three-day working session of the NA which commenced on September 11, 2000, the NA approved on "first reading" the proposed amendments which we had recommended to the JSC Law and that, on October 11, 2000, the proposed amendments were approved on "second reading" and final reading by the NA and later signed into law by the President. During November 2000, to determine harmonization with the SMR Law, a review was made of the draft Law on Legal Acts (see **Attachments 20** and **21**). During December 2000, a review of the regulation of transfer of security rights under the SMR Law in connection with the draft Collateral Law was provided (see **Attachment 22**); 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 first installed in the SC and SC specialists were trained on how to use and maintain the database. Since that time, on-going substantive efforts have been directed toward continued development and refinement of the CMMU database to best meet the needs of the SC (SMI). During May 2000, Version 3.0 of the CMMU Software and Documentation, in both the Armenian and English languages, was completed and delivered to the SC (SMI). Other activities at that time included additional training to the staff of the SC (SMI) on use of the CMMU database and software. During June

2000, the CMMU completed development of a Policy and Procedures Manual for the SC Inspection Department, and published in the Armenian language its second broker/dealer report entitled: "Analysis of the Broker/Dealer Industry" (During the First-Half of 1999). During July 2000, on-going activities included an analysis of stock exchange activities, including a comparative analysis of activity reports filed by member firms and all brokers and dealers with the SMI, and efforts to complete the CMMU's next envisaged report on stock exchange activities. During December 2000, a comprehensive report on "Analysis of the Stock Exchange Industry - 1999" was published. During November 2000, the CMMU completed its report on securities market activities for the third quarter of 2000. Since September 2000, as with all of our local professional specialists, the professional staff of the CMMU have also been focused on providing drafting assistance to the SC. Importantly, as well, other activities have included those of the CMMU's IT specialist and our other IT specialists to complete development of the SC Web Site. We are pleased to report that this effort was successful and that on October 20, 2000, the SC Web Site became operational and, shortly, thereafter, on October 23, 2000, the first six draft regulations were published for comments on the SC's Web Site and more have continued to be published as they have been ready during the quarter.

In addition to the foregoing, other related activities have included several substantive 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 – the "SRS Pilot Program" – focused on T/A to the MOP and SMI (and later to the SMMA) to facilitate the sale of state shares remaining in privatized enterprises with less than 50% state ownership remaining. A primary purpose of this activity was to develop and enhance the capacity and skills of brokers and dealers to act as financial advisors and underwriters. A follow-on purpose for this activity has been to leverage the SRS experience to build the institutional capacity of the SMMA. To commence the process, two major training components were developed and delivered in April 1999 and since that time various others were developed for delivery during realization of the SRS Pilot Program and follow-on initiatives involving the SMMA.

During November 1999, despite numerous delays caused by the fact that the second of two required GOA "SRS" Decrees was not approved until November 2, 1999, we were granted approval by USAID to proceed with the SRS Pilot Program. The SRS Program immediately moved into "high" gear and by the end of November 1999 six brokerage firms were selected to participate in the SRS Pilot Program and all 15 SRS Companies allocated between them. With this accomplished, our expatriate Investment Banking and Brokerage Specialist team moved into full swing during December 1999. Activities during December 1999 included an "Introduction Workshop" for participating brokers, a series of group and one-on-one meetings with the participating brokerage firms involving members of expatriate specialist team and our local professional specialists (with each of our local professional specialists being assigned a participating brokerage firm for which the specialist was responsible to monitor the quality and timeliness of all documents to be prepared by the brokerage firm). By December 1999, five prospectuses had been approved by the MOP and were in the process of approval by the SC; and, prospectuses for the remaining ten companies were being finalized for approval by the MOP and SC during the first half of January 2000.

During January 2000, activities were intensified for the purpose of moving the SRS Companies to market (sale) and, as a result, by the beginning of February 2000, four SRS Companies were set for sale on February 18, 2000, three were set for sale on February 23, 2000 and four were set for sale on March 2, 2000. During February 2000, activities focused on assisting the participating brokers in effectively marketing the shares which were being

offered. Among other activities, on February 11, 2000, a seminar on “How to Sell Securities” was provided to the participating brokers. Of the first four SRS Companies offered for sale on February 18, 2000, two companies received a total of seven bids and were sold with the other two companies failing to receive any bids. Of the second group of three companies offered for sale on February 23, 2000, one company received two bids and was sold with the other two companies failing to receive any bids. As of the end of February 2000, a third group of four SRS companies remained for sale on March 2, 2000 and a fourth group of two SRS companies remained for sale on March 17, 2000. Of the third group of four SRS Companies offered for sale on March 2, 2000, three companies received a total of five bids and were sold with the fourth company failing to receive any bids. Of the fourth group of two SRS companies offered for sale on March 17, 2000, both companies failed to receive any bids.

On March 22, 2000, to “wrap-up” the SRS Pilot Program and, in doing so, to capture and document to the fullest the individual experiences of the participating brokers and to afford an opportunity for participating brokers to share their experiences with representatives of the MOP, SC (SMI) and SMMA, a “Pilot SRS Lessons Learned Workshop” was conducted in cooperation with the SMMA. It is important to note that, Deputy MOP Ashot Markossyan and (then) Deputy SMI Head Tigran Karapetyan actively participated in the workshop and, as well, in the substantive head-to-head discussions which took place with participating brokers and members of the SMMA. Importantly, too, it should be noted that during these discussions, Deputy MOP Markossyan reaffirmed the MOP's continued willingness to work with brokers in the future SRS and similar privatization initiatives. Deputy MOP Markossyan also indicated his willingness to receive from the brokers a list of the companies which they felt they could assist to be sold and privatized. To fully document the results of this activity, during April 2000, an SRS Pilot Program “Assessment Report” was rendered.

As indicated above, during USAID Representative Richards visit in March 2000, acting in agreement with the local USAID Mission, a decision was taken to extend the Project on a no-cost basis for the remainder of the year and we were directed by USAID Representative Richards to focus, among other matters, on activities to support the further (institutional) development of the SMMA. In this connection, three focused activities were proposed to USAID Representative Richards and during April 2000, after due consideration was given to the limited amount of funds which could be identified to support extension of the Project through the remainder of the year, we were directed by USAID Representative Richards that we were only to provide the first of the activities – “Leverage the experience of the Pilot SRS (Program)” – which we had proposed. This was accomplished during June 2000 through the delivery of two training programs. The first program, a Training of Trainers (T-O-T) Program, was conducted on June 9, 2000. The T-O-T Program focused on development of the capacity of the six SRS participating firms (the majority of which are SMMA member firms) to provide training to PSMPs through delivery of the SRS "Case Study" and Training Program which were specifically developed for that purpose. The second program, a workshop, was delivered by the trained trainers on June 14, 2000, to over 40 other PSMPs (including 11 SC [SMI] staff members). During July 2000, a Summary Report on this activity was rendered and filed with our Monthly Report for July 2000.

The second such related effort – the “Broker-Dealer Qualification Training and Testing Program” – focused on T/A to the SC (SMI) and SMMA and was designed to enhance the professional skills and qualifications of brokers and dealers and the institutional capacity of the SMMA. This was accomplished by expanding the SC's capacity to administer a more thorough qualification testing program for the licensing of brokers and dealers, and, at the same time, the SMMA's capacity to provide qualification training to 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. By the middle of October 1999, the course materials for the nine training modules envisaged to be required to properly train examnants for the new qualification test had been completed and 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 of 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 Pilot Program. 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. During November 1999, activities were, however, immediately refocused to conclude the T-O-T Training Program which was successfully concluded in training activities which were conducted between November 22 and 24, 1999.

In parallel with the T-O-T activities, our IT staff worked to conclude the design and development of the software (database management system) necessary for the SC to administer the qualification testing process. By the end of November 1999, development of the software was basically completed and plans were in process to load the database of test questions so that the new qualification testing system could be demonstrated and, importantly, rigorously tested and made ready for use by the SC. During December 1999, in furtherance of these activities, efforts were substantially completed to finalize the study manual which we had undertaken to develop with the SC to assist examnants to study when preparing for the new qualification test, and the software which we had designed to accommodate the use of a computerized testing regime. By the beginning of February 2000, the examnant study manual was fully completed and a copy delivered to USAID Representative Richards. During the period from February to May 2000, efforts were redoubled with the SC (SMI) to review and finalize the examination questions, and to complete development of the testing software (and to populate the software database). These efforts were fully completed in May 2000 (see below Task B); however, as reported below (see Task E), we have for the present time taken a decision to defer from installing a “Broker Qualification Testing Center” (a LAN-based computer classroom environment in real-time mode) within the SMMA until various issues which we believe to affect the appropriateness of doing so are satisfactorily resolved. In this regard, as reported below in Task E, since June 2000, a number of concrete measures have been taken by us to encourage appropriate changes within the organizational structure and governance practices of the SMMA and thus to address certain of our concerns. As reported below (see Task E), as a result of these measures we have seen strong evidence of appropriate changes within the SMMA and would recommend that once the SMMA takes up permanent quarters a Broker Qualification Testing Center be established within the SMMA.

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

As agreed with USAID Representative Richards during February 1999, rather than focusing on efforts to promote the National Market System (NMS), our efforts since that time 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 registers to begin as from May 1, 1999 (see 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 June 1999 by which time a temporary location had been determined and made ready for use by the CDA. For more details in these and other activities designed to establish the functional capacity of the NCR/CDA to maintain shareholder registers, see below Tasks C and D.

During the month of September 1999, in further reviewing with USAID Representative Richards various of the activities which were proposed by us to realize the NMS, approval was given, as a first step toward realization of the NMS, for the development of an "Armenian Stock Exchange" (ASE) Website. During October 1999, activities continued to realize the timely development of the website, including the hiring of a local "web-master" and actions which were intended to ensure linkage between the Armenian Stock Exchange Website and the Armenian Development Agency's Website (the "Gateway to Armenia" Website which is being developed with assistance from the WB), and the Ministry of Privatization's Website (which is being developed with the assistance from USAID).

During December 1999, our preliminary development efforts were realized, when, by the end of the month, the ASE website was ready for demonstration using our office LAN system and Internet site. During the past several months, much of our IT attention has been focused on providing on-going IT support to the SMI. This has been done to more fully institutionalize the SMI's use of the CMMU and ISIN databases, and to facilitate the SMI's use of the broker-dealer qualification testing software which we now consider to be a reasonably fully developed product. Additional IT efforts have included those to realize population of the ASE Website (see herein above) database and, most importantly, to implement for full use by the CDA the share registry software which has been provided to the CDA under the Project (see below Task D).

As a result of these and other related efforts, as of the end of May 2000, we had successfully completed virtually all of the IT (software development) efforts which have been undertaken by us under the Project. These include development of the: i) SMI/CMMU Database Software (100% complete); ii) ISIN Database Software (100% complete); iii) Brokers Qualification Examination Software (100% complete); iv) CDA Share Registry Software (100% complete); and v) "Web - Family" of software products which we have undertaken to develop – the Armenian Capital Markets Web Site (75% complete); SMMA Web Site (Homepage) and Open Joint Stock Companies Database in HTML Version (100% complete); SMMA Web Site (Homepage) and Open Joint Stock Companies Database and Web Site in Cold Fusion Version (100% complete); CDA Web Site (Homepage) in Russian language version (95% complete); and SC (SMI) Web Site (Homepage) (20% complete). As reported in Task A ii) and iii) above, during the month, development of the SC's Web Site was basically completed (the Armenian language version) and the SC's Web Site became operational on October 20, 2000.

As reported above, during July 2000, in a series of discussions which took place with USAID Representative Richards, attention was focused, among other things, upon the next steps going forward to support development of a trading system in the ROA; and, in specific, efforts to conduct a tender (in a manner similar to that used by USAID in the Republic of Georgia) to select (as required under the SMR Law) an SRO to receive the RTS. During these discussions, among other things, permission was sought for us to conduct such a tender and to select the SRO during the remainder of the period of the Task Order (before the end of the year). At that time, it was agreed that discussions would continue on whether or not we would be permitted to conduct the tender. As also reported above, during her visit in September 2000, a series of discussions again took place with USAID Representatives concerning, among other matters, whether we would be permitted to conduct a tender during the remaining period of the Task Order to select the stock exchange (SRO) to receive the

RTS system. At that time, we discussed a possible timetable (built around the "Georgian Tender Experience") to allow this to happen and how this would play into objectives of the Bridge Task Order (see above) which was also discussed at that time. As previously reported, the outcome of our discussions in September 2000 was that it was agreed we would continue to discuss the possibility for the tender and that, for that, and other purposes, as well, a conference would be held in Tbilisi, Georgia during October 2000 to involve representatives from the Securities Commissions and PSMPs from both republics. Among other benefits, the conference was designed to enable the Armenian participants see a demonstration of the RTS and to ask questions of Georgian Securities Commission and PSMPs concerning the "Georgian" tender experience when conducting a tender to select/establish the Georgia Stock Exchange (GSE). We are pleased to report that, as indicated above, a very successful "first" conference was held in Tbilisi on October 9 to 10, 2000 and that at that time, the RTS trading system was demonstrated by representatives of the GSE to the Armenian participants, including, importantly, the Chairman and Stock Exchange Specialist from the Armenian SC and the Chairman of the SMMA. The impression received by all (of the Armenian participants) was most positive and, as a result of further discussions with USAID Representative Richards, approval was given for us to conduct a tender during the remainder of the Task Order period to select a "Stock Exchange/SRO" to receive technical assistance during the Bridge Task Order to include installation of the RTS, including hardware, software and communications. The tender was successfully launched during November 2000 with two organizations participating – the SMMA and United Stock Exchange. For a copy of the Notice of Tender and Request for Proposal, see **Attachment 23**. In furtherance of the tender process, on November 22, 2000, a demonstration of the RTS was provided in Yerevan to an audience of 66 persons including representatives of the CBA, various commercial banks operating in Armenia, PSMPs and members of the SMMA (see **Attachment 24**). On December 8, 2000, the deadline for receiving responses to the Tender, the SMMA was the only organization to respond. The Tender Package provided by the SMMA, showed, among other things, the decision taken and ability to reorganize the SMMA into the "Armenian Stock Exchange" as a SRO. Upon review of this Tender Package, a decision was taken to select and recommend to USAID the SMMA as the recipient of the envisaged assistance upon agreement and satisfaction of various conditions including, registering the stock exchange SRO by February 15, 2001, improving the documents presented in the Tender Package, and evidencing cooperation with the SC and the Project (see **Attachment 25**).

As indicated above (see Task B), as a result of discussions in mid-September 1999 involving USAID Representative Richards and then 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. 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 (YSE) 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 YSE to dominate the process. It should also be noted that during that time, we also undertook an analysis of the YSE's Automated Trading System (SEDGAP). Regrettably, the level of cooperation and information received from the YSE failed to permit a meaningful analysis of SEDGAP's capabilities. However, based upon the extent of documentation provided and a visual demonstration of the system's functions, we are able to indicate that while it would appear the SEDGAP system has been designed using contemporary

technology, it has not been put to rigorous testing by brokers and is not believed to be a commercial grade software product.

It is also interesting to note that on June 30, 2000, the YSE conducted a general meeting of shareholders at which the CBA, one of its major shareholders expressed, among other things, concern over the "political" activities of the YSE in opposing passage of the SMR Law; the fact that, as an open joint stock company, the YSE continues to fail to use (in violation of the laws of the ROA) the services of the CDA; and the YSE's corporate governance practices. In this context the CBA also announced its decision to sell its shares of the YSE. During the month, among other matters, this event and the CBA's thoughts, in general, toward the YSE and the CBA's investment in the YSE were discussed together with USAID Representative Richards with CBA Board members Nerses Yeritsyan and Vache Gabrielyan. At that time, Messrs. Yeritsyan and Gabrielyan indicated continued concern over the practices of the YSE and the CBA's investment in the YSE, but indicated that no further actions had been taken by the CBA to liquidate its investment in the YSE.

Importantly, it should be noted that, under the provisions of the SMR Law, the licenses of Armenia's four stock exchanges are continued as valid to December 1, 2000; and that, by that date, unless the exchanges have applied to and become registered by the SC as SROs, their licenses shall expire and their activities must cease.

### **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 recent efforts have, among others, focused on the development of a detailed self-sustainability plan for the registry activities of the CDA. In efforts designed to encourage and facilitate a loan from the WB to the GOA to support development of the NCR/CDA, a copy of self-sustainability plan 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. The meeting with the WB representatives resulted in certain provisions being added to the WB Strategy Mission's "Aide Memoire" which supported both of these matters. 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. As previously reported, it was not until late October 1999 that the GOA approved and the President signed a decree authorizing the WB loan to support development of the CDA.

As previously reported, since March 1999, activities have been on-going to support “commercialization” of the CDA. These have included both consolidation activities which were substantially completed and ceased at the end of April 2000 (see below Task D), and other efforts designed to focus the CDA on the need to promptly bring consolidated companies “under contract” with (and have their registers maintained by) the CDA. To support these efforts, during December 1999, we developed a “Marketing Action Plan” to assist in commercialization of the CDA and revised the self-sustainability plan which we *had* previously developed for the CDA. During January 2000, these activities included encouraging the SMI to send letters to companies noticing them of the requirement to use the services of the CDA and efforts to assess the legal impact and potential economic benefit to the CDA of GOA Decree #21, which was enacted on January 21, 2000.

As at the present time, based on the best available information, we believe that, as a result of GOA Decree #21, there could be as many as 105 state closed JSCs that will be reorganized into open JSCs. The suspected universe of shareholders of these companies is approximately 31,820. Accordingly, the effect of converting these companies to open JSCs could increase the universe of shareholders in the ROA by almost 20% (to approximately 187,000 shareholders) and potential revenues to the CDA by approximately the same percentage. Accordingly, during April 2000, working with the SMI, we developed a draft implementation program which was discussed and agreed with the SMI to support the SMI's efforts (as the implementing agency of the GOA) to reorganize all state closed joint stock companies falling under the provisions of Decree #21 to open JSCs. To further support this effort, during May 2000, we initiated steps to create a "Decree #21" database (D/B) for use by the SMI which will contain all relevant information concerning the 105 companies. Since that time, efforts were commenced to gather and analyze all available information concerning the 105 companies and by the end of August 2000 those efforts had been successfully completed and the D/B of Decree #21 companies was populated and ready for delivery to the SC. However, due to need for our resources and those of the SC to remain singularly focused on the drafting of necessary regulations in accordance with the transitional provisions of the SMR Law, a decision was taken with the SC to defer delivery for the present time of the Decree #21 D/B to the SC.

Over the past several months, the above and related efforts have been intensified and remain on-going to support commercialization of the CDA and to assist the CDA in receiving the proceeds approved for it under the GOA/WB loan to support development of the CDA. Regrettably, as previously reported, it was not until the July 2000 that the CDA began to receive proceeds under the GOA/WB loan. As for on-going efforts to support commercialization of the CDA, during September 2000, two seminars were organized by us and provided in collaboration with the CDA. The first was designed to acquaint broker/dealers with the workings of the CDA and the procedures involved in the re-registration of share ownership; and, the second was designed to attract and train a cadre of sales representatives to solicit open joint stock companies to use the services of the CDA. As of December 28, 2000, the CDA was servicing 337 commercial clients (see **Attachment 26**). We are pleased to report that on October 13, 2000, the Prime Minister of the GOA signed a decree assigning a permanent office facility for use by the CDA. At the end of October 2000, we were told the facility was in the process of being transferred from the balance sheet of the Ministry of State Property Management to that of the Ministry of Finance and Economy (MOFE). On November 14, 2000, we were advised that the transfer had occurred and a long-term, no-cost lease may be granted by the MOFE to the CDA. However, the signing of a lease contract has been postponed due to the SC expressed intent to provide the CDA with space at the building where the GOA has allocated space for the use of the SC (see Task A above).

#### ***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 a 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 the NA Committee, and efforts continue to obtain passage 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 concluded by April 21, 1999. Immediately thereafter, training for mass consolidation was commenced with mass consolidation activities formally beginning on May 1, 1999. As previously reported, 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. In this connection, efforts were concluded in 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 USAID Representative Richards' visit in September 1999, considerable time was devoted to reviewing our (rate of) progress in consolidating share registers. 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 for the ability of the SC (SMI) to provide staff “in the field” to adequately support our consolidation activities outside Yerevan. 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. As reported above, during her visit in March 2000, as a requirement of the no-cost extension of the Project through the remainder of the year, USAID Representative Richards directed that consolidation activities be ceased at the end of April 2000. Accordingly, commencing during April 2000, the level of effort of our 10 consolidation teams was wound down such that by the end of the month all of our teams were discharged from further work under the Project and consolidation activities were formally ceased with due notice in advance to both the SMI and CDA. As a benchmark of the success of this activity, as of the cessation of consolidation activities at the end of April 2000, as a result of the mass (and pilot) consolidation activities conducted under the Project, when

taking into account the number of share ownership records (24,698) maintained by the NCR at the time of commencement of these activities, based upon the best available information, 89.3% of the share ownership records of all privatized companies with 25 or more shareholders had been consolidated (or determined to be closed) and 93.2% of the share ownership records of all privatized companies with 50 or more shareholders had been consolidated (or determined to be closed). To assist in our efforts to consolidate the shareholder registers of privatized open JSCs, we developed a database containing the names and location of all privatized companies and the number of shareholders of each company. At the time of cessation of our consolidation activities, the privatization database, taking into account information obtained through the consolidation process, contained the names of 493 privatized companies believed to have 50 or more shareholders and 712 privatized companies believed to have 25 or more shareholders.

As previously reported, given that the estimated aggregate number of shareholders for all privatized open JSCs with 50 or more shareholders was estimated at approximately 135,000 and, for all privatized open JSCs with 25 and more shareholders at approximately 142,000, 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 before the NA [see above Task A iii)].

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. At that time, further consideration was given to the two share registry systems which had been identified by us as available from Russian software designers and to 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. By early August 1999, the AmberSoft System had been installed, tested, and "accepted" by us on behalf of USAID for use by the CDA. To 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 SC (SMI). To assist in the process of finalizing the regulation, the services of an expatriate Share Registry (SR) Specialist had been 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 which significantly enhanced the operational and performance capabilities of the CDA.

During USAID Representative Richards' visit in September 1999, we also 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. Accordingly, taking into account unanticipated time delays encountered in having more fully "Armenianize" the AmberSoft System than was originally intended, a fully adapted and functionally operational share registry software system was delivered to the CDA during February 2000. Since that time we have been working with the specialists and relevant staff of the CDA to fully train

and encourage them to use the new system. While these efforts have encountered usual degree of reluctance to the use of a “new” software system, we believe significant progress has been achieved. At the end of May 2000, to complete this effort, a specialized CDA training program on “Registry Procedures and Software Training” was designed, developed and delivered to the staff of the CDA.

During USAID Representative Richards' visit in September 2000, among other matters discussed, was support going-forward to assist privatization of the CDA in accordance with the requirements of the SMR Law by June 1, 2001. At that time it was determined that support for this activity and, as well, provision to the CDA of an electronic "clearance, settlement and depository" (CSD) system would be considered when determining activities to be performed under the Bridge Task Order which was at that time discussed (see above Tasks A and B) with USAID Representative Richards.

Given the foregoing, we continue to urge that, as a condition to USAID support to the NCR/CDA, the MOF/SC (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 a licensed stock exchange. Additionally, we 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.

##### ***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 Pilot 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 SMMA and Financial Market Specialists Association (FMSA).

Building on these initiatives, beginning in June 1999, efforts were made to involve representatives of the SMMA, Giumry Stock Exchange and SC (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 and July 1999, working with representatives from these organizations, 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 1999 such that, by the end of that month, we developed over 850 questions for consideration by the SMI to use in testing the qualifications of brokers and dealers. As mentioned above (see task A), based on the success of this effort and training of trainer efforts, a training manual for examiners was completed by the beginning of February 2000; and, by May 2000, we had completed work on the question database (which was then fully populated) and testing software.

As a result of these and other efforts which have been undertaken with the SMMA, during discussions in January 2000 involving representatives of the SC (SMI), the SMMA was identified as the future (potential) SRO for brokers and dealers in the ROA. To that end, the

SMMA was also designated by the SMI as the institutional home for broker-dealer training under the Broker-Dealer Qualification Training and Testing Program. To realize this objective, during January 2000, in conjunction with both the SC (SMI) and SMMA, we provided T-O-T training to PSMPs and SMMA members, so that (under the auspices of the SMMA) they would be capable to provide training to future examiners.

To build on these initiatives, as reported above, as a result of discussions held with USAID Representative Richards during her visit in March 2000, additional institution building activities were proposed to support the continued development of the SMMA. These activities were designed to: i) leverage the experience of the SRS Pilot Program, ii) establish the SMMA as coordinator of the brokers' participation in future privatization initiatives, and iii) establish within the SMMA a "Broker Assistance Center." As also reported above (see Task A), as a result of subsequent discussions with USAID Representative Richards, we were directed that we were only to provide certain agreed activities to "leverage on the experience of the SRS Pilot Program." We are pleased to report that during June 2000, as discussed in detail in above Task A, these activities and their objectives were successfully realized through the provision of two very well received training programs.

As also reported in Task A, for the present time, a decision has been taken by us to defer from placing a Broker Qualification Testing Center (Center) in the SMMA. Factors contributing to this decision include, among others, concerns for the organizational structure and governance practices of the SMMA, the ability of the SMMA to become self-sustaining, the current low level of membership (among broker-dealer firms) in the SMMA, and the SMMA's lease arrangements. To deal with such concerns, beginning in June 2000, steps were aggressively taken to cause the SMMA's management to – focus beyond the SMMA's current membership, better understand the wants and needs of the broker-dealer community at large, and reach out to the broker-dealer community in a manner more likely to attract and increase the SMMA's membership. To do this, among other activities, we caused the SMMA to develop and distribute a questionnaire to the broker-dealer community seeking their input for the SMMA to better understand the wants and needs of all brokers and dealers and to guide the SMMA in considering how to attract new membership to the SMMA. These efforts were also designed to encourage organizational and structural changes within the SMMA; to encourage the SMMA's membership to look for leadership from outside the SMMA's current management, and to foster greater participation by all members in the governance of the SMMA. As a result of these and other related efforts, we are pleased to report that there has been a dramatic increase in membership in the SMMA among broker/dealer firms (during June 2000, the SMMA attracted three new member firms increasing its membership by 25% - from 12 to 15 member firms; during July 2000, the SMMA attracted five additional new members increasing its membership by 33% - from 15 to 20 firms; during August 2000, the SMMA attracted four additional new members and increased its membership by 20% - from 20 to 24 member firms; and during November 2000, the SMMA attracted yet another three new members increasing membership by 12.5% - from 24 to 27 member firms). Importantly, as a result of this most recent increase in membership in the SMMA, as a percentage of total equity turnover in the securities markets in the ROA (as reported by all broker/dealers to the SC), membership in the SMMA now represents in excess of 95% of total equity turnover reported by all broker/dealers in Armenia (see **Attachment 27**).

We are also pleased to report that during July 2000, we also saw the SMMA take a dramatic step forward in terms of its governance practices and elect a new Chairman and Board of Directors (composed largely of representatives from member firms which had been attracted to the SMMA since its reorganization in December 1999). We consider the above as strong evidence of the SMMA's determination to meet the challenge of expansion, to develop along democratic principles of governance, and to become the primary representative membership

association for brokers and dealers in Armenia and, in doing so, to improve its chances for self-sustainability and to become an SRO. During this month, the SMMA took further positive steps to become an SRO and, to qualify to compete in the tender to receive the RTS (see above Task B), to transform itself into a stock exchange SRO. As a result of these and other initiatives, we would recommend that once the SMMA takes up permanent quarters the Center be installed within the SMMA. We believe this should occur during the Bridge Task Order (see above).

It is also to be noted that, to satisfy certain technical assistance needs of the SMMA which were identified with the USAID Assessment Team in January 2000 (and which formed a portion of the basis on which the Project was extended from the end of February 2000 to the end of April 2000), a BDA/SRO Specialist was mobilized during March 2000 and promptly commenced an intensive review and audit to determine the existence and sufficiency of, among other things, the Charter and By-laws, and practices and procedures of the SMMA. As a result of this effort, a number of deficiencies were noted and efforts are now underway to provide T/A to the SMMA to, among other things, amend its Charter and establish the kind of By-laws and internal regulations which will enable for it to function more effectively as the primary membership association for brokers and dealers in the ROA and to meet the standards necessary for the SMMA to qualify as an SRO.

For the SMMA to qualify as an SRO, it was also determined that certain additional, essential requirements would need to be met by the SMMA including: Membership Standards and Rules, Fair Practice and Conduct Codes, Advertising Standards, Trading and Settlement Rules, and Disciplinary and Arbitration Procedures. As a consequence, an SMMA “Documents Outline” was created, proposed amendments to the SMMA’s Charter were developed, a “SMMA/SRO By-Laws Needs Outline” was created, draft By-laws were developed, and a list was developed for the SMMA of “Steps to Transformation” from a professional association to a qualifying SRO. In addition to the foregoing, drafts of the following required rules, codes and procedures were developed by the BDA/SRO Specialist: i) Membership Rules; ii) Fair Practice Rules; iii) Code of Ethics and Standards of Professional Conduct; iv) Uniform Practice Code; v) Arbitration Code; vi) Disciplinary Procedures Code; and vii) a list of Marketplace Rules was created for the future development of a trading system.

At the same time, based on discussions with the staff of the SC (SMI), the BDA/SRO Specialist also determined that certain necessary regulations were absent from the current regulatory framework for the regulation of broker and dealer activities, and, importantly, since under the SMR Law, all PSMPs must be a member of an SRO and all stock exchanges must be SROs, for the regulation of SROs. Considering same, the BDA/SRO Specialist developed guidelines to be followed by the SC (SMI) and SMMA/SRO on establishing requirements for broker and dealer: i) Books and Records; ii) Net Capital; and iii) Margin. At that time, one of our TCN securities market specialists was tasked to develop proposed regulations on the activities of SROs. Initial drafting of the proposed SRO regulations was completed during July 2000 at which time copies were distributed for comment among our expatriate and local professional staff. Comments were thereafter collected and during August 2000 the draft SRO regulation was finalized for translation into the Armenian language and distributed for consideration to the members and staff of the SC. During August 2000, to gain a better understanding of SRO issues and to assist the SC to develop sound policies on the regulation of SROs, an analysis of SRO provisions under the SMR Law was developed and a draft Model SRO Charter was developed for consideration by the SC. In furtherance of this process, since adoption of the SMR Law in July 2000, considerable attention has been focused with the SC on the determination of appropriate “net capital,” “books and records” and other requirements for brokers and dealers.

In addition to the foregoing, during August 2000, continued activities to assist the SMMA to transform itself into a more appropriately organized membership association for brokers and dealers and to prepare the way for it to become an SRO, included the development of a three-month action plan for the SMMA which was discussed and agreed with the SMMA's Chairman, Armen Melikyan. During the month, as a result of these and other efforts involving the SMMA and SC, a decision was taken to defer from attempting to draft more substantive SRO regulations with/for the SMMA until such time as, with our assistance, the SC had established appropriate framework regulations on the activities of SROs.

During September 2000, together with USAID Representative Richards, discussions also took place with SMMA Chairman Melikyan concerning the possibility for a tender to select a stock exchange (SRO) to receive the RTS. Chairman Melikyan was pleased to learn of this and indicated that the SMMA was interested in obtaining its own trading system. On behalf of the SMMA, Chairman Melikyan expressed great interest in participating in such a tender and in the conference which was being considered to take place in Tbilisi, Georgia, in October 2000 (see above Task B) to involve representatives from the Securities Commissions and PSMPs from Georgia and Armenia, and, while participating in the conference, in seeing a demonstration of the RTS by the Georgian Stock Exchange. As indicated above (see Tasks A and B), as a result of the conference held in Tbilisi on October 9 and 10, 2000, a decision was taken by USAID Representative Richards to allow us to conduct a tender during the remainder of the period of this Task Order to select a Stock Exchange/SRO which would receive the intended T/A during the Bridge Task Order. As reported above, the tender was successfully launched during November 2000 and during this month a recipient organization (Stock Exchange SRO) of the T/A was selected.

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. The discussions were to consider a grant application which the SMMA had (with our recommendation) submitted to Eurasia Foundation. The purpose of the grant application was, among other purposes, for the SMMA to obtain grant assistance to develop and provide training for PSMPs. As a result of these discussions, the SMMA received a development assistance grant from Eurasia Foundation. Within the framework of the grant we have provided T/A to the SMMA to assist it to satisfy the technical requirements of the grant. Importantly during March 2000, in satisfaction of certain of the grant requirements, the SMMA completed development of a "Guidebook on Joint Stock Companies in the Republic of Armenia" (Guidebook) and began, with our assistance, to offer a series of training sessions to prospective PSMPs on "Management, Marketing and Regulation of Broker/Dealer Activities." These activities continued into May 2000, during which, among other things, we completed efforts to put the SMMA's Guidebook into a management database system (HTML Version) which we had developed for that purpose. Importantly, as well, during May 2000, activities were completed to make the SMMA's Guidebook accessible through the SMMA Web Site (Homepage), the development of which we also completed during May 2000. During June and July 2000, efforts continued to assist the SMMA to complete all requirements of the Eurasia Foundation grant and to qualify for further grant assistance. During August 2000, we are pleased to report that the SMMA substantially completed all requirements of the grant. With our continued guidance and assistance, we believe that the SMMA will reasonably qualify for further grant assistance from Eurasia Foundation. Accordingly, activities have continued to assist the SMMA in finalizing a suitable proposal for further assistance from Eurasia Foundation.

It is also worthy to note that, during July 2000, to support the growth of appropriate trade and professional membership associations in the ROA, we participated in an association strengthening initiative which was conducted by AFIC (Association for Foreign Investment and Cooperation) with grant assistance from Eurasia Foundation. We would further wish to

note that, during October 2000, one of our local specialists who functions as our primary liaison with the SMMA, together with representatives of the SMMA, actively participated in a seminar on "Problems and Prospects of Armenian Business Associations" which was sponsored by EU TACIS.

Importantly, during November 2000, to facilitate potential opportunities for building the capacity of brokers and dealers and, at the same time, provide institutional recognition to the SMMA, meetings were organized with representatives of the USAID Agribusiness Small and Medium Enterprise Development Project and the USAID Privatization Support Project to discuss how the use of brokers and dealers could potentially facilitate certain of the goals and objectives of those projects and this project.

#### **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 had been prepared and were later revised in late March 1999. During May 1999, a further revised "Training Program" for the project was developed and provided to USAID Representative during her site visit to the project. 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 SC (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. 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. This resulted in the design, development and delivery in April 1999 of two broker-dealer/SRS training programs (one on "Financial Advisory and Underwriting" and the other on "Securities Firm Operations and Management").

After delays between April and October 1999 in obtaining the necessary GOA approvals and decrees to proceed forward, the SRS Pilot Program moved into "full swing" in November 1999. After delivery in December 1999 of an intensive series of training initiatives and activities which were designed to increase the likelihood of success of the SRS Pilot Program, the SRS Pilot Program moved into "high-gear" and was very successfully concluded in March 2000. During June 2000, as described in detail in Task A, to strengthen the institutional capacity of the SMMA, two additional institution building training programs

were developed around the SRS Program and delivered in close cooperation with the SMMA. Importantly, as well, these programs provided valuable training to over 45 PSMPs, including 11 SC (SMI) staff members.

In addition to the foregoing, efforts intensified beginning in December 1999 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 during November 1999. Importantly, these efforts were successful in having the SC (SMI) recognize the SMMA as the institutional home for broker-dealer qualification training and as the best potential future SRO for brokers and dealers in the ROA. Importantly, as well, as generally described in Task E above, through grant assistance from the Eurasia Foundation and T/A from the Project, the SMMA has begun to provide valuable training to support securities market development in the ROA and, by doing so, to become recognized as the membership association of choice by brokers and dealers in the ROA.

During May 2000, as described in detail in Task A above, to ensure the fullest use of the CMMU database and software system which we developed for use by the SMI, a further specialized training program was developed and provided for the staff of SMI. As also generally discussed in Task D above, to ensure the fullest use of the registry software system which we purchased and adapted for use by the CDA, a specialized training program was developed and provided for the staff of the CDA.

Other recent related activities have included participation in an Economic Journalism Speakers Series seminar sponsored by AED the USAID-funded Training for Societies in Transition Project in May 2000; a European Bank for Reconstruction and Development (EBRD) program to consider EBRD Working Committee recommendations on a proposed draft CIS Model Law on Securities Regulation in May 2000; a Eurasia Foundation supported program to consider issues affecting "Development of Armenian Business Associations" in Armenia in July 2000; a European Union (EU) International Accounting Standards (IAS) conference held in Brussels, Belgium in September 2000; and, with assistance from AED, a conference involving representatives of the Armenian and Georgian Securities Commissions and various Armenian and Georgian PSMPs which was held in Tbilisi, Georgia on October 9 and 10, 2000.

As reported above (see Task A), since adoption of the SMR Law in July 2000, our training efforts have continued to intensively focus on the SC and its staff and on building the SC's capacity to promulgate sound regulations and polices to bring increased openness and transparency to securities market activities in the ROA.

During the quarter, as well, as reported above (see Tasks A and C), with financial assistance from the USAID-funded Training for Societies in Transition Project (AED), training was provided to the SC, CDA and SMMA, when SC Chairman Mouradian, CDA General Director Davtyan, SMMA Chairman Melikyan and others participated in a conference held in Tbilisi, Georgia on October 9 and 10, 2000 involving representatives of the Georgia Securities Commission and Georgian PSMPs.

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 2000**

- Attachment 1 Focused Areas of Activity between September 1999 and January 2000 as Discussed and Agreed in Meetings Held with USAID Representative Ann Richards during September 15 to 21, 1999
- Attachment 2 E-mail from USAID Representative Ann Richards on Project Extension dated March 22, 2000
- Attachment 3 Draft Work-Plan Status Report at April 30, 2000
- Attachment 4 USAID Notice to Proceed (NTP) under Task Order dated April 26, 2000
- Attachment 5 Memorandum on Securities Commission: Legislative Regulation of the Composition and Appointment dated April 12, 2000
- Attachment 6 Draft Outline of Increased Expatriate Level of Effort and Related Local Labor and ODCs Envisaged during the Period from September 1, 2000 to December 31, 2000
- Attachment 7 E-mail from USAID Representative Ann Richards on Confirming Increased LOE dated August 3, 2000
- Attachment 8 Schedule of Meetings Organized for and Conducted with USAID Representative Ann Richards during September 13 to 19, 2000
- Attachment 9 Memorandum on Update on Amendments to the SMR Law dated December 27, 2000
- Attachment 10 Memorandum on Analysis of Amendments Proposed to SMR Law by SC dated October 18, 2000
- Attachment 11 E-mail from the Chairman of SC on Allocation of Office Space for Use of SC dated November 9, 2000
- Attachment 12 GOA Decree N 745 on Provision of Office Space to the SC dated November 16, 2000
- Attachment 13 Letter from SC Chairman to YSE Executive Director on Termination of Contract dated December 20, 2000
- Attachment 14 Memorandum on Securities Market Regulatory Rule Making Process dated November 2, 2000
- Attachment 15 Memorandum on Web Family Products-Securities Commission Web Site dated November 2, 2000
- Attachment 16 Memorandum on Task Order Status Report dated November 3, 2000
- Attachment 17 Memorandum on Rule Making Table Attachment dated October 19, 2000
- Attachment 18 Memorandum on Dematerialization Plan dated November 15, 2000
- Attachment 19 Action Plan with SC on First Phase Activities – “Regulatory Drafting” dated December 12, 2000
- Attachment 20 Memorandum on Proposal for Several Necessary Amendments to the Draft Law on Legal Acts dated November 10, 2000
- Attachment 21 Memorandum on Review of the Draft Law on Legal Acts dated November 13, 2000
- Attachment 22 Memorandum on Communication with Chemonics dated December 14, 2000
- Attachment 23 Notice of Tender and Request for Proposal dated November 2000
- Attachment 24 Memorandum on Presentation and Demonstration of RTS dated November 22, 2000
- Attachment 25 Memorandum on Evaluation of RTS Tender Documents and Recommendation dated December 20, 2000
- Attachment 26 Memorandum on CDA Related Issues – Update dated December 28, 2000
- Attachment 27 Memorandum on Broker/Dealer Involvement in the SMMA dated December 20, 2000