CODE OF CORPORATE GOVERNANCE of ARMENIA

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(i) Introduction

(i. 1) What is Corporate Governance and why companies should follow it

There is no universal definition of corporate governance. One of the simplest and most effective definitions can be found in the UK Cadbury Code (1992). Here, corporate governance is defined as "*Corporate Governance is the system by which companies are directed and controlled*".

According to the OECD Principles, the global recognised standards for corporate governance, "*Corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined*". Further "*Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring*."[1]

Good corporate governance allows companies to increase their competitiveness, economic efficiency and growth, to attract the capital required for economic growth and reduce the cost of such capital, improve operational decision-making and the company's reputation, as well as to promote protection of and cooperation with stakeholders who have a legitimate interest in company's performance.

(i.3) International Best Practice

The Principles of Corporate Governance of 2004 developed by the Organisation for Economic Co-operation and Development (OECD), originally issued in 1999, are considered the international benchmark for corporate governance, particularly for companies whose securities are listed on organized capital markets. They cover six key areas – (i) ensuring the basis for an effective corporate governance framework; (ii) the rights of shareholders; (iii) the equitable treatment of shareholders; (iv) the role of stakeholders in corporate governance; (v) disclosure and transparency and (vi) the responsibilities of the board. There are explanatory annotations for each area that also indicate the range of policy measures which have proved useful in achieving the new Principles.

The OECD Principles are built on four core values:

- **Fairness:** The corporate governance framework should protect shareholder rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violations of their rights.
- **Responsibility:** The corporate governance framework should recognize the rights of stakeholders as established by law, and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
- **Transparency:** The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the company, including its financial situation, performance, ownership, and governance structure.
- **Accountability**: The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and shareholders.

Apart from the OECD Principles, the EC Commission Recommendation dated 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, the guideline on "Enhancing corporate governance for banking organisations" by the Basel Committee on Banking Supervision (2006), the OECD Guidelines on Corporate Governance of Non-Listed Companies in Emerging Markets (2006), the OECD Guidelines on Corporate Governance of State-owned Enterprises (2005) and the EBRD-OECD Corporate governance of banks in Eurasia – A set of recommendations (2008) [2], provide

[1] Preamble of the OECD Principles of Corporate Governance, 2004 (http://www.oecd.org/dataoecd/32/18/31557724.pdf)

[2] These documents can be found at: http://www.ebrd.com/pages/sector/legal/corporate/standards.shtml

good reference for enhancing corporate governance practices. Apart from the above, the *Acquis Communautaire* is also establishing useful benchmarks on corporate governance issues.[3]

(i.4) How the Armenian Corporate Governance Code was developed

In early 2008, the Government of the Republic of Armenia started a constructive dialogue with the CBA, the Armenian stock exchange (OMX-NASDAQ), the EBRD and the IFC in order to draft a set of voluntary provisions which should be applied to listed companies, banks and state-owned enterprises for improving their corporate governance practices. Such dialogue brought to the development of the present Corporate Governance Code.

The present Armenian Corporate Governance Code is based on a gap analysis which has analyzed existing Armenian legislation against the OECD Principles, the Basel Committee Guidance Enhancing Corporate Governance for Banking Organisations, the OECD Guidelines on Corporate Governance of State-Owned Enterprises and the EBRD-OECD Corporate Governance of Banks in Eurasia – A set of recommendations.

The EBRD and a group of independent consultants were involved to advise the working group and provide them with necessary expertise concerning international best practice.

Within the working group three sub-committees (banking, listed companies and state owned companies) were established which coordinated development of specific provisions of the Code. The input of Armenia's Stock Exchange operator NASDAQ OMX Armenia, the Central Bank of Armenia, the State Property Management Department and other stakeholders from both public and private sectors were all very important and useful in achieving consensus for the development of the code. In September of 2010, a public consultation started, which included a conference hosted by the Ministry of Economy and training sessions to listed companies, SOEs and banks hosted by the Ministry of Economy, Central bank of Armenia and NASDAQ OMX.

(i.5) Nature of the Code's provisions; Comply or Explain

The Code sets forth recommendations with respect to corporate governance best practices on issues which are not required in legislation or are not regulated at all.

Listed companies, banks, insurance companies, pension funds and state owned enterprises are encouraged to prepare an annual Corporate Governance Statement and attach it to their Annual Report. In the Statement, companies are required to clearly state whether they comply with the Code's recommendations or explain why they have not followed a particular recommendation.

The Code is supplemented with guidance notes and implementation templates that explain the purpose of its requirements and propose ways to implement them. Templates include, among others, the Annual Corporate Governance Statement, drafts of terms of reference for directors and for various board committees.

(i.6) Relationship between the legal rules and the Code

The purpose of the Code is not to replace existing laws or regulations but to set standards of corporate governance in line with international best practice, taking into account the Armenian practices and framework.

The Code, therefore, aims to set higher standards than those presently detailed by Armenian laws and regulations and fill gaps on issues which are not adequately covered by such laws and regulations.

Whilst it is not mandatory that listed companies, banks insurance companies, pension funds and state-owned enterprises follow the Code's proposed solution, these practices are strongly recommended. On the other hand, listed companies, banks and state-owned enterprises are required to report their level of compliance with the Code.

It is planned that revisions will take place periodically against the background of national and international developments and be adjusted, if necessary, or to reflect any major amendment in the legal framework.

[3] For a review of Acquis Communautaire on Company Law and corporate governance see: http://ec.europa.eu/internal_market/company/index_en.htm

(i.7) Structure of the Code

This Corporate Governance Code is divided in four chapters dealing with (i) Right of Shareholders, (ii) the Board, (iii) Disclosure and Transparency and (iv) Stakeholders.

Provisions included in the chapters apply to all companies unless special reference is given that a particular provision applies to certain categories of company only.

(i.8) Key Definitions of the Code

Banks	Bank is a legal entity, authorized to perform banking activities under license issued according to Law on Banks and Banking (LBBA).
Insurance company	Insurance company is a legal entity licensed to perform insurance activities according to the Law on Insurance and insurance activities
Board	This refers to the board of directors or supervisory board, a governing body of the Company, and has the meaning given in the Civil Code of Armenia, Article 115 (2), in LJSC Art. 83 and in LBBA Art. 21.3, as appropriate. When reference is to the management board, this is expressly mentioned.
Close family member	"Close family member" has the meaning given in LBBA Art. 8(2)(4).
Company or Companies	unless differently specified, the term "company" and "companies" is meant to indicate all listed companies, banks, insurance companies, pension funds and SOEs
Group of companies	has the meaning given in LSM Art. 3(43).
Holding company	is a company which is organised to own and control other companies and which has a dominant participation in another company's equity capital which gives it the ability to determine decisions taken by that company.
Independent director	Independent director has the meaning described in Paragraph 2.7. of this Code.
Listed company	A company, securities of which are admitted to trade on the stock exchange, according to the requirements and criteria defined by the Law, regulations of the Central Bank and rules of the Stock Exchange.
Management board	has the meaning given in LJSC Art. 89 and in LBBA Art. 21.10.
Non executive director	Non-executive director means an individual who is not involved in the day-to-day management of the company, or one of its subsidiaries.
Regulatory authority	Authority to which companies submit Corporate governance statement according to the procedure stated in this Code
Parent company	"Parent company" is a company which has a dominant participation in another company's equity capital which gives it the ability to determine decisions taken by that company.
Related party	In this code "Related party", "Related parties" and "Parties related" have the meaning given in LBBA Art. 8 and in LJSC art.62.
Stakeholder	Stakeholder is party that has interest in the operations and results of the company. Employees, customers, depositors, suppliers, the local community, the government and the environment may be considered as stakeholders.
State Owned enterprise	is a joined stock company or other legal entity controlled by the State or where the State has 50% or more of the voting rights and to whom the Corporate Governance Code applies according to a resolution of the Government of Armenia.
Subsidiary	A business company is a subsidiary business company if another (or principal) business company or partnership by virtue of dominant participation in its equity capital or in accordance with a contract concluded between them has the possibility of determining decisions taken by such a company. (Civil Code of Armenia, art. 75).
Whistleblowing	the action of an employee in disclosing evidence of wrongdoing including fraud, financial irregularity, serious misadministration arising from the deliberate commission of improper conduct, unethical activities which may be of criminal nature and dangerous acts or omissions which create a risk to health, safety or the environment, within the organisation to which they belong. It does not include mismanagement which arises from weak or poor management rather than malpractice.

1. Competences of General Shareholders' Meeting and Shareholders' Rights

The shareholders are the owners of the company and rely on the information they receive in return for their investment. Shareholders have defined property and information rights. They are entitled to sell their shares and share the profits of the company. In addition, they own a right to information about the company, primarily by participation in general shareholder meetings and by voting. In order to encourage shareholder participation in general meetings, it should be made easy for shareholders to submit questions in advance of the general meeting and to obtain replies from management and board members. Moreover, effective shareholder participation in general meetings could be improved through effectively allowing development of voting mechanisms in absentia.

SOEs must be governed and managed in a way which makes it easy for people to understand and evaluate their performance, its objectives and the way profits are used. The State should act as an informed and active owner and establish a clear and consistent ownership policy, ensuring that the governance of state-owned enterprises is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness.

The Civil Code, the Law on Joint Stock Companies, the Law on Banks and Banking and the Law on Securities Market, provide for a set of rules protecting shareholders rights and ensuring the equitable treatment of all shareholders. This section complements the legislation and specifies shareholders rights in line with international standards and best practises.

1.1. Communication Among Shareholders

At the General Shareholders' Meeting (GSM), shareholders should be allowed to communicate with each other for the purpose of election of board members and voting on agenda items, as well as should also be permitted to communicate directly with the board. Procedures to this end should be included in the company's by-laws.

1.2. Notice and Agenda of the General Shareholders Meetings

1. The agenda of the GSM should be received by shareholders and the related information made available at least 21 days in advance. In case of a sole shareholding the above mentioned rule is not applicable. The methods for sending out the agenda and on how the GSM participants may get the relevant documentation for the GSM are set out in the company's by-laws.
2. The agenda of the Annual GSM should include the draft text of the resolutions to be voted on and the name of the external auditor proposed by the board, to be appointed by the GSM.

1.3. GSM's Venue

Companies (unless differently specified, the term "company" and "companies" is meant to indicate all listed companies, banks, insurance companies, pension funds and SOEs) should hold their GSM at the company headquarters or in another easily accessible location.

1.4. Voting in Absentia and by Proxy

1. Shareholders should be given the possibility to vote on the issues discussed at the GSM in absentia. The procedures for voting in absentia should be set out in the company's by-laws.
2. The company shall facilitate the personal exercising of shareholders' voting rights. Shareholders should be given the possibility to participate at the GSM by appointing a representative. Proxy forms should be accessible to shareholders in accordance with provisions in the Company's charter. The company shall also assist the shareholders in the use of proxies.
3. Shareholders should vote at General shareholders meetings by ballots. This procedure can be violated only in cases of a sole shareholding.

1.5. Submitting and Asking Questions at the General Shareholders Meeting

1. Companies should provide shareholders the right to submit questions up to 10 days in advance of a GSM and the board/management should be required to reply to the shareholders' questions at the GSM.
2. Companies should provide shareholders the right to ask oral questions at a GSM and the board/management should be required to provide answers to the questions posed. In the case of issues

that cannot be answered during the GSM the response shall be sent to the shareholder in written form and also be accessible to all other shareholders, e.g., via the company's website.

1.6. Dividend Policy

Companies should adopt a dividend policy, including a payout ratio, which should be prepared by the board, submitted to the GSM for approval and published on the Company's web-site.

1.7. The State As Owner

1. The State should not intervene in the day-to-day management of the SOE.
2. The State should develop and issue an ownership policy that defines the overall objectives of state ownership, the state's role in the corporate governance of SOEs, and how it will implement its ownership policy. The objectives may include avoiding market distortion and the pursuit of profitability, expressed in the form of specific targets, such as rate-of-return and dividend policy.
3. The State should make information public if SOEs provide services that can be provided only by state sector and if SOEs are financed only from state
4. The State and SOEs should ensure that all shareholders are treated equitably. The State's prime responsibilities include:
   - (i) Being represented at the general shareholders meetings and exercising its vote;
   - (ii) Establishing well structured and transparent board nomination processes in fully or majority owned SOEs, and actively participating in the nomination of all SOEs' boards;
   - (iii) Setting up reporting systems allowing regular monitoring and assessment of SOE performance;
   - (iv) When permitted by the legal system and the state's level of ownership, maintaining continuous dialogue with external auditors and specific state control organs;
   - (v) Ensuring that remuneration schemes for SOE board members foster the long term interest of the company and can attract and motivate qualified professionals.

2. The Board

The company must be headed by a well functioning board that manage the company and are responsible to the shareholders for the long-term success of the company.

The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met. All directors must act in what they consider to be the best interests of the company, consistent with their statutory duties. All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

The chairman is responsible for is responsible for leadership of the board. He should ensure that adequate time is available for discussion of all agenda items, in particular strategic issues. The chairman should promote a culture of openness and debate by facilitating the effective contribution of directors. The chairman is responsible for ensuring that the directors receive accurate, timely and clear information and for ensuring effective communication with shareholders.

Boards should be organised in such a way that a sufficient number of independent directors play an effective role in key areas where the potential for conflict of interest is particularly high. To this end board committees should be created within the board. The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

The Law on Joint Stock companies and the Law on Banks and Banking provide for a set of rules defining the duties and responsibilities of the board. This section complements the legislation and recommends practices in line with international standards and best practises.

2.1. Responsibilities of the Board

1. In addition to the responsibilities provided by law, the board should be responsible for:
   - (i) ensuring a formal and transparent nomination process for directors[4];
   - (ii) monitoring the effectiveness of the governance practices under which the company operates and propose changes where needed;
   - (iii) overseeing the process of disclosures and communications to shareholders and stakeholders;
   - (iv) overseeing compliance with this Code and the company's by-laws;
   - (v) setting performance objectives and evaluating the performance for the company and management board members, including the CEO and all key executives and approving the management remuneration connected with corporate performance. The evaluation is undertaken according to a policy and procedures approved by the Board.
   - (vi) monitoring the implementation and overall development of the corporate business strategy and corporate performance;
   - (vii) ensuring the integrity of the company's accounting and financial reporting systems, including the independent audit;
   - (viii) ensuring that appropriate systems of internal control are in place, in particular, systems for monitoring risk, financial and accounting control, and compliance with laws and regulations;
   - (ix) preparing the report, which states the company's compliance with this Code of Corporate Governance.
   - (x) appointment and or dismissal of the CEO and the management board if there is one.

2.2. Commitment of Directors

Directors should commit themselves effectively to their responsibilities. Directors should ensure they have sufficient time to attend and contribute to board meetings.

[4] In the present Code, the word "director" and the word "Board member" have the same meaning.

2.3. Independent and Non-Executive Directors

1. The board should be comprised of a majority of non-executive directors, where at least two are independent. Annual report should include information on which directors are independent.
2. "Independent" means a director who:
    1. has not been a member of senior executive management or an employee (State employee or civil servant in case of SOEs), of the Company or any of its associates in the past 3 years;
    2. has not received directly or indirectly any significant additional remuneration from the Company (the State, in case of SOEs) or its associates in the past 3 years;
    3. has no material business relationship with the Company, including lending or borrowing relationships, or its associates either directly or as a partner, major shareholder, director or senior employee of a body having such a relationship at any time in the past 3 years;
    4. has not been a partner or employee of the present or former external auditor of the Company, or of any of the external auditor's associated companies in the past 5 years;
    5. has not served on the board of the Company for more than 6 years during last 10 years; and, is not a close family member of any of the persons referred to in above; and
    6. Is not a significant shareholder or a representative of a significant shareholder (significant shareholder is one owning more than 10% of the company's voting shares), in case of listed companies.
3. Companies may consider implementing stricter criteria for independent directors.The board should identify in the Annual Report each director it considers to be independent. The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

2.4. Requirements for board membership of State Owned Enterprises

1. SOE directors should clearly disclose their political affiliations.
2. The board should not include members who are also civil servants and who have separate regulatory responsibilities towards the SOE
3. Directors should be appointed for a minimum of 3 years to ensure continuity, unless removed earlier for disciplinary or poor performance reasons.

2.5. Composition of the Board

1. The board should be adequate to ensure effective corporate governance, necessary pluralism, productive and constructive discussions, prompt and rational decisions and effective organisation of the work of its committees. The board should adopt policies and procedures to ensure that the board maintains adequate composition of qualified directors at all times and attracts new highly qualified directors from time to time.
2. Directors are selected based on their expertise and experience on the basis of terms of reference developed by the board and disclosed to shareholders along with the shareholders' meeting agenda before their nomination. The terms of reference detail the responsibilities and the functions of the directors.
3. The company may also add specific qualifications and skills that candidates need to possess to be elected to the board of directors, such as financial, banking, accounting, audit and other expertise.
4. The following information about each board member candidate shall be submitted to shareholders and included in the report of the board for elected board members:
    (i) age;
    (ii) profession;
    (iii) principal position;
    (iv) nationality;
    (v) positions in other companies, in so far as they are relevant to the performance of the duties of the board member;
    (vi) date of initial appointment;
    (vii) current term of office;
    (viii) professional experience during the last 3 years; and
    (ix) direct or indirect shareholding owned in the company and related companies.

Board Meeting Procedures

2.6. Board Meetings

1. The board should have its annual plan which provides for a number of meetings to be held, tentative agenda items and the form these will be held (e.g., personal presence required or teleconference). The agenda of board meetings should be sent to all directors at least 10 days in advance of the meeting, together with any relevant documentation, so that directors may have time to familiarise themselves with the agenda issues and accompanying documentation. Directors should attend board meetings in person.
2. Board meetings of SOEs and Listed companies should be held at least quarterly.

The Board Structure

2.7. Chairman of the Board

1. The chairman of the board should be distinct from the CEO[5] and should have specific responsibilities to include:
   (i) representing the board in GSM and other communications with shareholders and stakeholders;
   (ii) overseeing the agenda for general shareholders' meetings;
   (iii) assess and where necessary implement training programmes for directors.
   (iv) overseeing compliance by the company with this Code of Corporate Governance and signing the Corporate Governance Statement to be attached to the Company's Annual Report.
   (v) ensure that new directors receive a full, formal and tailored induction on joining the board and that all directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees.
2. Meetings of the board and of board committees should be scheduled in advance by the chairman to enable directors to attend each meeting.
3. The chairman of the board should ensure that issues discussed at the board committees are reported to the board and any committee recommendations are considered for approval by the board. For this purpose, the chairman of the board should give the floor to the chairman of each board's committee for a short presentation.
4. The chairman of the board should be non-executive or independent.

2.8. Indemnification and Insurance of Directors

1. By-laws should include provisions for directors' indemnification.
2. Companies, banks and SOEs should insure against the risk of losses arising from the actions of directors.

2.9. Audit Committee

1. Companies should establish an audit committee comprised of non-executive directors, where the chairman and a majority of members are independent. Only directors can be members of the audit committee. It is desirable that the committee member whom the board considers to have recent and relevant financial experience should have a professional qualification from one of the professional accountancy bodies. Experience of corporate financial matters is required. The availability of appropriate financial expertise will be particularly important where the company's activities involve specialised financial activities.
2. The audit committee reports to the board, identifies any matters in respect of which it considers that action or improvement is needed, makes recommendations as to the steps to be taken and has the following exclusive tasks and responsibilities:
   (i) to monitor the integrity of the financial statements of the company and any announcements of the company's financial performance, reviewing significant financial reporting judgments contained in them, review and recommend for board and shareholders' approval quarterly and annual statements;
   (ii) to review the company's internal control, internal audit, compliance and risk management systems;
   (iii) to oversee the activities of the internal auditors;

[5] For banks, the separation from CEO and chairman is provided by law

(iv) to make recommendations to the board, for it to put to the shareholders for their approval in the General Shareholders Meeting (GSM), on the election of the external auditor, their proposed remuneration and the terms of engagement, subject to final approval by the shareholders;

(v) to receive and discuss the external auditors report including any issues and recommendations raised by the external auditor on internal control weaknesses;

(vi) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant national professional and regulatory requirements; and

(vii) to meet with external auditors at least once a year to discuss audit-related issues.

3. Where legislation permits, an increase in the company's capital by contribution other than in cash, should be valued by independent experts appointed by the Audit Committee.

2.10. Other Board Committees

1. The board may establish other board committees (e.g., nomination committee, remuneration committee, risk-management committee and corporate governance committee) charged with specific tasks and responsibilities.
2. Banks' boards should also establish risk management, strategic planning and investment committees charged with specific tasks and responsibilities.
3. SOEs should have a board's nomination committee to handle the recruitment of board members of SOEs, establish terms of references for board members, advertise widely (including on the SOE web site) to ensure transparency and objectivity, operate a selection panel to include the SOE's chairman and CEO, and assess candidates systematically based on their experience and qualifications and relevance thereof to the terms of references.
4. Other board committees should be comprised of a majority of non-executive directors, where at least one is independent. Only directors should be member of board committees.
5. Other board committees should be chaired by independent non-executive director.
6. Minutes of each board committee's meeting are prepared, circulated, signed and archived, not later than the next committee's meeting.

2.11. Board Committees' Operations

1. All board committees should function according to terms of references established by the board and disclosed to shareholders. The terms of reference should include provisions regarding the quorum and voting procedures.[i] The chairman of each board committee is in charge of reporting to the board.
2. All board committees have the right to:

   (i) Request documents, reports, explanations, and other relevant information from the officers, executives, and employees of the company and its advisors;

   (ii) Invite the company's officers, executives, employees, and advisors, to their meetings as observers to question them, and seek explanations and clarifications;

   (iii) Utilize the services of outside consultants, experts, and advisers – committees need to have separate budgets;

   (iv) Request special investigations as required, and utilize the services of independent experts in doing so;

   (v) Perform any other duties as may be required by the board within the scope of authority of the committee.
3. Board committees shall conduct an annual review and assessment of the adequacy of the by-laws in the area of their competence, and make such recommendations to the board regarding any changes to the by-laws deemed advisable.
4. Board committees shall meet and report to the board on a regular basis, but not less than once every three months. Board committees shall make such report to the board as soon as feasible after every meeting. The Board committee meetings should precede the regular board meeting.
5. Board committees members shall:

   (i) Participate in the activities and work of the committee in which they are member, and attend all meetings;

   (ii) Keep abreast of the sectors of the committee's specific competence;

   (iii) Inform the board of any changes in their independent status or any conflict of interest regarding decisions to be made by the committee; and

(iv) Annually review and evaluate the performance of the committee and report to the board.

2.12. Remuneration of Directors

1. Non-executive and independent directors are remunerated in accordance with the responsibilities that they are expected to fulfil, as stated in the terms of reference.
2. In addition to the remuneration paid to all non-executive directors, each company should consider the further remuneration that should be paid to members of the board committees, to recompense them for the additional responsibilities of membership. Consideration should be given to the time members are required to give to committee business, the skills they bring to bear and the onerous duties they take on, as well as the value of their work to the company. The level of remuneration paid to the members of the committee should take into account the level of fees paid to other directors. The chairman's responsibilities and time demands will generally be heavier than the other members of the committee and this should be reflected in his or her remuneration.
3. Executive directors should not receive any additional remuneration as board members or member of board committee.
4. Non-executive and or independent directors of SOEs should be remunerated at similar levels to the private sector in order to attract a high quality of directors.
5. All directors should be reimbursed for costs related to their participation to board's meetings and board committees' meetings.

2.13. Board's Evaluation

1. There should be an annual evaluation of the board's performance. The responsibility for the organisation of the annual evaluation should vest in the board's chairman. External or independent experts may be used for the board's evaluation. The board should develop a policy and procedures for the annual evaluation.
2. Companies should confirm in their Annual Report that the board's evaluation has taken place.

2.14. New Directors Orientation and Director's Training

1. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.
2. The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities. To function effectively, all directors need appropriate knowledge of the company and access to its operations and staff.
3. The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders.
4. The chairman should regularly review and agree with each director their training and development needs, including corporate governance issues.

2.15. Corporate Secretary

1. Companies should appoint a corporate secretary. The corporate secretary helps the governing bodies perform their duties and execute their responsibilities.
2. The corporate secretary is a full-time staff member, with impeccable reputation appointed by and accountable to the board. The board determines the terms of references for the corporate secretary. The board determines the remuneration of the corporate secretary. The corporate secretary reports to the board on compliance with the company's by-laws, other internal corporate rules and policies and assists the board in reporting the company's compliance with this Code of Corporate Governance in the Annual Report and on the company's web site.
3. The corporate secretary is in charge of the following functions:
   (i) Facilitating the efficient administration of board meetings including their planning, calling, conducting and record-keeping consistent with the law, the securities market's regulations and with the company's articles and bylaws.
   (ii) Ensuring that the conduct of the general meetings is consistent with the law, the securities market's regulations and with the company's articles and bylaws.

(iii) Ensuring timely, accessible and accurate filing of corporate statutory records as required by the law, stock market regulations and by the company's articles and bylaws.

(iv) Serving as liaison (together with an investor relations area) and ensuring compliance with the exchanges and markets on which the company's securities are listed or registered.

(v) Supporting effective board administration and serving as liaison between the directors and management.

(vi) Assisting and advising the chairman of the board on the company's compliance with the corporate governance requirements of RA laws, this Code and other internal corporate rules and policies, the company charter and by-laws and any other relevant laws or regulations, and overseeing the publishing and dissemination of the company's Annual Reports and additional information, including the company's by-laws and the Corporate Governance Statement evidencing compliance with and explaining deviations from this Code.

(vii) Coordinating communications with shareholders and assisting with shareholder relations.

(viii) Monitoring and arranging procedures for compliance with relevant regulatory and legal requirements, providing clarifications to the board regarding the requirements of RA laws, this Code, rules of corporate conduct for the company, charter and other legal acts, and introducing to newly elected board members this Code and the legal acts regulating the company's corporate governance and provides any clarifications requested.

3. Disclosure and Transparency

The OECD Principles recommend that "The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company."

An effective disclosure regime that promotes real transparency is a pivotal feature of market-based monitoring of companies and is central to shareholders' ability to exercise their ownership rights on an informed basis. A strong disclosure regime help attracting capital and maintaining confidence in the capital markets. By contrast, weak disclosure and non-transparent practices contribute to unethical behaviour and to a loss of market integrity at great cost, not just to the company and its shareholders but also to the economy as a whole. Shareholders and potential investors require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management, and make informed decisions about the valuation, ownership and voting of shares. Insufficient or unclear information may hamper the ability of the markets to function, increase the cost of capital and result in a poor allocation of resources.

The cornerstone of a disclosure policy is the publication of a comprehensive Annual Report, including Annual Accounts with a report from independent external auditors. Companies are also encouraged to make use of their website for disclosure of key corporate governance information.

Armenian legislation already provide for a set of rules detailing disclosure duties. This section complements the legislation and recommends practices in line with international standards and best practises.

3.1. Annual Report

1. Companies should prepare and present for shareholders approval an Annual Report.
2. The Annual Report should include:
   - (i) financial reports prepared in accordance with IFRS;
   - (ii) non-financial reports;
   - (iii) external auditor's conclusion;
   - (iv) list of the company's major (greater than 10%) beneficial shareholders;
   - (v) reference to the company's web site where the company's code of ethics is posted;
   - (vi) Corporate Governance Statement. The Statement shall evidence the company's compliance with this Code of Corporate Governance. The Statement shall also include the company's report with detailed explanations in case of any deviance from this Code of Corporate Governance;
   - (vii) list of company's related parties and list of related party transactions where the value of the transaction exceeds 2% of the company's total assets. In particular, the Annual Report shall:
     - a. Provide the definition of related parties;
     - b. Describe the relationships between parents and subsidiaries;
     - c. Describe what proportion of the company's transactions involve related parties;
     - d. Provide information regarding related party transactions separately for each category of related parties;
     - e. State fairness of the terms and conditions of a related party transaction;
     - f. Specify the absence of related party transactions;
     - g. Describe the company's policies and procedures for the review, approval, or ratification of any transaction required to be reported.
   - (viii) names and brief bios of directors, including names of directors considered independent, those resigning or removed during the year, together with the remuneration of all directors who served during the year and records of their attendance at board meetings;
   - (ix) name and remuneration of external auditors and disclosure of the results of the test of the auditor's independence. The remuneration of external auditors should be disclosed to shareholders at the GSM, when the external auditor is appointed;
   - (x) description of the company's structure, including subsidiaries, branches and parent companies and cross-shareholdings with other group or affiliated companies including those where the affiliation is through a greater than 20% common shareholder of a group holding company.
   - (xi) directors' Report summarising the performance for the past year, risk factors, prospects for the coming year, company strategy, major transactions during the year, any major changes in the business undertaken by the company, explanations of major changes in financial performance in

comparison with the preceding year, proposed allocation and distribution of profits, including proposed dividends;

(xii) Compensation of directors and senior executives (including the CEO and Chief Accountant).

(xiii) List of number and class and classes of shares issued and summary of rights for each class of shareholders.

3.2. Company's Web Site

1. Companies should have a web site accessible to all interested parties for the disclosures required in this Code of Corporate Governance. The web site should be updated regularly, to ensure that required disclosure of information is done so in a timely manner. Documents and information posted on the web site should be available in Armenian and at least in one foreign language.
2. All documents to be discussed at the GSM should be posted on the company's web site and be available to the public.
3. The company web site should include a section dedicated to corporate governance which is regularly updated. This section should include:
   - (i) Company's Act of Incorporation and charter), inclusive of all amendments in force.
   - (ii) Terms of reference for all directors.
   - (iii) Terms of reference for the board(s), board committees and corporate secretary;
   - (iv) The company's policy on annual evaluation of the board.
   - (v) The minutes of the GSM for the previous years;
   - (vi) The approved dividend policy.
   - (vii) The company's identified stakeholders and its policies for dealing with those stakeholders.
   - (viii) The Corporate Governance Statement compliance statements of the company with this Code of Corporate Governance for the last 5 years;
   - (ix) The Company's code of ethics;
   - (x) The company's structure and cross-shareholdings;
   - (xi) The Annual Reports for the past three years.
4. The SOE web site should disclose how the State plans to exercise its role in corporate governance, the State's ownership policy - which should include profit maximisation goals and/or the way to achieve social objectives - and how the State will implement this policy. The disclosure should include any areas of State's decision making over the SOE's operations that are not delegated to the board and on whether the SOE is subject to any specific regulatory oversight and how this oversight is exercised. The SOE website should also include information on performance criteria to be followed by the board and any relevant information for stakeholders.

3.3. Disclosure by the State

1. The identity of the State entity exercising ownership of the SOE and the shareholding directly or indirectly belonging to the State should be disclosed in the Annual Report and on the SOE web site.
2. The disclosure in the Annual Report of related party transactions should include disclosures of any financial assistance, received from the State and commitments made on behalf of the SOE, any State aid, subsidies or grants of which the SOE has been a recipient and any business relations that may exist between the SOE and other companies.
3. Loans to directors, shareholders, key executives, auditors, company lawyers or any other person who has access to confidential information on the SOEs activities, should not be authorised. If there are any such loans, they should be clearly disclosed in the Annual Report.

Disclosure and Transparency in Listed Companies

3.4. Disclosure of Insider Dealing

1. Companies should establish "trading windows" during which there are no restrictions on directors trading their shares. Directors should immediately disclose (at the least on the Company's website) any trading of their shares conducted outside the "trading windows", as well as any trading of a significant block of the company's shares conducted during the "trading window"
2. The periods and conditions of "trading windows" shall be defined by the Company's board or set out in the Company's by-laws.

3. “Trading windows” should be in those periods following the publication of brief information on the company which is subject to periodic publication. During “trading window” periods the Company should refrain from such activities that could have a significant effect on the value of the Company’s shares, and which have not been previously disclosed.
4. In cases where there have been delays in or a failure to publish information, the board shall adopt a resolution to delay or cancel the “trading window”, and the board members shall refrain from executing contracts to buy or sell the Company’s shares.

3.5. Internal Audit

1. Companies should set up an internal audit function to provide an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. The internal audit helps the company in accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
2 Internal audit function should be appointed by the Audit Committee and report substantively to the board (through the Audit Committee) and administratively to the CEO.
3. Internal auditor should have the following functions:
   (i) Reviews adequacy of internal controls.
   (ii) Reviews implementation of internal controls.
   (iii) Periodically audits business operations.
   (iv) Implements the annual work plan for internal audit with a fixed plan of activities but also allowing for appropriate investigation time for matters that emerge over the year.
   (v) Responds to matters that emerge from appropriate referring bodies (the Board of Directors, CEO and other senior executives).
   (vi) Assists the board with establishing ethics policy and whistle blowing procedures.
   (vii) Periodically reviews and recommends updates in corporate accounting policies and procedures framework.
   (viii) Coordinates audit operations with activities of the External Auditor.
   (ix) Ensures follow-up mechanism to determine if audit recommendations (both internal and external) are implemented within appropriate and agreed timetable.

3.6. External Auditor

1. Companies required to appoint an external auditors should establish a clear test for determining that the external auditor is sufficiently independent from the company, its management or its major shareholders. The establishment of the test and its findings should be monitored by the Audit Committee and disclosed in the Annual Report. Factors in the test of independence should include the level of fees earned by the auditor from other work performed for the company (such as consulting services and tax advice), the number of years serving the company or other companies in the group, any other business relations between senior partners or executives of the auditor and the company, its controlling shareholders or other companies within the group, past employment by a senior partner or executive of the auditor with the company or with other companies in the group.
2. The company’s external auditor shall not allowed to provide the following non-audit services:
   (i) bookkeeping or other services related to the accounting records or financial statements of the audit client;
   (ii) financial information systems design and implementation;
   (iii) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
   (iv) actuarial services;
   (v) internal audit outsourcing services;
   (vi) management functions or human resources;
   (vii) broker or dealer, investment adviser, or investment banking services;
   (viii) legal services and expert services unrelated to the audit;
   (ix) any other service that the board determines, by regulation, is impermissible.
3. The company’s external auditor may provide other non-audit services that are not prohibited by law only with the approval of the Audit Committee and the Board of Directors.
4. Shareholders have the right to request additional information from the board regarding the external auditors' independence.

5. The same auditor cannot conduct the audit of the same company if he continually conducted the audit of the company for 3 years.

3.7. Code of Ethics

1. The board should develop a code of ethics, with clear policies and procedures for directors, management and employees on issues such as: use of confidential information; corporate values; business behaviour; relationship with governments and officials; relationship with competitors; 'whistleblowing' arrangements; use and care of the company's property; use of "insider" information; disclosure of potential conflicts of interest; handling of external gifts; observance of laws and regulations; working relations between employees; reporting of breaches of the code of ethics and protecting the confidentiality of such reporting; behaviour towards stakeholders.
2. The Company shall appoint an officer responsible for developing, implementing and communicating programmes of compliance with ethical standards.

3.8. Increase of Capital by the Board

When the board is approving new share issues or increase of capital implementing the authority granted by the charter or the general shareholders' meeting, it will inform without delay all shareholders.

4. Stakeholders

The OECD Principles[6] state that "corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises".

The term "stakeholder" encompasses a number of parties who are interested in the success and the mode of operation of a company. It includes its employees, members of the local community who are keen to ensure that their environment is not polluted; local government and self-government bodies; local businesses that sell goods and services to the company employees; and the businesses which the company does business with, both suppliers and distributors; and, of course, creditors. The competitiveness and ultimate success of a company is the result of teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors, and suppliers. Thus, it is best practice for the boards to consider the implication of their decisions on the various stakeholders as integral part of the decision making process.

In Armenia, many stakeholder rights are established by law, i.e. the Labour and Civil Codes. Where the laws provide for participation by stakeholders, it is important that stakeholders have access to information necessary to fulfil their responsibilities.

4.1. Considering Stakeholders' Interests

The board should take account of the legitimate interests and expectations of its stakeholders in its decision-making in the best interests of the company.

4.2. Identification of Stakeholders

The board should ensure that the company identifies the stakeholders that are relevant to its operations.

4.3. Policies and Procedures for dealing with Stakeholders

1. The board should define relevant policies and procedures on the handling of the company's relationships with its defined stakeholders. For example, this might include a policy for relations with suppliers that includes payment terms, or an environmental policy that includes the handling of waste.
2. The stakeholder policies and procedures including implementation report and applied standards should be disclosed on the company's web site.
3. The board should disclose in the implementation report the nature of the company's dealings with stakeholders and the outcomes of these dealings.

4.3. Access to Company's Information

Stakeholders should be granted access to the company web site's section on Annual Reports, corporate governance and related documents.

4.4. Interaction with Company's Stakeholders

1. The company's reputation and its linkage with stakeholder relationships should be a regular board agenda item.
2. The board should consider not only formal, but also informal, processes for interaction with the company's stakeholders.

4.5. SOEs relations with Stakeholders

The state ownership policy should fully recognize the state-owned enterprises' responsibilities towards stakeholders and request that they report on their relations with stakeholders.

calculated. In addition to providing this information on the bank's web site, the bank should provide this information, at least in summary leaflet form, in each of its branches.

[6] See OECD Principle IV.