



2nd Meeting of the Eurasian Corporate Governance Roundtable

Sheraton Metechi Palace Hotel
Tbilisi, Georgia
7-8 June 2001



Transparency and Disclosure

SURVEY - Armenia

by

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hosted by

**The National Securities Commission of Georgia
The Georgian Stock Exchange
International Regional Federation of Accountants and Auditors Eurasia**



**The Government of Japan
The Global Corporate Governance Forum**

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Throughout this document, there are intermittent references to both genders. Although the more frequent reference is male, it should be considered to include the female gender. IFC considers the English version of this document to be the official version. The English version prevails in the case of any ambiguity in terminology between the Armenian and English versions.

April 2001

A-What is the role of your institutions regarding financial and non-financial disclosure?

What is the role of your institution in establishing disclosure standards (specify)?

In line with its mission to promote private sector development in emerging markets, the International Finance Corporation (IFC) has rapidly expanded its regional corporate governance program in the former Soviet Union. To date, this program consists of technical assistance (TA) projects in Ukraine (starting in May 1998) funded by the Canadian International Development Agency ("CIDA") and Armenia (starting in February 1999) funded by the Government of the Netherlands. Recently, IFC has initiated proposals to develop corporate governance projects in the Republic of Georgia and the Russian Federation. These projects aim to develop the investment environment in independent states of the former Soviet Union by improving the corporate governance practices of Joint Stock Companies and Limited Liability Companies.

IFC has developed the following core elements for corporate governance technical assistance in the region:

- Training managers, board members, and shareholders as well as government officials and journalists on corporate governance best practices via seminars and follow-up consultations;
- Development, publication and distribution of a Corporate Governance Manual for companies, including model company charters, by-laws and proxies;
- Intensive work with selected companies to create a core of corporate governance success stories, combining training in corporate governance best practices with investment matching and the promotion of "success stories";
- Providing lawmakers and regulatory agencies with feedback from the companies on the effectiveness of the regulatory environment, and assistance in drafting legislation that will encourage local business;
- Partnering with local management institutes and law schools to train the next generation of business professionals in corporate governance best practices, training instructors in the use of the case method and developing cases for use at institutions through real-life experiences at client enterprises, and;
- Increased public awareness through a national awareness campaign to aid in compliance and enforcement of corporate governance regulations by publicizing violations as well as successes.

What is the role of your institution in enforcing disclosure rules/ regulations (specify)? What sanctions can it impose?

We cannot enforce any sanctions for non-disclosure of information other than to exercising rights as an investor/shareholder if we do have invested in an entity.

What are your institution's other roles and responsibilities (i.e. licensing, training, etc.)?

The International Finance Corporation (IFC) started the Corporate Governance Project (Phase I) in Armenia in February 1999. The Project aimed at creating a better investment climate in Armenia by improving corporate governance practices and increasing the quality and transparency of the legal and regulatory environment. Despite having taken important steps in

private sector development, Armenia has difficulties in attracting foreign investment. One reason is the low level of investor confidence. Poor corporate governance practices, lack of transparency and management accountability, as well as the underlying legal framework which lacks shareholder protection mechanisms seriously hinder the investment potential of Armenian companies.

The goal of IFC's Corporate Governance Project in Armenia is to develop a better investment environment by bringing improvements in corporate governance practices and legislation in Armenia, more specifically through:

- Training managers, directors and shareholders of Joint Stock Companies, government officials and other relevant parties on corporate governance;
- Developing a Corporate Governance Manual that serves as a "How to" - type guide for establishing good corporate governance practices;
- Advising the Armenian government on improvements to corporate governance legislation;
- Building links between Armenian, Dutch and other foreign companies through meetings on corporate governance and the investment environment in Armenia.

The Project has established strong relationships with the private sector and Armenian Government counterparts and is making significant progress in achieving its objectives. During its Phase I (02/1999 - 01/2001), the Project has accomplished the following:

- Trained 295 (out of some 450 acting) Armenian Open Joint Stock Companies, 10 NGOs, 26 state agencies and 23 news agencies;
- Consulted with 43 companies on various corporate governance issues (drafting charters and by-laws, assisting in holding general meetings of shareholders, advising on company reorganizations);
- Developed nine training modules, each consisting of 3-4 hour sessions reviewing the elements of corporate governance, including the principles, best practices, requirements of Armenian law and discussions of problem areas;
- Held training courses on corporate governance for journalists;
- Developed and published a Corporate Governance Manual (a 180-page volume) in Armenian and English;
- Published booklets on general meetings of shareholders, financial management, corporate documentation and disclosure of information by Joint Stock Companies;
- Held corporate governance courses for accountants at the International Accounting Training Center in cooperation with TACIS;
- Designed and initiated a corporate governance course at the Law School of Yerevan State University;
- Analyzed relevant legislation and compiled a database of needed improvements to the Law on Joint Stock Companies and other legislation;
- Provided advice to the Armenian Government on the development of new corporation law and initiated a round-table on improvements to the Law on Joint Stock Companies;
- Established working relations with Dutch Universities and business development organizations in the Netherlands, and assisted them in their programs in Armenia.

To further develop corporate governance practices in Armenia, IFC and the Dutch Government extended the Corporate Governance Project (Phase II) until July 2001. Phase II of the Project allows for the completion of the initial work on legislation in Armenia and provides assistance to enterprises, universities and government officials by building upon work accomplished during Phase I of the Project. In addition, Phase II will focus on:

- Completion of policy development, the centerpiece of which will be the drafting of a new Law on Joint Stock Companies and a proposed Law on Limited Liability Companies;
- Direct corporate governance assistance to privatized enterprises in Armenia;
- A public education campaign including the publication of a bi-monthly Corporate Governance Newsletter.

B- Country background information

1. Number of Joint Stock Companies:

1.1 Number of Open Joint Stock Companies (publicly listed / traded companies):

Table 1. Summarized Data of Registered Commercial Legal Entities in Armenia

No.	Legal Status	1-Jan-99	1-Apr-99	1-Jan-00
1	Individual Enterprises	10,558	10,480	9,319
2	Family Enterprises	766	760	684
3	Full Partnerships	2,138	2,127	1,798
4	Limited Partnerships	19	19	11
5	Separate Entity of an Enterprise	505	539	638
6	Subsidiary Enterprise	1,778	1,694	1,444
7	Production Cooperative	6,007	6,006	5,991
8	Trade Cooperative	71	70	70
9	Agriculture Collective Farm	322	311	286
10	Limited Liabilities Companies (LLC)	14,956	15,556	18,656
11	LLC Including Supplementary Liabilities	N/A	1	N/A
12	Closed Joint Stock Companies (CJSC)	2,500	2,562	2,838
13	Including 100% State Owned CJSC	1,162	1,196	1,293
14	Including 100% Municipal Owned CJSC	301	307	338
15	Open Joint Stock Companies	1,137	1,167	1,185
16	State Enterprises	484	456	407
	Sub Total	41,241	41,747	43,327
	Sole Proprietors	47,223	47,388	49,666
	Unions of Legal Entities	14	14	14
	Total	88,478	89,149	93,007

1.2 Number of Closed Joint Stock Companies (non publicly listed / traded limited companies):

Table 2

A Comparison of Legal Entities (Commercial Organizations) in the Republic of Armenia

	Full Partnership	Limited Partnership	Company with Supplementary Liability	Limited Liability Company	Open Joint Stock Company	Closed Joint Stock Company
Liability for obligations of the legal entity	1) joint and several 2) subsidiary to that of the Company 3) unlimited with all personal property	1) joint and several 2) unlimited liability of general partners 3) liability limited to the amount of investment for limited partners	1) joint and several subsidiary liability to the extent of a multiple (defined by the Charter) of the value of participants' investment	1) limited to the amount of investment of participants	1) limited to the amount of investment of shareholders	1) limited to the amount of investment of shareholders
Control over decision-making	full control by all partners	full control by general partners	through the General Meeting of Participants and/or participation in the executive body	Through the General Meeting of Participants and/or participation in the executive body	through the General Meeting of Shareholders (and/or participation in the Board of Directors if created)	through the General Meeting of Shareholders (and/or participation in the Board of Directors if created)
Organizational structure	no formal structure required	no formal structure required	the General Meeting of Participants and the executive body	the General Meeting of Participants and the executive body	the General Meeting of Shareholders, the Control Committee (Controller), the	the General Meeting of Shareholders, the Control Committee (Controller),

					executive body (and a Board of Directors if created)	the executive body (and a Board of Directors if created)
Disclosure (not included the required disclosure of information to the State and State agencies)	disclosure to full partners only	disclosure to full and general partners only	disclosure to participants only	Disclosure to participants only	disclosure to shareholders and the general public	disclosure to shareholders only unless the Company issues bonds or other securities to the general public

C- Does the corporate governance framework ensure that timely and accurate disclosure is made on all material matters regarding the corporation?

Yes Formally, Not in practice, see below

Is the company required to prepare annual (or more frequent) audited financial statements showing the financial performance and the financial situation of the company?

The law requires Joint Stock Companies to have an independent audit when:

- the final annual report and the financial statements of the Company are published. An Open Joint Stock Company must publish these financial statements each year;¹
- the Company issues and receives payments for shares in the form of assets which are worth more than 200 times the minimum monthly wage in Armenia. The value of these assets must be determined by an external independent auditor;²
- the market value of the Company's assets must be determined in Companies with more than 500 shareholders with voting rights;³
- the Company buys back shares upon the demand of its shareholders;⁴
- a shareholder (or a group of shareholders) owning at least 10 percent of the charter capital of the Company requests an audit.⁵

The National Assembly of the Republic of Armenia has adopted the Law of the Republic of Armenia on the Regulation of Securities Market (LRSM) which came into effect on August 1, 2000. The LRSM specifies procedures for activities of reporting issuers (companies), the publication of statements (reports) and the disclosure of information by managers and large shareholders of the reporting issuer.⁶ The purpose of the LRSM is the protection of investors' interests and the ensuring of the transparency of the securities market in Armenia.⁷ The LRSM defines the concept of "reporting issuers," i.e. the companies that are obliged to follow the requirements of this law. In particular, it states that a company is considered to be a reporting issuer if:⁸

- any of its securities is registered with a stock exchange, or;
- the company has 50 or more owners of company's securities and the company's net assets exceed the threshold set by the Securities Commission (Commission) of the RA.

JSCs that are listed on an Armenian stock exchange or companies that have 50 or more "owners of securities" and net assets exceeding the threshold specified by the Commission are subject to the regulations of the LRSM. In particular, a company has to file a registration statement with the

¹ CC, Chapter 5, Article 107, Clause 2; CC, Chapter 5, Article 115, Clause 5.

² The Law on Minimum Monthly Wage, Article 3. See also LJSC, Chapter 3, Article 45, Clause 4.

³ LJSC, Chapter 7, Article 62, Clause 2.

⁴ LJSC, Chapter 7, Article 62, Clause 2.

⁵ CC, Chapter 5, Article 115, Clause 5.

⁶ LRSM, Chapter 1, Article 1, Clause 1, Section B.

⁷ LRSM, Chapter 1, Article 2, Clause 1, Sections A and B.

⁸ LRSM, Chapter 1, Article 4, Clause 1.

Commission within 60 days after the number of registered owners of securities equals or exceeds 50 and the amount of net assets exceeds the threshold set by the Commission.⁹ At the same time, the LRSM allows for the reverse procedure, i.e. the termination of the registration. It can be done if the number of owners of securities of the company becomes less than 50 or the amount of net assets decreases below the threshold set by the Commission.¹⁰

Disclosure of Information by the Company

A reporting issuer is subject to disclosure requirements of the LRSM when the company:

- issues shares and other securities to the public;¹¹
- is required to submit periodic reports to the Commission, its shareholders and the general public.¹²

Prospectus

To issue shares and other securities to the public, a company must prepare a prospectus and must submit to the Commission a securities registration statement. The LRSM regulates in detail both the content of these documents and the procedure for their submission and registration. In particular, the LRSM specifies that a prospectus must include information with respect to:¹³

- the issuer (the company), its governance/management structure, managers, directors and “significant owners of securities;”¹⁴
- securities previously issued by the issuer;
- financial situation of the issuer;
- activities of the issuer;
- securities to be issued.

Registration Statement

The LRSM specifies that a securities registration statement must include information on:¹⁵

- names and compensation of members of the Board of Directors, the Executive Director, the Chief Accountant, members of the Management Team of the company and “significant owners of shares;”
- officials of the company whose annual compensation exceeds 10,000 times the minimum monthly wage (MMW);¹⁶
- transaction(s) entered into by the issuer with a value that exceeds 10,000 times the MMW;

⁹ LRSM, Chapter 3, Article 23, Clause 1.

¹⁰ LRSM, Chapter 3, Article 24, Clause 1.

¹¹ See LRSM, Chapter 2, Articles 5, 8 – 11.

¹² See LRSM, Chapter 4, Articles 31 – 32.

¹³ LRSM, Chapter 2, Article 10, Clause 1.

¹⁴ This refers to the owners of 10 percent or more of the shares of the company. See LRSM, Chapter 1, Article 4, Clause 1.

¹⁵ LRSM, Chapter 3, Article 20, Clause 2.

¹⁶ See the Law of the Republic of Armenia on Minimum Monthly Wage, Article 3.

- stock options;
- balance sheets, profit and loss statements, statements of changes in the capital for the last 3 years audited by an independent external auditor;
- quarterly statements (reports) required by the Commission.

The Company is also required to register any “material changes”¹⁷ to the prospectus and the registration statement.¹⁸

Periodic Reports

Reporting issuers are required to disclose financial information to the Commission, the company’s shareholders and the general public. Every reporting issuer must submit to the Commission:¹⁹

- all documents and information as specified by the Commission which are required for registration statements and for keeping information accurate;
- annual financial statement (verified by an independent external auditor);
- quarterly financial statements.

Publication of Information

The LRSM specifies how a company must disclose information to:

- the shareholders of the company;
- the general public;
- stock exchanges, when listed.

Companies with less than 500 shareholders must disclose information, documents and statements to shareholders of the company in a manner and procedure specified by the Commission.²⁰ Companies with 500 and more shareholders are obliged to publish information, documents and statements to the general public in a manner and procedure specified by the Commission.²¹ If the reporting issuer is listed on a stock exchange, it must provide information, documents and statements also to the stock exchange regardless the number of shareholders of the company.²²

¹⁷ LRSM, Chapter 1, Article 4, Clause 1.

¹⁸ LRSM, Chapter 2, Article 10, Clause 4; LRSM, Chapter 2, Article 11, Clause 3.

¹⁹ LRSM, Chapter 4, Article 31, Clauses 1 and 2.

²⁰ LRSM, Chapter 4, Article 31, Clause 3.

²¹ LRSM, Chapter 4, Article 31, Clause 4.

²² LRSM, Chapter 4, Article 31, Clause 2.

THE LAW OF THE REPUBLIC OF ARMENIA ON ACCOUNTING

Article 20. The composition of financial reports

The financial reports, with the exception of those of budget institutions, include:

- a) The accounting balance, which characterizes the financial standing of the organization as of the reporting date. The components of the accounting balance immediately pertaining to the assessment of the financial standing are the assets, own capital and the liabilities
- b) The report on the financial results, which characterizes the financial results of the operation of the organization within the reporting period. The components in the report on the financial results immediately pertaining to the operation are the incomes and expenses.
- c) The reports on the cash flow, as well as other reports on changes in the financial standing which reflect the changes in the components of the accounting balance sheet and the components of the report on the financial results.
- d) The footnotes attached to the accounting balance sheet and the report on financial results, which disclose the accounting policies of the organization and, in accordance with the requirements of accounting standards, supply additional information.
- e) The audit conclusion affirming the trustworthiness of the financial reports, provided the financial reports of the organization in question, pursuant to the legislation of the Republic of Armenia, are subject to mandatory audit.

With the Government Resolution 740, November 26, 1998 an Accounting Reform Program was initiated to develop Armenian Accounting Standards (AAS) based on International Accounting Standards (IAS). The last standard adopted was AAS40, on November 17, 2000. According to resolution 740 OJSCs and state CJSCs are required to use these accounting standards and are required to prepare Y2000 Financial Statements in accordance with AAS.

LIST OF CURRENT STANDARDS IAS & AAS

IAS 1	AAS 1	Presentation of Financial Statements
IAS 2	AAS 2	Inventories
IAS 3	-	No longer effective. Replaced by IAS 27 and IAS 28.
IAS 4	AAS 4	No longer effective. Replaced by IAS 16 and IAS 38. (AAS 16 & AAS 38)
IAS 5	-	No longer effective. Replaced by IAS 1.
IAS 6	-	No longer effective. Replaced by IAS 15.
IAS 7	AAS 7	Cash Flow Statements
IAS 8	AAS 8	Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
IAS 9	AAS 9	No longer effective. Replaced by IAS 38. (AAS 38)
IAS 10	AAS 10	Events After the Balance Sheet Date
IAS 11	AAS 11	Construction Contracts
IAS 12	AAS 12	Income Taxes
IAS 13	-	No longer effective. Replaced by IAS 1.
IAS 14	AAS 14	Segment Reporting
IAS 15	AAS 15	Information Reflecting the Effects of Changing Prices
IAS 16	AAS 16	Property, Plant and Equipment
IAS 17	AAS 17	Leases
IAS 18	AAS 18	Revenue
IAS 19	AAS 19	Employee Benefits
IAS 20	AAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	AAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 22	AAS 22	Business Combinations
IAS 23	AAS 23	Borrowing Costs
IAS 24	AAS 24	Related Party Disclosures
IAS 25	AAS 25	No longer effective. Replaced by IAS 39 and IAS 40 effective 1.01.2001. (AAS39 & AAS40)
IAS 26	AAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	AAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
IAS 28	AAS 28	Accounting for Investments in Associates
IAS 29	AAS 29	Financial Reporting in Hyperinflationary Economies
IAS 30	AAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31	AAS 31	Financial Reporting of Interests In Joint Ventures
IAS 32	AAS 32	Financial Instruments: Disclosures and Presentation
IAS 33	AAS 33	Earnings Per Share

IAS 34	AAS 34	Interim Financial Reporting
IAS 35	AAS 35	Discontinuing Operations
IAS 36	AAS 36	Impairment of Assets
IAS 37	AAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	AAS 38	Intangible Assets
IAS 39	AAS 39	Financial Instruments: Recognition and Measurement
IAS 40	AAS 40	Investment Property
IAS 41	-	Agriculture

Summary of AAS 1 Presentation of Financial Statements

AAS 1 defines overall considerations for financial statements:

- Fair presentation;
- Accounting policies;
- Going concern;
- Accrual basis of accounting;
- Consistency of presentation;
- Materiality and aggregation;
- Offsetting;
- Comparative information.

A complete set of financial statements includes five basic components. AAS 1 prescribes the minimum content, including certain information related to financial statements:

- Balance sheet (current/ non-current distinction is required);
- Income statement (operating/ non-operating separation is required);
- Cash flow statement (AAS 7 sets out the details);
- Statement showing changes in equity. Various formats are allowed:
 1. The statement shows (a) each item of income and expense, gain or loss, which, as required by other AAS provisions, is recognized directly in equity, and the total of these items (examples include property revaluations (AAS 16, Property, Plant and Equipment), certain foreign currency exchange gains and losses (AAS 21, The Effects of Changes in Foreign Exchange Rates), and changes in fair values of financial instruments (AAS 39, Financial Instruments: Recognition and Measurement)) and (b) net profits or losses for the period. Owners' investments and withdrawals of capital and other movements in retained earnings and equity capital must be shown in the notes.

2. Same as above, but with a total of (a) and (b) (sometimes called 'comprehensive income'). Again, owners' investments and withdrawals of capital and other movements in retained earnings and equity capital must be shown in the notes.
 3. The statement shows both the recognized gains and losses that are not reported in the income statement and owners' investments and withdrawals of capital and other movements in retained earnings and equity capital. An example of this would be the traditional multicolumn statement of changes in shareholders' equity.
- Accounting policies and explanatory notes.

Other matters addressed are:

- Notes to financial statements
- Income statement must show:
 - revenue;
 - results of operating activities;
 - financing costs;
 - income from associates and joint ventures;
 - taxes;
 - profit or loss from ordinary activities;
 - extraordinary items;
 - minority interests in other legal entities;
 - net profit or loss;
- Offsetting (netting);
- Summary of accounting policies;
- Illustrative Financial Statements;
- Disclosure of compliance with AAS;
- Limited "true and fair override" if compliance is misleading;
- Definitions of current and concurrent.

Summary of IAS 24 Related Party Disclosures

- Related parties are those able to control or exercise significant influence. Such relationships include:
 1. Parent-subsidiary relationships (see AAS 27);
 2. Entities under common control;

3. Associates (see AAS 28);
 4. Individuals who, through ownership, have significant influence over the enterprise and close members of their families;
 5. Key management personnel.
- Disclosure includes:
 1. Nature of relationships where control exists, even if there were no transactions between the related parties.
 2. Nature and amount of transactions with related parties, grouped as appropriate.

The Law on Joint Stock Companies
Article 96. Accounting and Financial Statements

In compliance with the procedures defined by the law and other legislative acts, the Company carries out the accounting and submits the financial and statistical statement. The Company executive body is responsible for the organisation of submitting the Company accounting, its status and verity, the annual statement, the financial and statistical statement, on a timely basis to the state management bodies, as defined by the ROA legislative acts, as well as for ensuring the accordance of the Company data provided to the Company shareholders, creditors and Mass Media with the present Law and other legislative acts.

The verity of the annual statement, *annual accounting balance*, *profit and loss statement* being submitted to the Company shareholders' annual general meeting for approval, should be certified by the conclusion of the Company Control Commission (Controller).

Before the publication in accordance with the present Law, Article 98, the above stated documents should be checked and their verity should be certified by the person carrying out the audit and lacking any common assets interest with the Company and the Company shareholders.

The Company annual statement is subject to the preliminary approval by the Company Board at least 30 days before the date of holding the Company shareholders' annual general meeting.

The data on the Company activity, which are not determined by the state statistical and financial statement defined by the ROA legislative acts, are provided to the state management bodies at the discretion of the Company.

Is this required by the company law, securities law, stock exchange regulation or other related laws?

See above

Is this applied in practice?

We are not aware of any company that has published an annual report except of commercial banks in Armenia.

What are the enforcement procedures? Are there any sanctions (specify)?

The LRSM specifies duties of the managers of reporting issuers.²³ It provides that managers of the company are obliged to act in good faith and with reasonable care as if they are managing their own business, as well as by making such decisions that, to the best of their opinion, are in the interests of the company and its shareholders.²⁴

Administrative Liability

The LRSM imposes on the managers of the Company additional administrative and civil liability. The LRSM provides the possibility for the Commission to impose administrative sanctions on the managers of the company. It can take the form of a warning or a fine.²⁵

Civil Liability

Managers of the company who sign the prospectus, the registration statement of the company's securities, financial reports and other documents of the company that have been submitted to the Commission and disclosed to the general public are subject to civil liability for distorting or omitting any material information contained in these documents.²⁶ The LRSM also provides that the managers of a reporting issuer who voted for any decision that causes losses to the company or who advised the company in violation of duties specified by Article 40 of the LRSM and caused losses to the issuer are jointly and severally liable to the company.²⁷ It is important to note that any manager who directly or indirectly supervises any other manager who is subject to civil liability is jointly and severally liable with that manager for any losses caused by the supervised manager unless the supervising manager proves in the Court that he acted in good faith, that he was not aware of the violation and that he immediately informed the Commission about the violation.²⁸ In these cases, the company and any shareholder of the company has the right to file a claim against the managers of the company to recover losses caused to the company.²⁹

Is consolidated financial reporting required for corporate groups? On what basis?

Yes AAS 27, Summary of AAS 27 Consolidated Financial Statements:

- A subsidiary is defined as a company controlled by another enterprise (the parent);
- If a parent has one or more subsidiaries, consolidated financial statements are required;

²³ This refers to members of the Board of Directors, the Executive Director, members of the Management Team, the Control Committee and other officials of the company (such as directors of branches and representative offices). See LRSM, Chapter 4, Article 40.

²⁴ LRSM, Chapter 4, Article 40.

²⁵ LRSM, Chapter 14, Articles 137 and 138.

²⁶ LRSM, Chapter 14, Article 142, Clause 1.

²⁷ LRSM, Chapter 14, Article 143, Clause 1.

²⁸ LRSM, Chapter 14, Article 146, Clause 1.

²⁹ LRSM, Chapter 14, Article 143, Clause 1.

- All subsidiaries must be included, unless control is temporary or if there are severe long-term restrictions on the transfer of funds from the subsidiary to the parent;
- Intragroup balances and transactions and resulting unrealised profits must be eliminated;
- The difference between reporting dates of consolidated subsidiaries should not deviate more than three months from the parent's reporting date;
- Uniform accounting policies should be followed by the parent and its subsidiaries or, if this is not practicable, the enterprise must disclose that fact and the proportion of items in the consolidated financial statements to which different policies have been applied;
- In the parent's separate financial statements, subsidiaries may be shown at cost, at devalued amounts, or by using the equity method;
- Required disclosures include:
 1. Name, country, ownership, and voting rights of the parents for each significant subsidiary;
 2. Reason for not consolidating a subsidiary;
 3. Nature of relationship if parent does not own more than 50% of the voting rights of a consolidated subsidiary;
 4. Nature of relationship if the parent does own more than 50% of the voting rights of a subsidiary excluded from consolidation;
 5. The effect of acquisitions and disposal of subsidiaries during the period.

In the parent's separate financial statements, a description of the method used to account for subsidiaries that are included in the consolidated financial statements should be either:

- a) Carried at cost;
- b) Accounted for using the equity method as described in AAS 28, accounting for investments in Associates; or
- c) Accounted for as available for sale financial assets as described in AAS 39, Financial Instruments.

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

Is the company required to include in annual reports :

Company objectives and strategy?

OJSCs must publish annual statements using mass media available to shareholders.³⁰ Although the Civil Code defines that an annual report needs to be disclosed, it does not say how and what needs to be disclosed.

Is this required by the company law, securities law, stock exchange regulation or other related laws?

No

Is this applied in practice?

No

What are the enforcement procedures? Are there any sanctions (specify)?

The LRSM, which a maximum of 1,000,000 Drams per violation. Not enforced at this moment.

Major share ownership and voting rights?

No, voting rights are defined by legislation. The LRSM sets disclosure requirements for the management and “owners of a large number of securities” of a company.³¹ The following persons must file a statement with the Commission:³²

- any person who, as a result of one or several transactions, becomes “the owner of a large number of securities” of a reporting issuer;
- members of the Board of Directors, the Executive Director, members of the Management Team, the Control Committee or other officials of a reporting issuer (such as directors of branches and representative offices).

The statement must include:³³

- information about the person’s identity, occupation, position and citizenship;
- the number of securities of the company of the same class owned by the person.

Within 15 days after the end of each month, these persons must file a statement with the Commission when any changes have occurred during the reporting month. If there is no statement filed, it is assumed that no changes have occurred.³⁴

³⁰ LJSC, Chapter 13, Article 98, Clause 1

³¹ This refers to owners of 20 or more percent of the securities of the company. See LRSM, Chapter 1, Article 4, Clause 1.

³² LRSM, Chapter 4, Article 36, Clause 1.

³³ LRSM, Chapter 4, Article 36, Clause 1.

³⁴ LRSM, Chapter 4, Article 36, Clause 2.

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

Related party transactions (management's direct or indirect interest in any material transaction to which the company or any of its subsidiaries was or is to be a party)?

According to AAS 24 *Related Party Disclosures*

Financial Statements must include:

- Nature of relationships where control exists, even if there were no transactions between the related parties;
- Nature and amount of transactions with related parties, grouped as appropriate.

The Board of Directors has the authority to enter into large transactions³⁵ if at the date of the transaction the market value of assets (related to the transaction) is not more than 50 percent of the book value of the Company's assets.³⁶ Such a transaction requires the unanimous consent of members of the Board of Directors present at the meeting of the Board of Directors. If the Board of Directors cannot make a decision on such a large transaction, it may submit the issue for the agenda of the General Meeting of Shareholders. In this case, the General Meeting of Shareholders must make a decision with at least a simple majority vote of shareholders present at the Meeting.³⁷ The General Meeting of Shareholders must approve large transactions if at the date of making the decision to enter into the transaction the market value of the assets (related to the transaction) is more than 50 percent of the book value of the Company's assets.³⁸ The General Meeting of Shareholders makes a decision on these transactions by a three-fourths (3/4) majority vote of shareholders present at the Meeting.³⁹

An interested transaction refers to any transaction where a conflict of interest may occur between the Company, its shareholders, directors and managers. The following parties can be recognized as an interested party in a transaction:⁴⁰

- members of the Board of Directors of the Company;
- the Executive Director, members of the Management Team and the Control Committee (Controller) of the Company;

³⁵ LJSC, Chapter 11, Article 87, Clause 1, Section T; LJSC, Chapter 8, Article 64, Clause 1.

³⁶ If the market value of assets subject to a transaction is less than 25 percent of the book value of the Company's assets, the transaction is not considered to be large. See also LJSC, Chapter 8, Article 64, Clause 1.

³⁷ Although the General Meeting of Shareholders or the Board of Directors have the authority to enter into **large transactions**, it is the authority of the Executive Director to sign contracts with respect to large transactions.

³⁸ LJSC, Chapter 8, Article 64, Clause 2.

³⁹ LJSC, Chapter 10, Article 70, Clause 1, Section Q; LJSC, Chapter 10, Article 71, Clause 4.

⁴⁰ LJSC, Chapter 9, Article 65.

- a shareholder or a group of shareholders acting together that owns at least 20 percent of the shares of the Company with voting rights;
- spouses, parents, children, sisters and brothers of members of the Board of Directors, the Executive Director, members of the Management Team, other managers and shareholders who own at least 20 percent of the shares of the Company with voting rights, as well as parties cooperating with individuals previously listed above.

Parties are considered to be interested if they:

- act as a transacting party, participate in the transaction as an intermediary or participate as a representative of a party;
- own at least 20 percent of the voting stake in the transacting, intermediary or representative Company, or;
- hold a managerial or governance position in the transacting, intermediary or representative Company.

For example, there is a transaction between Joint Stock Company A and Limited Liability Company B. Company C acts as an intermediary in the transaction. In this case, the transaction is considered interested when:

- a member of the Board of Directors of Company A acts as a representative of Company B;
- a shareholder who owns 25 percent of the voting shares of Company A is the Executive Director of Company B;
- the Executive Director of Company A owns 30 percent of the charter capital of Company C (the intermediary).

Another example of an interested transaction would be when Company A enters into a contract to lease its equipment to a member of the Board of Directors of Company A. In this case, the director of Company A is a transacting party who has an interest in the transaction.

In Companies with fewer than 500 shareholders with voting rights, the decision to enter into interested transactions must be made by a majority of members of the Board of Directors present at the meeting of the Board of Directors who are not considered to be an interested party.⁴¹ In Companies with 500 and more shareholders with voting rights, the decision to enter into interested transactions must be made by a majority of independent members of the Board of Directors present at the meeting of the Board of Directors.⁴²

In order to make a decision on any interested transaction, the Board of Directors must ensure that the Company:

- receives payments that are not less than the market value of transferred assets or provided services;
- does not pay more than the market value of acquired assets or provided services.

⁴¹ LJSC, Chapter 9, Article 67, Clause 1.

⁴² LJSC, Chapter 9, Article 67, Clause 2.

The General Meeting of Shareholders makes the decision whether to enter into an interested transaction when:⁴³

- all members of the Board of Directors have been recognized as an interested party;
- the market value of the transaction is more than 2 percent of the book value of the Company's assets;
- one or more related transactions are carried out with the purpose of issuing shares with voting rights and other securities convertible to shares with voting rights while the number of shares is more than 2 percent of the number of previously issued shares of the Company.

Interested transactions must be approved by a simple majority vote of shareholders present at the General Meeting of Shareholders who are not considered to be an interested party in the transaction.⁴⁴

An interested transaction does not require the approval of the General Meeting of Shareholders when the transaction is:⁴⁵

- a loan to the Company (granted by an interested party);
- conducted with a party in the ordinary course of business before this party becomes an interested party.

Under these circumstances, the Board of Directors is authorized to approve interested transactions.

The law requires Joint Stock Companies to disclose information on interested transactions in order to avoid any conflicts of interest between the Company and those parties who are involved in an interested transaction. Interested parties are required to disclose information to the Control Committee (Controller), the Board of Directors and the independent external auditor. Interested parties must disclose information regarding:⁴⁶

- legal entities (name and address) in which interested parties, independently or together with other persons cooperating with interested parties, own 20 percent of the shares of the Company with voting rights;
- legal entities (name and address) in which interested parties hold managerial or governance positions;
- transactions (completed or pending) in which persons act as interested parties.

If the requirements of the law with respect to interested transactions are violated, the Court can declare the transaction invalid. Interested parties are liable to the Company for the amount of

⁴³ LJSC, Chapter 9, Article 67, Clauses 3 and 5.

⁴⁴ Although the General Meeting of Shareholders or the Board of Directors have the authority to enter into **interested transactions**, the Executive Director has the authority to actually sign contracts with respect to interested transactions.

⁴⁵ LJSC, Chapter 9, Article 67, Clause 4.

⁴⁶ LJSC, Chapter 9, Article 66.

losses caused to the Company as a result of an invalid transaction. If several persons are responsible for losses, they are held jointly and severally liable.

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

The identity and the professional background of board members and key executives, and their individual or collective remuneration?

Armenian Joint Stock Companies must maintain a list of individuals who are currently members of the Board of Directors of the Company.⁴⁷ The information must be made available upon the request of shareholders of the Company and must include the following information:

- first name, last name and date of birth of members;
- office and home addresses and phone numbers of members;
- educational background, current occupation and profession of members;
- date when individuals became members of the Board of Directors;
- date when individuals resigned from the Board of Directors;
- number of terms members have served on the Board of Directors;
- number of shares of the Company with voting rights that are owned by members of the Board of Directors;
- information on other legal entities where members of the Board of Directors occupy a position as a member of the Board of Directors, the Executive Director or a member of the Management Team;
- other information specified by the Charter and the by-laws of the Company.

Shareholders have the right to receive a copy of the by-laws that regulate the procedures of the Board of Directors if the Company has established these by-laws. The Company must provide a copy of this document within 5 days of the request by shareholders. The Company may charge shareholders for the expenses of copying and mailing this document.⁴⁸

⁴⁷ LJSC, Chapter 11, Article 86, Clause 3.

⁴⁸ LJSC, Chapter 13, Article 97, Clauses 1 and 4.

Bonus

Disclosure of Corporate Governance Information is also Undeveloped in Europe

Regardless of the efforts to introduce new corporate government standards, the disclosure of corporate governance information has not been fully developed across Europe. In Italy and Switzerland, disclosure in annual reports has received the attention of only a few internationally operating companies. Most companies in these countries do not have a tradition of disclosing information on the number of Board meetings, the background of Directors, the remuneration of Directors, the internal control system of the company and other corporate governance issues. With the introduction of new disclosure requirements under the Consolidated Finance Act of 1998 (the so-called "Draghi law") and the "Code of Self Discipline for Publicly Owned Companies" recently issued by Borsa Italiana (the Italian Stock Exchange), this may change in Italy in the near future. In the Netherlands, France and Germany, information is most often limited to the number of Board meetings (when disclosed) and the composition of the Board. In these countries, most information is disclosed in the report of the Supervisory Board (an average of one page in annual reports).

The disclosure of corporate governance information has become a standard element of companies' reporting practices in the UK since the publication of the Cadbury report in 1992. With the introduction of the code of good corporate governance (the Olivencia report) and the Directives of the Comision Nacional del Mercado de Valores (CNMV, Spanish Securities and Exchange Commission) in 1998, more detailed information has also rapidly become available to shareholders in Spain. Many Spanish companies disclose information on Board leadership structures, the maximum age for Directors, the preparation of information for Directors, the existence of an internal code of conduct of Directors and the number of outside Directors in the Board. Although to a lesser extent, a similar development can be observed in Belgium.

	Mission of the Board	Board leadership structure	Board composition	Board committee mission and composition	Compensation	Corporate governance statement	Overall rating on disclosure (relative)
Belgium	++	+	+	+	--	+	⊗⊗⊗○○○
France	+-	-	+	+	--	--	⊗⊗○○○○
Germany	+-	++	+	+-	--	--	⊗⊗○○○○
Italy	--	--	+-	--	--	--	⊗○○○○○
The Netherlands	+-	++	+	+-	--	--	⊗⊗○○○○
Spain	+	++	++	++	--	+	⊗⊗⊗⊗○○
Switzerland	--	--	+-	--	--	--	⊗○○○○○
UK	+	++	++	++	++	++	⊗⊗⊗⊗⊗⊗

Based on an analysis of 305 annual reports of listed companies in eight European Countries (1998/1999). Source: Gregory F. Maassen, Spencer Stuart European Board Index-2001.

It is becoming an increasingly common practice for companies in the UK, Spain and Belgium to include a corporate governance statement in annual reports. This statement is written by the Board of Directors to inform shareholders of the main corporate governance practices of the company. Companies in the Netherlands, France and Germany have not perceptively discovered the use of

corporate governance statements. In Italy and Switzerland, most companies have not established a tradition to disclose the corporate governance practices of their Boards in annual reports.

Ideally, a corporate governance statement includes the following information:

- a description of the mission and activities of the Board of Directors;
- the number, location and duration of meetings of the Board of Directors;
- how often members of the Board of Directors have attended meetings;
- the names of members who have attended less than half of the meetings of the Board of Directors;
- the number of meetings held with the management;
- how members of the Board of Directors were informed of developments in the company and what type of information they received from the management;
- how many (overseas) on-site visits were conducted by members of the Board of Directors;
- the leadership structure of the Board of Directors (if the Chairman of the Board of Directors is an Executive Director or the CEO of the company);
- how management is evaluated by the Board of Directors;
- on what items the Board of Directors has voted secretly;
- the composition of committees of the Board of Directors and a description of the activities of these committees;
- how often the Board of Directors has met with the independent external auditor;
- the compensation received by members of the Board of Directors. Separate figures could be given for salary and performance related elements of the compensation of members of the Board of Directors;
- whether members of the Board of Directors were reimbursed and paid for meetings they did not attend;
- the number of shares of the Company owned by members of the Board of Directors and the number of shares they have bought from the Company;
- the opinion of the Board of Directors on the internal control system of the Company.

Not surprisingly, if these practices do not exist in Europe and due to the absence of annual reports in Armenia, we also do not have corporate governance statements available.

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

Directors' and key executives' ownership interest in company shares?

See 3.2

Is this required by the company law or by the stock exchange regulation?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

Material foreseeable risk factors (trends or uncertainties that are expected to have or have had a material impact on the company)?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

Material issues regarding employees and other stakeholders (management-employee relations, business ethics, environment, or other public policy concerns)?

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

The governance / organisational structure of the company (i.e. key positions in the company)?

Armenian law distinguishes between two types of Joint Stock Companies:

Open Joint Stock Companies: A Joint Stock Company is considered to be “Open” when its shareholders have the right to sell their shares without the consent of other shareholders of the Company. An Open Joint Stock Company has the right to conduct an open subscription of shares.⁴⁹ An Open Joint Stock Company can be reregistered into a Closed Joint Stock Company by amending the Charter of the Company and by reducing the number of shareholders.

Closed Joint Stock Companies: Shareholders of a Closed Joint Stock Company can sell their shares to third parties only after they have offered the shares to other shareholders of the Company. A Closed Joint Stock Company does not have the right to conduct an open subscription

⁴⁹ CC, Chapter 5, Article 107; Law on Joint Stock Companies (LJSC), Chapter 1, Article 8, Clause 2.

of shares. The shares of a Closed Joint Stock Company can only be distributed among its founders or other previously determined groups of persons. Its shares cannot be distributed to an unlimited group of shareholders.⁵⁰ A Closed Joint Stock Company is only available for Companies with no more than 25 shareholders. If the Company has more than 25 shareholders, it must either reduce the number of shareholders or reregister as an Open Joint Stock Company by amending the Charter of the Company and fulfilling registration requirements within one (1) year.⁵¹

In comparison to the “Open” type, a Closed Joint Stock Company requires less charter capital and allows the Company to omit disclosing information about its financial situation to the general public. A Closed Joint Stock Company is also less flexible than an Open Joint Stock Company because:

- newly issued shares of a Closed Joint Stock Company can be distributed only among its founders or another previously specified group of persons;
- already issued shares of a Closed Joint Stock Company can be transferred only by observing the pre-emptive rights of other shareholders of the Company.

The firm name of a Joint Stock Company must contain the words “Open Joint Stock Company” or “Closed Joint Stock Company.”⁵²

A Comparison of Open and Closed Joint Stock Companies

Topic	Open Joint Stock Companies	Closed Joint Stock Companies	References
Number of shareholders	No limit	Maximum of 25	LJSC, Chapter 1, Article 8, Clause 3
Minimum charter capital	1,000 times the minimum monthly wage on the date of State registration of the Company (currently 1,000,000 AMD)	100 times the minimum monthly wage on the date of State registration of the Company (currently 100,000 AMD)	LJSC, Chapter 3, Article 33, Clause 3
Issuance of shares	Open subscription. A closed subscription is permitted if the Charter does not restrict the issuance of shares through a closed subscription	The Company can distribute its shares only among founders or other previously specified groups of persons. The Company cannot issue shares through an open subscription and cannot offer its shares to an unlimited number of persons	CC, Chapter 5 Articles 107 and 108; LJSC, Chapter 1, Article 8, Clauses 2 and 3
Registration of shares	Mandatory registration with Securities Market Inspectorate	Is not mandatory	Law on the Circulation of Securities, Article 7; Government Decree # 140, 1999
Shareholder Register	Must be maintained by the Central Depository of Armenia	May be maintained by the Company or by the Central Depository of Armenia	LJSC, Chapter 6, Article 54, Clause 2; Government Decree # 211, 1999
Transferability of shares	No restrictions. The consent of other shareholders is not	Restricted. The consent of other shareholders is	CC, Chapter 5, Article 107, Clause 1; CC, Chapter 5, Article 109,

⁵⁰ CC, Chapter 5, Article 108; LJSC, Chapter 1, Article 8, Clause 3.

⁵¹ LJSC, Chapter 1, Article 8, Clause 3.

⁵² CC, Chapter 5, Article 106, Clause 5.

	required	required	Clause 1; LJSC, Chapter 1, Article 8, Clauses 2 and 3
Board of Directors	Is mandatory for a Company with over 50 shareholders	Is not mandatory	CC, Chapter 5, Article 115, Clause 2
Disclosure of information	The Company must publish an annual report, balance sheet and profit and loss statement	The Company must publish an annual report, balance sheet and profit and loss statement if the Company issues bonds or other securities to the general public. Otherwise, there are no disclosure requirements	CC, Chapter 5, Article 107, Clause 2; CC, Chapter 5, Article 108, Clause 3; LJSC, Chapter 13, Article 98
Annual independent audit	Mandatory for the review of information that must be disclosed	Not mandatory unless the Company issues bonds or other securities to the general public	CC, Chapter 5, Article 115, Clause 5; LJSC, Chapter 13, Article 96, Clause 2

According to the Civil Code, a Board of Directors is mandatory for Joint Stock Companies with more than 50 shareholders.⁵³ The Board of Directors must consist of at least 3 members. A Company with more than 500 shareholders with voting rights must have at least 7 members on the Board of Directors. These members are elected by the General Meeting of Shareholders.

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

2.9 An analysis of the company's operational results?

Should be 3.9!

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

Is the company required to disclose extraordinary developments affecting the company (i.e. mergers/acquisitions, resignation of key executives, filing for bankruptcy, etc.)

What accounting standards are used?

⁵³ This is, regardless the number of voting rights that are attached to the shares of the Company. See also CC, Chapter 5, Article 115, Clause 2.

Armenian Accounting Standards (AAS) based on International Accounting Standards.

4.1 Are companies required to prepare accounts in accordance with local or recognised International Accounting Standards (specify)?

OJSCs and State CJSCs should use AAS and prepare financial statements in accordance with accounting standards requirements (as of fiscal year 2000).

Government Resolution 740 requires the application of AAS.

Should be 5.1

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

4.2 What are the major differences between the local and International Accounting Standards?

AAS were developed on bases of IAS and the differences are insignificant.

Should be 5.2

4.3 What are, in your opinion, the major deficiencies of the local accounting standards?

Should be 5.3

4.4 Is there a programme for implementing IAS (specify)?

USAID and SIBLY International were involved in the development of an Accounting Reform Project in Armenia. A component of the program was the formation of the Association of Accountants & Auditors of Armenia (AAAA). The AAAA plays a leading role in bringing uniformity into Armenian accounting practices through education and training. A draft of a government resolution allows AAAA to certify professional accountants and auditors.

Should be 5.4

5. Are the annual accounts required to be audited? If so how frequently and by whom?

Should be 6

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

6. What is the role of the board of directors in ensuring that the company complies with financial and non-financial disclosure requirements?

The Board of Directors plays an important role in the general oversight of the management and the internal organization of the Company. It has the authority to:

- develop by-laws of the Company including those that must be approved by the General Meeting of Shareholders;
- approve the administrative and organizational structure of the Company;⁵⁴
- establish branches and representative offices;⁵⁵
- approve the annual operational budget of the Company.⁵⁶

The Executive Director and the Management Team of the Company are responsible for the preparation of the financial statements of the Company. The Board of Directors verifies the annual financial statements of the Company before the General Meeting of Shareholders approves them. The Board of Directors verifies the annual financial statements of the Company at least 30 days before the General Meeting of Shareholders.⁵⁷

Table 4
The Authority of the Board of Directors

Authority	Conditions	References
Determination of the Company's main direction		LJSC, Chapter 11, Article 87, Clause 1, Section A
Approval of the annual operational budget of the Company	Can be delegated to management body by the Charter or by decision of the General Meeting of Shareholders (GMS) if the Company does not have a Board of Directors	LJSC, Chapter 11, Article 87, Clause 1, Section W
Establishment of branches and	If delegated by the Charter or by	LJSC, Chapter 10, Article 70,

⁵⁴ This authority can be delegated to the Executive Director (the Management Team) by the Charter and by decision of the General Meeting of Shareholders if the Company does not have a Board of Directors. See also LJSC, Chapter 11, Article 87, Clause 1, Section V; LJSC, Chapter 11, Article 87, Clause 2.

⁵⁵ This is if the authority is delegated to the Board of Directors by the Charter of the Company or by decision of the General Meeting of Shareholders. See also LJSC, Chapter 10, Article 70, Clause 1, Section U.

⁵⁶ This authority can be delegated to the Executive Director (the Management Team) by the Charter and by decision of the General Meeting of Shareholders if the Company does not have a Board of Directors. See also LJSC, Chapter 11, Article 87, Clause 1, Section W.

⁵⁷ LJSC, Chapter 13, Article 96, Clause 3.

representative offices	decision of the GMS	Clause 1, Section U; LJSC, Chapter 11, Article 87, Clause 1, Section R
Approval of the Company's by-laws (except by-laws on the GMS)	Can be delegated to the management body by the Charter or by decision of the GMS if the Company does not have a Board of Directors	LJSC, Chapter 11, Article 87, Clause 1, Section P
Approval of the administrative and organizational structure of the Company	Can be delegated to the management body by the Charter or by decision of the GMS if the Company does not have a Board of Directors	LJSC, Chapter 11, Article 87, Clause 1, Section V
Organizing and holding the Annual GMS		LJSC, Chapter 10, Article 73, Clause 3; LJSC, Chapter 10, Article 74; LJSC, Chapter 10, Article 75, Clause 4; LJSC, Chapter 10, Article 76; LJSC, Chapter 11, Article 87, Clause 1, Sections B, C and D
Calling and holding an Extraordinary GMS		LJSC, Chapter 10, Article 77; LJSC, Chapter 11, Article 87, Clause 1, Section B
Verification of the annual financial statement before submitting to the GMS		LJSC, Chapter 13, Article 96, Clause 3
Proposals on the size and distribution of dividends		LJSC, Chapter 11, Article 87, Clause 1, Section M
Appointment, dismissal, compensation and reimbursement of members of the executive body	If delegated by the Charter to the Board of Directors	CC, Chapter 5, Article 115, Clause 1, Section 3; LJSC, Chapter 11, Article 87, Clause 1, Section J
Preparing proposals on the compensation and reimbursement of members of the Control Committee (Controller)		LJSC, Chapter 11, Article 87, Clause 1, Section K
Determination of the remuneration of the independent external auditor		LJSC, Chapter 11, Article 87, Clause 1, Section L
Issuance of bonds and other securities	If the Charter does not provide otherwise	LJSC, Chapter 3, Article 42, Clause 1; LJSC, Chapter 11, Article 87, Clause 1, Section G
Determination of the market value of assets		LJSC, Chapter 7, Article 62; LJSC, Chapter 11, Article 87, Clause 1, Section H
Acquisition of shares and other securities		LJSC, Chapter 11, Article 87, Clause 1, Section I
Use of the Company's reserve fund		LJSC, Chapter 11, Article 87, Clause 1, Section O
Entering into large and interested transactions		LJSC, Chapter 8, Article 64; LJSC, Chapter 11, Article 87, Clause 1, Section T; LJSC, Chapter 9, Article 67, Clauses 1,2 and 4; LJSC, Chapter 11, Article 87, Clause 1, Section U

Members of the Board of Directors are responsible for discharging their duties in good faith, and with care and professionalism. This means that a member of the Board of

Directors must act honestly, refrain from being passive and not cause the Company to act in any unlawful way. Members of the Board of Directors should, in particular:

- regularly attend meetings of the Board of Directors;
- place matters on the agenda of meetings of the Board of Directors;
- ensure that the Executive Director and members of the Management Team provide adequate information to the Board of Directors so that its members are properly informed on corporate matters;
- exercise a reasonable amount of supervision.

Failing to act in such a way may lead to responsibility for fraud and negligence.

The duty of loyalty requires members of the Board of Directors to exercise their powers in the interests of the Company. It obliges members of the Board of Directors to put the interests of the Company first when there is a conflict of interest between the Company, (controlling) shareholders and other stakeholders of the Company. The duty of loyalty usually prohibits members of the Board of Directors from:

- participating in a competing Company, unless this is approved by a majority of disinterested members of the Board of Directors;
- participating in transactions involving a potential conflict of interest with the Company, such as large and interested transactions (described in chapter 13 of this Manual);
- using corporate property and facilities for personal needs;
- using information or business opportunities for private advantage created by virtue of their position on the Board of Directors.

Should be 7

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

7. What is the role of the management in ensuring that the company complies with financial and non-financial disclosure requirements?

Should be 8

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

8. Are auditors required to be independent (e.g. no material relationships with the company including other fee-generating activities)?

If so, how is independence defined? Who appoints the auditor?

Should be 9

The independent external auditor can be any natural person (or legal entity) who has a license for this activity granted by the appropriate State agencies. The external auditor must be independent of the Company and its management and should not have any financial interest in the Company.⁵⁸ The Chairman of the Board of Directors normally signs the contract with the external auditor while the General Meeting of Shareholders approves the contract by a majority vote of shareholders present at the Meeting. The Charter can provide for a greater number of votes necessary to appoint an independent external auditor.⁵⁹ A shareholder (or a group of shareholders) owning at least 10 percent of the charter capital can invite an independent external auditor without the approval of the General Meeting of Shareholders.⁶⁰

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

9. Are auditors liable (i.e. responsible) for negligence or other wrongdoing (specify)?

According to Government Resolution 782, 9 December 1998, Audit Certification Procedure and Charter of Audit, Article 4, clause 34 Auditor could be liable for negligence.

Should be 10

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

Who has the right to seek redress (i.e. shareholders, managers, the state, or other stakeholders)?

10. Does the legal framework require companies to disclose to a specific range of users (i.e. SROs, shareholders, securities regulators,

⁵⁸ CC, Chapter 5, Article 115, Clause 5.

⁵⁹ LJSC, Chapter 12, Article 95, Clause 2. See also LJSC, Chapter 10, Article 70, Clause 1, Section J; LJSC, Chapter 10, Article 71, Clause 2.

⁶⁰ CC, Chapter 5, Article 115, Clause 5.

etc.)? If so, does the legal framework distinguish what information must be disclosed to specific users and when this information must be disclosed?

Should be 11

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

11. Do all shareholders receive a copy of the annual report and accounts or are they able to obtain them upon request?

The AGM has the right to approve the annual report, balance sheets, profit and loss statements and the allocation of profits and losses of the Company. Shareholders must be provided with information regarding the decisions of the Annual Meeting of Shareholders as well as the voting results within 45 days after the Meeting.⁶¹ In order to be transparent, a Company should provide shareholders with details of all decisions by mail or publication in a newspaper with a circulation of at least 1,000 copies.

Should be 12

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

12. What are the channels of disclosure (i.e. dissemination through the press, over the internet, through the postal system)? Which are the most used?

Should be 13

Is this required by the company law, securities law, stock exchange regulation or other related laws?

Is this applied in practice?

What are the enforcement procedures? Are there any sanctions (specify)?

⁶¹ LJSC, Chapter 10, Article 71, Clause 7.

D- What are the training needs and existing training facilities for accountants and auditors?

Does the legal and regulatory framework specify the qualifications or recognition criteria that an accountant must satisfy in order to be certified as a public accountant?

The accountant responsible for the publication of financial statements must be certified by the State Accountancy Regulating Agency.⁶² Certified must pass AAAA exams (a total of 14 exams), which are based on a certification program of the Association of Certified and Chartered Accountants UK (ACCA)

The Certification Program designed for AAAA and the ACCA includes theoretical and practical courses. To receive AAAA certification, it is necessary to pass exams on the following topics:

1. Accounting Framework;
2. Legal Framework;
3. Management Information;
4. Organizational Framework;
5. Information Analysis;
6. Audit Framework;
7. Tax Framework;
8. Managerial Finance;
9. Information for control and decision making;
10. Accounting and Audit Practice;
11. Tax Planning;
12. Management and Strategy;
13. Financial Reporting Environment;
14. Financial Strategy.

To certify as a Certified Auditor/ Certified Accountant (CA), it is necessary to pass the AAAA 1-14 exams and to meet other requirements of the AAAA.

To certify as a Certified Accountant/ Technician (CAT), it is necessary to pass the AAAA 1-8 exams and to meet other requirements of the AAAA.

To certify as a Certified Bookkeeper (CB), it is necessary to pass the AAAA 1-4 exams and to meet other requirements of the AAAA.

Does company law or other laws and regulations specify the qualifications or recognition criteria that an auditor must satisfy in order to be able to conduct a statutory audit?

Are there sufficient training facilities for accountants and auditors (specify)?

Do local auditors have sufficient training and resources to conduct audits according to internationally used auditing standards? Are they sufficiently familiar with International Accounting Standards? If so, how do they gain such knowledge and experience?

⁶² Accounting Law, Article 12, clause 5

There is a draft of a Government Resolution, which aims to adopt Auditing Standards, which are based on International Auditing Standards.

There are local branches of International Auditing Firms, which can conduct audit according to IAA.

Do companies have a dedicated accounting department? If so, does this department employ certified accountants? Who supervises the work of the accounting department?

Local Companies used to have accounting department, but there are no sufficient certified accountants in the country.

Do internal accountants have sufficient training and resources to prepare annual accounts according to International Accounting Standards?

Not at this moment.

7. What is the total number of certified accountants? How many accountants are certified yearly?

8. How many certified accountants engage in auditing functions on a full-time basis? (i.e. what is the total number of licensed auditors?)

According to AAAA data, there are 119 certified auditors in armenia.

E- Can you describe one or several cases involving major violations of disclosure requirements? (i.e. denied access to information; accounting manipulation; non disclosure of required strategic information; etc.). What enforcement actions were taken in each case?

No enforcement in this country.

F- What are from your point of view the impediments and deterrents to full disclosure by companies?

No incentives and no enforcement.

G- Please add any relevant information that has not been covered by the above questionnaire.

This survey is missing an important aspect of corporate governance and the disclosure of information: the role of the control committee. Please be advised that the control committee, besides the AGM, is the most important body as defined by legislation in Armenia to check the information disclosed by the company.

Under Armenian law, it is mandatory for Joint Stock Companies to have a Control Committee or a Controller.⁶³ The Control Committee is an independent body of the Company that inspects the financial and economic activities of the Company. A Controller can perform the duties of the Control Committee when the Company has fewer than 50 shareholders with voting rights.⁶⁴

The law specifies the following functions of the Control Committee:⁶⁵

- reviewing the financial and economic activities of the Company;
- ensuring compliance of documents and decisions of the Company with Armenian legislation and the Charter of the Company.
- The Control Committee undertakes an audit at least once a year. In addition, the Committee can undertake extraordinary audits:
 - on its own initiative;
 - upon the decision of the General Meeting of Shareholders;
 - at the request of the Board of Directors, or;
 - at the request of a shareholder or a group of shareholders owning at least 10 percent of the shares of the Company with voting rights.⁶⁶

The Control Committee ensures that the Company's financial reporting system is accurate and that it presents a true picture of the financial strengths and weaknesses of the Company. The Control Committee oversees the total audit of the Company's financial processes, including the internal control system and the use of generally accepted accounting principles. The Control Committee also helps to prevent fiscal mismanagement and fraudulent financial reporting by the Board of Directors, the Executive Director and the Management Team of the Company.

In order to execute its functions, the Control Committee has the authority to:

- check the founders' report presented during the Constituent Meeting of Shareholders;⁶⁷
- oversee the implementation of all decisions made by the General Meeting of Shareholders, the Board of Directors, the Executive Director and the Management Team of the Company;
- call Extraordinary Meetings of Shareholders;⁶⁸
- check the accuracy of information presented in financial reports and other documents of the Company;
- invite experts such as the independent external auditor appointed by the General Meeting of Shareholders;
- call a meeting of the Board of Directors to discuss any issue that is of interest to the Control Committee.⁶⁹

⁶³ CC, Chapter 5, Article 115, Clause 1, Section 2; LJSC, Chapter 12, Article 94.

⁶⁴ LJSC, Chapter 12, Article 94, Clause 3.

⁶⁵ LJSC, Chapter 12, Article 94, Clauses 1 and 2.

⁶⁶ LJSC, Chapter 12, Article 94, Clause 2.

⁶⁷ LJSC, Chapter 2, Article 13, Clause 2.

⁶⁸ LJSC, Chapter 10, Article 77, Clause 1.

⁶⁹ LJSC, Chapter 11, Article 90, Clause 1.

The Charter of the Company can further specify the authority of the Control Committee.

The Control Committee reports directly to the General Meeting of Shareholders. The Control Committee presents its conclusion on the Company's annual financial report, the balance sheet, the financial reporting system and the Company's financial strengths and weaknesses to the General Meeting of Shareholders in a written report. The report includes:⁷⁰

- an analysis of the Company's financial activities;
- an analysis of the financial resources (funds) of the Company and the way the resources are used by the Board of Directors, the Executive Director and the Management Team;
- a statement that information provided in financial reports of the Company is accurate and reliable;
- a statement that financial reports have been compiled and written in compliance with Armenian legislation and the Charter of the Company;
- a statement that decisions of the General Meeting of Shareholders, the Board of Directors, the Executive Director and the Management Team have been made in compliance with Armenian legislation and the Charter of the Company;
- any other relevant information.

The General Meeting of Shareholders cannot approve the annual financial report of the Company without the report of the Control Committee.⁷¹

Composition of the Control Committee

As a general rule, members of the Control Committee should be chosen based on their financial expertise and understanding of the business in which the Company is engaged. The minimum number of members of the Control Committee and their terms in office is specified by law, by decision of the General Meeting of Shareholders and by the Charter of the Company. Armenian law specifies that:

- members of the Control Committee must be shareholders of the Company who have a full dispositive capacity;
- the Control Committee must have a minimum of three members;⁷²
- members of the Control Committee cannot be a member of the Board of Directors or a member of any executive body of the Company.

Shareholders (or a group of shareholders) who have at least 2 percent of the shares of the Company with voting rights have the right to propose candidates for the Control Committee.⁷³ Members of the Control Committee are elected for a period of 3 years by a simple majority vote

⁷⁰ LJSC, Chapter 12, Article 94, Clause 5.

⁷¹ LJSC, Chapter 12, Article 94, Clause 6; LJSC, Chapter 13, Article 96, Clause 2.

⁷² The exact number of members of the Control Committee must be specified by the Charter of the Company or by decision of the General Meeting of Shareholders. See also LJSC, Chapter 12, Article 94, Clause 3.

⁷³ LJSC, Chapter 10, Article 75, Clause 1.

of shareholders present at the General Meeting of Shareholders. The Charter can provide for a greater number of votes necessary to elect members of the Control Committee.⁷⁴

In Companies with more than 25 shareholders with voting rights, members of the Board of Directors, the Executive Director and members of the Management Team who are shareholders of the Company cannot vote on the election of members of the Control Committee.⁷⁵

The Chairman of the Control Committee is elected by a simple majority vote of members of the Control Committee.

The Charter and the by-laws of the Company can provide additional requirements for members of the Control Committee.

The authority of members of the Control Committee can be terminated by a simple majority vote of shareholders present at the General Meeting of Shareholders. The Charter can provide for a greater number of votes necessary to terminate the authority of members of the Control Committee.⁷⁶

In Companies with more than 25 shareholders with voting rights, members of the Board of Directors, the Executive Director and members of the Management Team cannot vote on the termination of the authority of members of the Control Committee.

The Board of Directors is responsible for the development of procedures and terms related to the compensation and reimbursement of members of the Control Committee. The General Meeting of Shareholders must approve these.⁷⁷

⁷⁴ LJSC, Chapter 10, Article 70, Clause 1, Section I; LJSC, Chapter 10, Article 71, Clause 2; LJSC, Chapter 12, Article 94, Clause 3.

⁷⁵ LJSC, Chapter 12, Article 94, Clause 3.

⁷⁶ LJSC, Chapter 12, Article 94, Clause 3; LJSC, Chapter 10, Article 71, Clause 2.

⁷⁷ LJSC, Chapter 11, Article 87, Clause 1, Section K.