

REPORT COMPLIANCE EVALUATION

Commission Directive 2006/73/EC of 10 August 2006

**Implementing Directive 2004/39/EC of the European Parliament and of the Council
as regards organisational requirements and operating conditions for
investment firms and defined terms for the purposes of that Directive**

November 2008

This report is designed to evaluate compliance of the Armenian laws governing the securities market with the requirements of the Commission Directive 2006/73/EC of 10 August 2006 on implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

The report consists of 3 parts and an appendix

- Description of the EC Directive
- Compliance evaluation
- Conclusion.

1. Description of the EC Directive

The organisational requirements to investment firms and operating conditions relating to the activities thereof in the context of the European Union are regulated under the **Directive 2006/73/EC of 10 August 2006 on implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive** (hereinafter referred to as ‘the Directive’).

The Directive establishes organizational requirements to investment companies. In particular, it provides procedures for the matters such as compliance, risk management, complaints handling, personal transactions, outsourcing and the identification, management and disclosure of conflicts of interest.

The Directive sets out a regime governing operating conditions for the performance of investment companies and ancillary services and investment activities. The rules are designed to ensure a high level of investor protection to be applied in a uniform manner through the introduction of clear standards and requirements governing the relationship between an investment firm and its customer. In particular, the provision of investors with information or the seeking of information from investors or requirements to reporting to customers should be taken into account.

The aforementioned aspects are regulated under the Armenian Law¹ on the Securities Market (hereinafter referred to as ‘the Law’) and other prudential regulations adopted pursuant thereto – in particular Regulation 4/07² on “Rules and Requirements for Provision of Investment Services by Investment Service Providers” (hereinafter referred to as ‘Regulation 4/07’).

2. Compliance evaluation

1. Does the Armenian Law provide for general organizational requirements to investment companies?

Yes. Article 59 of the Law provides that any investment service provider shall undertake to adopt internal rules and procedures that govern the activities of managers and employees (hereinafter - business rules). The business rules shall include: 1) measures to prevent conflict of interests between the investment service provider and the managers and employees of the investment firm; 2) document flow and data exchange procedures related to the provision of investment and non-operating services of the investment service provider; 3) rules for the provision of investment and non-operating services; 4) business rules of internal audit; 5) other procedures set forth by regulations of the Central Bank.

The Central Bank may have prudential regulations to set forth detailed requirements for the content of the business rules of the investment service provider.

Article 60 of the Law provides that the investment firm shall have an internal control system in place to incorporate all levels of management and operational activity of the investment firm.

According to Article 63 of the Law, in providing investment and non-operating services an investment service provider shall ensure that it provides services in due professional manner, accurately and carefully, acting in good faith and to the advantage of the customer (a fiduciary duty).

According to Article 69 of the Law, in providing investment services, an investment service provider shall maintain records on the orders received and handled, in the manner specified by prudential regulations of the Central Bank.

Article 5 of the Directive establishes similar general organizational requirements to investment companies. The Directive further provides that Member States shall require investment firms to establish, implement and maintain appropriate accounting policies and procedures.

Evaluation: the Armenian Law partially complies with the requirements of the Directive.

2. Does the Armenian Law require that an investment firm exercise control over the compliance of its operations with the obligations under the law? If yes, what are the requirements to the performance of such a function?

¹ AL-195-N, adopted on 11.10.2007, (Official Bulletin 2007/53 (577), 31.10.2007).

² CBA Resolution No. 68-N, adopted on 11.03.2008, the Republic of Armenia Departmental Bulletin, 2008/12 (286), 15.04.2008.

According to Article 60 of the Law, the investment firm shall have an internal control system in place to incorporate all levels of management and operational activity of the investment firm. The law however does not provide for the exercise of a control function over compliance.

Article 6 of the Directive sets out requirements for investment firms to establish and maintain a permanent and effective compliance function. It needs to operate independently and should have the following responsibilities:

- to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the firm's compliance with its obligations;
- to advise and assist the relevant persons responsible for carrying out investment services and activities to comply with the firm's obligations.

In order to enable the compliance function to discharge its responsibilities properly and independently, investment firms shall ensure the following conditions are met:

- the compliance function must be exercised by the relevant authority; it should have necessary resources, expertise and access to all relevant information;
- a compliance officer must be appointed and must be responsible for the compliance function and for any reporting as to the required compliance.

Two more non-mandatory requirements further provide that the relevant persons involved in the compliance function should not be involved in the performance of services or activities they monitor, and that the method of determining the remuneration of the relevant persons involved in the compliance function should not compromise their objectivity.

Evaluation: the Armenian Law does not comply with the requirements of the Directive.

3. Does the Armenian Law require that an investment firm formulate a relevant risk management policy and procedures? If yes, is the investment firm required to exercise control over compliance with such a policy and procedures?

Article 60 of the Law provides that internal auditor of the investment firm shall be authorized to carry out control over the day-to-day activities of the company and over the risks, in accordance with the rules and procedures set out by the company.

Article 7 of the Directive establishes that investment firms are required to take the following actions:

- to establish, implement and maintain adequate risk management policies and procedures which identify the risks relating to the firm's activities, processes and systems, and where appropriate, set the level of risk tolerated by the firm;
- to adopt effective arrangements, processes and mechanisms to manage the risks relating to the firm's activities, processes and systems;
- to monitor the effectiveness of the firm's risk management policies and procedures;
- to monitor the level of compliance by the investment firm and its relevant persons with the arrangements, processes and mechanisms
- to monitor the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons to comply with such arrangements, processes and mechanisms or follow such policies and procedures.

Investment firms are required, where appropriate in terms of the nature, scale and complexity of their business, to establish and maintain a risk management function that operates independently and performs the following tasks:

- implementation of the policy and procedures referred to above paragraph; and
- provision of reports and advice to senior management.

Where an investment firm is not required to establish and maintain a risk management component that functions independently, it must nevertheless be able to demonstrate that the policies and procedures satisfy the established requirements and are sustainable and effective.

Evaluation: the Law establishes that the internal auditor of the investment firm is authorized to carry out control over the day-to-day activities of the company and monitor its risks in accordance with the rules and procedures set out by the company. However, the Law does not provide for requirements to risk management policies and procedures established under the Directive. Therefore, the Law only partially complies with the requirement of the Directive.

4. Does the Armenian Law require that an investment firm incorporate an internal audit function?

Yes. According to Article 60 of the Law, the investment firm must have an independent division of internal audit and it should assign independent employees for the audit staff or delegate the internal audit functions to independent auditor under contract. In accordance with internal rules and procedures of the investment firm, the internal auditor shall:

- carry out control over the day-to-day activities of the company and monitor its risks;
- draw conclusions and give recommendations concerning the issues addressed by the competent and such other issues of relevance.

Article 8 of the Directive contains a similar provision.

Evaluation: the Armenian Law complies with the requirements of the Directive.

5. Does the Armenian Law provide that the management body and parties implementing a supervisory function of the investment firm are responsible to monitor whether their company complies with its obligations under the law?

No. The Law does not establish that the management and parties implementing a supervisory function of the investment firm are responsible to monitor whether their company complies with its obligations under the law.

According to Article 9 of the Directive, Member States shall require investment firms, when allocating functions internally, to ensure that senior management, and, where appropriate, the supervisory function, are responsible for ensuring that the firm complies with its obligations under Directive 2004/39/EC.

In particular, senior management and, where appropriate, the supervisory function shall be required to assess and periodically to review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under Directive 2004/39/EC and to take appropriate measures to address any deficiencies.

Evaluation: the Armenian Law does not comply with the requirements of the Directive.

6. Does the Armenian Law contain an arrangement whereby the management body is reported in writing about the activity compliance, risk management and implementation of an internal audit function?

Article 60 of the Law says that the internal auditor of the investment firm shall be independent in exercising its authorities and shall report to the authorized management body of the investment firm. Further, the internal auditor shall undertake to inform the investment firm's executive body, the board of directors, the respective regulated market operator and the Central Bank about any violation of the requirements set forth by law, other legal acts, as well as about any significant damage caused to the interests of customers, within 5 working days after such violations have been disclosed.

The obligation of the investment firm's authorized management body to receive reports of general meeting is established under both the Armenian Law on Joint Stock Companies³ and the Armenian Law on Limited Liability Companies⁴.

Article 67(1)12 of the Law on Joint Stock Companies provides that general meeting has the competence of approving the company's annual reports, accounting balance sheets, the profit and loss account, the profit and loss distribution. According to Article 64(2) of the same law, the authenticity of annual reports, accounting balance sheets, the profit and loss account, which are subject to approval by general meeting of the company, shall be verified upon the conclusion by the supervisory committee of the company. In case of investment firms, the functions of the supervisory committee are the task delegated to the internal audit.

Article 36(1)e of the Law on Limited Liability Companies establishes that general meeting has the competence of approving the company's annual reports and annual accounts. According to Article 49(3) of the same law, the supervisory committee of the company shall, on a mandatory basis, carry out checking of the company's annual reports and annual accounts before they are approved by general meeting. Here too, in case of investment firms, the functions of the supervisory committee are the task delegated to the internal audit.

According to Article 9 of the Directive, Member States shall require investment firms to ensure that their senior management receive on a frequent basis, and at least annually, written reports on the compliance of activities, risk management and implementation of an internal audit function indicating, in particular, whether the appropriate remedial measures have been taken in the event of any deficiencies.

Evaluation: the Law only partially complies with the requirements of the Directive. While the Law provides that internal audit is accountable to the management body of the investment firm, it nevertheless lacks the requirement to provide written reports to the management on the compliance of activities and risk management.

7. Does the Armenian Law provide for establishment of effective and open procedures for the review of customer complaints by the investment firm?

³ AL-232, adopted on 25.09.2001, effective from 06.12.2001, (Official bulletin 2001/34 (166), 06.11.2001)

⁴ AL-252, adopted on 24.10.2001, effective from 07.12.2001, (Official bulletin 2001/38 (170), 07.12.2001)

Yes. The Armenian Law on the Financial System Ombudsman establishes that an organization shall have internal policies and procedures in place to allow the organization to review any complaints/claims of the customer.

Article 10 of the Directive provides that Member States shall require investment firms to establish, implement and maintain effective and transparent procedures for the reasonable and prompt handling of complaints received from retail clients or potential retail clients, and to keep a record of each complaint and the measures taken for its resolution.

Evaluation: the Armenian Law complies with the requirement of the Directive.

8. Does the Armenian Law provide for a definition of a personal transaction? If yes, are there requirements applied in relation to personal transactions?

The Law does not provide for the definition of a personal transaction. According to Article 68 of the Law, an investment service provider, its managers and employees, other parties handling orders on transactions with securities, parties carrying out analyses in the securities market or parties preparing and/or disseminating investment offers shall be prohibited to abuse market in the context of the Law, namely, the *male fide* use of inside information in order to enter into transactions in the market. However, the Law does not provide for requirements to the transactions by affiliated persons.

Article 11 of the Directive contains the following arrangement:

Personal transaction means a trade in a financial instrument effected by or on behalf of a relevant person, where at least one of the following criteria are met:

1. that relevant person is acting outside the scope of the activities he carries out in that capacity;
2. the trade is carried out for the account of any of the following persons:
 - the relevant person;
 - any person with whom he has a family relationship, or with whom he has close links;
 - a person whose relationship with the relevant person is such that the relevant person has a direct or indirect material interest in the outcome of the trade, other than a fee or commission for the execution of the trade.

The Directive further provides that investment firms shall establish, implement and maintain adequate arrangements aimed at preventing persons who possess inside information or other confidential information from entering into personal transactions. Such arrangements shall ensure that:

- any relevant person is aware of the limitations set out by the investment firm in respect of personal transactions;
- the firm is informed promptly of any personal transaction entered into by a relevant person, either by notification of that transaction or by other procedures enabling the firm to identify such transactions;
- a record is kept of the personal transaction notified to the firm or identified by it, including any authorisation or prohibition in connection with such a transaction.

Evaluation: the Armenian Law does not comply with the requirements of the Directive. The Law does not require investment firms to establish requirements to personal transactions.

9. Does the Armenian Law provide for the terms and conditions for outsourcing of the investment firm's key and critical functions or the provision of investment services or activities?

No. The Law does not provide for the outsourcing of the investment firm's key and critical functions or the provision of investment services or activities. However, it should be noted that Article 12(1) of the Armenian Law on Accounting provides that an organization that renders bookkeeping services may be selected to carry out the accounting of organizations.

According to Article 14 of the Directive, Member States shall ensure that, when investment firms outsource critical or important operational functions or any investment services or activities, the firms remain fully responsible for discharging all of their obligations and comply, in particular, with the

following conditions:

- the outsourcing must not result in the delegation by senior management of its responsibility;
- the relationship and obligations of the investment firm towards its clients must not be altered;
- the conditions with which the investment firm must comply in order to be duly authorised and to remain so, must not be undermined;
- none of the other conditions subject to which the firm's authorisation was granted must be removed or modified.

The Directive further sets out detailed requirements to the service providers when investment firms are authorised to perform critical or important operational functions or any investment services or activities. The rights and obligations of an investment firm, or an investment service provider, when authorising critical or important operational functions or any investment services or activities, must be clearly written in a respective document.

The Directive also establishes that Member States shall require investment firms to make available on request to the competent authority all information necessary to enable the authority to supervise the compliance of the performance of the outsourced activities with the statutory requirements.

Evaluation: the Armenian Law does not comply with the requirements of the Directive.

10. Does the Armenian Law provide for the possibility to outsource functions to investment service providers located in other countries?

No. The Law does not provide for the outsourcing of the investment firm's key and critical functions or the provision of investment services or activities. Nor it provides for the possibility to outsource functions to investment service providers operating abroad.

Article 15 of the Directive additionally contains requirements, when functions are authorised, to the investment service providers located in third countries, as follows:

- the service provider must be authorised or registered in its home country to provide that service and must be subject to prudential supervision;
- there must be an appropriate cooperation agreement between the competent authority of the investment firm and the supervisory authority of the service provider.

Evaluation: the Armenian Law does not comply with the requirements of the Directive.

11. Does the Armenian Law require that the investment firm safeguard the assets of a customer? If yes, what the requirements are?

Yes. Article 67 of the Law provides that the investment service provider must maintain individual records of each customer, as well as for its own resources and its customers' recourses. The investment service provider must take measures to ensure protection of the customer rights and resources, as well as ensure accounting and investment of resources of customers in accordance with provisions of the contract signed between itself and the customer. The investment service provider that maintains the records of the assets of the customer on the account or on the securities or bank account opened in the name of the investment service provider must maintain the records of each customer individually.

The Law further says that the Central Bank may define under its prudential regulations mandatory rules for the purpose of ensuring the protection of customer rights.

Article 16 of the Directive establishes similar requirements.

Evaluation: the Armenian Law complies with the requirement of the Directive.

12. Does the Armenian Law provide for conditions for depositing the customer's financial instruments by an investment firm?

Article 67 of the Law provides that the investment service provider shall undertake measures to ensure the protection of the customer rights and resources, as well as to keep records of such customers and invest the resources of customers in accordance with provisions of the contract signed between it and the customer. Article 18 of Chapter 4 of Regulation 4/07 provides the content of the information made available to the customer, provided that the investment service provider has the resources of the customer in its possession.

According to Article 17 of the Directive, Member States shall permit investment firms to deposit financial instruments held by them on behalf of their clients into an account or accounts opened with a third party provided that the firms exercise all due skill, care and diligence in the selection, appointment and periodic review of the third party and of the arrangements for the holding and safekeeping of those financial instruments. In particular, investment firms are required to take into account the expertise and market reputation of the third party as well as any legal requirements or market practices related to the holding of those financial instruments that could adversely affect customers' rights.

The Directive further provides that Member States shall ensure that investment firms shall not deposit financial instruments held on behalf of clients with a third party in a third country that does not regulate the holding and safekeeping of financial instruments for the account of another person unless one of the following conditions is met:

- the nature of the financial instruments or of the investment services connected with those instruments requires them to be deposited with a third party in that third country;
- where the financial instruments are held on behalf of a professional client, that client requests the firm in writing to deposit them with a third party in that third country.

Evaluation: the Armenian Law only partially complies with the requirement of the Directive; it does not establish requirements to depositing of the customer's financial instruments.

13. Does the Armenian Law provide for conditions for depositing the customer's funds by an investment firm?

Article 67 of the Law provides that the investment service provider shall undertake measures to ensure the protection of the customer rights and resources, as well as to keep records of such customers and invest the resources of customers in accordance with provisions of the contract signed between it and the customer.

According to Article 18 of the Directive, Member States shall require investment firms, on receiving any customer funds, promptly to place those funds into one or more accounts opened with any of the following entities:

- a central bank;
- a credit institution;
- a bank authorised in a third country;
- a qualifying money market fund.

The same article further says that where investment firms do not deposit client funds with a central bank, they shall exercise all due skill, care and diligence in the selection, appointment and periodic review of the credit institution, bank or money market fund where the funds are placed and the arrangements for the holding of those funds.

Evaluation: the Armenian Law only partially complies with the requirement of the Directive; it does not establish requirements to depositing of the customer's funds.

14. Does the Armenian Law provide for conditions for usage of the customer's financial instruments by an investment firm?

Yes. Article 67 of the Law provides that the investment service provider cannot use resources of its customer to its advantage, unless otherwise specified by a written contract entered into between the investment service provider and the customer. The investment service provider shall have the right to pledge resources of the customer on its behalf, solely based on the written covenant entered into with the customer. Article 18 of Chapter 4 of Regulation 4/07 provides the content of the information made available to the customer, provided that the investment service provider has the resources of the customer in its possession.

Article 19 of the Directive establishes that an investment firm shall not use the customer funds to its own benefit or to the benefit of another customer of unless the following conditions are met:

- the client must have given his prior express consent to the use of the instruments on specified terms, as evidenced, in the case of a retail client, by his signature or equivalent alternative mechanism;
- the use of that client's financial instruments must be restricted to the specified terms to which the client consents.

Evaluation: the Armenian Law complies with the requirement of the Directive.

15. Does the Armenian Law provide for criteria on the conflicts of interest potentially detrimental to the customer?

Although the Law establishes provisions pertaining to the prevention of the conflicts of interest, it however does not provide for the concept of the conflicts of interest potentially detrimental to the customer.

Article 21 of the Directive provides that in order to identify the types of conflict of interest that arise in the course of providing investment and ancillary services the existence of which may damage the interests of a client, investment firms should take into account, by way of minimum criteria, the question of whether the investment firm or a relevant person, or a person directly or indirectly linked by control to the firm, is in any of the following situations, whether as a result of providing investment or ancillary services or investment activities or otherwise:

- the firm or that person is likely to make a financial gain, or avoid a financial loss, at the expense of the customer;
- the firm or that person has an interest in the outcome of a service provided to the customer or of a transaction carried out on behalf of the customer, which is distinct from the customer's interest in that outcome;
- the firm or that person has a financial or other incentive to favour the interest of another customer or group of customers over the interests of the customer;
- the firm or that person carries on the same business as the customer;
- the firm or that person receives or will receive from a person other than the customer an inducement in relation to a service provided to the customer, in the form of monies, goods or services, other than the standard commission or fee for that service.

Evaluation: the Armenian Law does not comply with the requirements of the Directive.

<p><i>16. Does the Armenian Law require that an investment firm apply an effective policy to prevent the conflicts of interest? If yes, are the procedures and methods incorporated in such a policy in compliance with the requirements of the Directive?</i></p>
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According to Article 63 of the Law, an investment service provider must decline the transactions that may cause conflict of interests between itself and its customers, and in case when it is impossible, prefer the interests of customers.

According to Article 15(7) of Chapter 4 of Regulation 4/07, an investment service provider shall provide customers with a summary of policies aimed at reducing conflicts of interests (at the request of customer, a comprehensive description of conflict of interests' policies).

Article 22 of the Directive establishes the following:

Member States shall require investment firms to establish, implement and maintain an effective conflicts of interest policy set out in writing and appropriate to the size and organisation of the firm and the nature, scale and complexity of its business.

The conflicts of interest policy shall include the following content:

- it must identify, with reference to the specific investment services and activities and ancillary services carried out by or on behalf of the investment firm, the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more customers;
- it must specify procedures to be followed and measures to be adopted in order to manage such conflicts.

The procedures and measures shall be designed so as to ensure that relevant persons engaged in different business activities involving a conflict of interest carry out those activities at a level of independence, appropriate to the size and activities of the investment firm, and highlight the materiality of the risk of damage to the interests of customers.

The procedures to be followed and measures to be adopted shall include such of the following as are necessary and appropriate for the firm to ensure the requisite degree of independence:

- effective procedures to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more customers;
- the separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of, or providing services to, customers whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the firm;
- the removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities;
- measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services or activities;
- measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest.

Evaluation: the Armenian Law only partially complies with the requirement of the Directive; it provides that an investment service provider shall furnish the customers with a brief description of the policy of conflicts of interest about the services it provides. The Law, however, fails to establish the content of the policy description.

17. Does the Armenian Law provide for a notification to the customer of the conflicts of interest, enabling him to make a decision on investment or ancillary services?

No. The Law does not provide for a notification to the customer of the conflicts of interest.

Article 22 of the Directive provides for such a notification to a customer of the conflicts of interest, which will give him a chance to make an appropriate judgement about investment or ancillary services.

Evaluation: the Armenian Law does not comply with the requirements of the Directive.

18. Does the Armenian Law require that an investment firm record the services or activities that give rise to the conflicts of interest potentially detrimental to the customer?

According to Article 63 of the Law, an investment service provider, when conducting its business, must maintain records of the orders received and executed, as specified by prudential regulations of the Central Bank. There is however no a special mention of making records of services or activities giving rise to the conflicts of interest potentially detrimental to the customer.

Article 23 of the Directive provides for a requirement for investment firms to keep and regularly update a record of services or activities giving rise to the conflicts of interest detrimental to the customer.

Evaluation: the Armenian Law only partially complies with the requirement of the Directive.

19. Does the Armenian Law require that an investment firm launch an investment research?

Yes. According to Article 172 of the Law, an investment proposal involves a written or oral study or other information containing certain advice or recommendation on choosing a strategy for investments in securities, which is implemented for the purpose of informing the general public or undefined or broad circles of persons through publication or other means. The study or other information referred to herewith shall include information prepared by the independent analyst, investment service provider and persons engaged in provision of investment proposals as their main type of activity, including their employees or persons empowered by them, which directly or indirectly contains investment proposal on a specific security or its issuer.

Article 24 of the Directive contains a similar provision.

Evaluation: the Armenian Law complies with the requirement of the Directive.

20. Does the Armenian Law provide for additional requirements to investment firms that launch an investment research?

According to Article 63 of the Law, an investment service provider must have efficient organizational and administrative measures in place to prevent conflict of interests associated with introducing and dissemination of investment proposals which it offers.

The Central Bank may establish under its prudential regulations detailed requirements to persons that prepare and disseminate investment proposals; to preparation and dissemination of investment proposals; and to information included in such investment proposals.

According to Article 25 of the Directive, investment firms which produce investment research that is intended or likely to be subsequently disseminated to the customers of the firm or to the public shall ensure the implementation of all the measures in relation to the financial analysts involved in the production of the investment research and other relevant persons whose responsibilities or business interests may conflict with the interests of the persons to whom the investment research is disseminated. In particular, investment firms shall have in place arrangements designed to ensure that the following conditions are met:

- financial analysts and other relevant persons must not undertake personal transactions or trade, other than as market makers acting in good faith and in the ordinary course of market making;
- investment firms, financial analysts, and other relevant persons involved in the production of the investment research must not accept inducements from those with a material interest in the subject-matter of the investment research;
- investment firms, financial analysts, and other relevant persons involved in the production of the investment research must not promise issuers favourable research coverage;

- issuers, relevant persons other than financial analysts, and any other persons must not before the dissemination of investment research be permitted to review a draft of the investment research for the purpose of verifying the accuracy of factual statements made in that research, or for any other purpose other than verifying compliance with the firm's legal obligations, if the draft includes a recommendation or a target price.

Evaluation: the Armenian Law only partially complies with the requirement of the Directive. It establishes a requirement to prevent the conflicts of interest in relation to preparation and dissemination of investment proposals. However, it fails to give detailed arrangements for taking appropriate measures.

21. Does the Armenian Law provide for inducement given to the investment firm, which gives no rise to the presumption that the firm acts mala fide?

Article 63 of the Law says that investment service providers shall provide investment and ancillary services in due professional manner, accurately and attentively, acting in good faith, to the advantage of customers (fiduciary duty).

According to Article 24 of Regulation 4/07, person providing investment services shall furnish the customers with the following information about expenditures and commission fees:

- gross amount of fee subject to payment by the customer on investment services, including all commission fees, expenses and other payments, as well as all tax payments withheld from person providing investment services as a tax agent. If it is not possible to inform about the exact amount of charged fees, the calculation procedure shall be provided;
- if any part of gross amount of fee mentioned hereinabove is paid or nominated in foreign currency, type of currency, exchange rate and related expenditures shall be indicated; and
- the method of payments.

Article 26 of the Directive establishes the following: investment firms are not regarded as acting honestly, fairly and professionally in accordance with the best interests of the customer if, in relation to the provision of an investment or ancillary service to the customer, they pay or are paid any fee or commission, or provide or are provided with any non-monetary benefit, other than the following:

- a fee, commission or non-monetary benefit paid or provided to or by the customer or a person on behalf of the customer;
- a fee, commission or non-monetary benefit paid or provided to or by a third party or a person acting on behalf of a third party, where the following conditions are satisfied:
 - the existence, nature and amount of the fee, commission or benefit, or, where the amount cannot be ascertained, the method of calculating that amount, must be clearly disclosed to the customer, in a manner that is comprehensive, accurate and understandable, prior to the provision of the relevant investment or ancillary service;
 - the payment of the fee or commission, or the provision of the non-monetary benefit must be designed to enhance the quality of the relevant service to the customer and not impair compliance with the firm's duty to act in the best interests of the customer;
 - a fee, commission or non-monetary benefit paid or provided to or by the customer or a person
- proper fees which enable or are necessary for the provision of investment services, such as custody costs, settlement and exchange fees, regulatory levies or legal fees, and which,

by their nature, cannot give rise to conflicts with the firm's duties to act honestly, fairly and professionally in accordance with the best interests of its customers.

Evaluation: the Armenian Law complies with the requirement of the Directive.

22. Does the Armenian Law establish which information that is given to customers is regarded as clear, impartial, fair and not misleading?

Yes. Chapter 3 of Regulation 4/07 (Articles 3-8) specifies the cases for which the information given to the customer is regarded as clear, impartial, fair and not misleading.

Article 27 of the Directive establishes similar arrangements.

Evaluation: the Armenian Law complies with the requirement of the Directive.

23. According to the Armenian Law, what are the requirements to the information given to the customers when such information compares the provision of investment services or ancillary services, financial instruments or providers of investment services or ancillary services?

According to Article 65 of the Law, the Central Bank shall have the right to define, under its prudential regulations, detailed requirements for the composition, form, content and the provision procedure of information, reports and other similar documents to be provided by the investment service provider to customers.

Chapter 3 of Regulation 4/07 (Article 9) establishes certain requirements to the information provided to the customer when such information compares the provision of investment services or providers of investment services or ancillary services

Article 27 of the Directive establishes similar arrangements.

Evaluation: the Armenian Law complies with the requirement of the Directive.

24. According to the Armenian Law, what are the requirements to the information given to the customers when such information contains an indication of past performance of a financial instrument, financial index or an investment service?

Chapter 3 of Regulation 4/07 (Article 10) provides for certain requirements to the information provided to the customer when such information contains provisions relating to investment services, to the performance of a security or financial index or its indications demonstrated lately.

Article 27 of the Directive establishes similar arrangements.

Evaluation: the Armenian Law complies with the requirement of the Directive.

25. According to the Armenian Law, what are the requirements to the information given to the customers if it relates to the future performance?

Chapter 3 of Regulation 4/07 (Article 11) provides that prior to the provision of investment services and ancillary services, customers shall be provided with the following information:

- on investment services provider and services provided by him;
- on securities and a possible investment strategy;
- on the venue (facility) of the transaction execution (stock exchange, other regulated market or unregulated market);
- on respective expenses and commission fees.

Article 27 of the Directive establishes similar arrangements.

Evaluation: the Armenian Law complies with the requirement of the Directive.

26. Does the Armenian Law require that an investment firm notify its new or existing customers about the categorization of such customers?

Yes. Chapter 3 of Regulation 4/07 (Article 14) provides that prior to categorizing as a professional customer, the investment service provider shall notify that customer that some requirements established under its policies and procedures will not apply to the relationships between itself and the customer, and it shall present the description of the requirements.

Article 28 of the Directive provides that investment firms shall notify new clients and existing clients that the investment firm has newly categorised them as a professional client.

Evaluation: the Armenian Law complies with the requirement of the Directive.

27. Does the Armenian Law establish general requirements to provision of information to customers and potential customers?

According to Article 64 of the Law, the Central Bank shall have the right to establish under its prudential regulations certain mandatory requirements to the contracts for the provision of investment services, which shall be obligatory for the investment service provider to include such requirements in the contracts.

According to Chapter 9 of Regulation 4/07 (Article 37), prior to signing agreement on provision of investment services, person providing investment services shall give the customer an opportunity to examine legal acts regulating provision of investment services. Regulation 4/07 also establishes requirements to the provision of investment services as well as detailed requirements to information on investment services provided to customers.

Article 29 of the Directive contains similar provisions.

Evaluation: the Armenian Law complies with the requirement of the Directive.

28. Does the Armenian Law specify the content of information on the investment firm and on investment services which the investment service provider gives to retail customers and potential retail customers?

Yes. 9 Chapter 4 of Regulation 4/07 (Article 15) establishes detailed requirements to the content of information on the investment firm and on investment services which the investment firm gives to the customers.

Article 30 of the Directive contains similar provisions.

Evaluation: the Armenian Law complies with the requirement of the Directive.

29. Where a securities portfolio management service is involved, does the Armenian Law specify the content of information on the investment firm and on investment services which the investment service provider gives to retail customers and potential retail customers?

According to Chapter 4 of Regulation 4/07 (Article 16), in case of providing services on management of securities portfolio, person providing investment services shall offer such a method, which shall enable customer to assess and compare the efficiency of management with any reasonable benchmark. The next Article 17 of the same Chapter specifies the content of information given to the customers where a securities portfolio management service is involved.

Article 30 of the Directive provides for similar provisions but, in addition, it provides that the customer shall be given information on the management objectives, the level of risk to be reflected in the manager's exercise of discretion, and any specific constraints on that discretion.

Evaluation: the Armenian Law only partially complies with the requirements of the Directive; the provision referred to above needs to be added.

30. Does the Armenian Law require that the investment firm provide its existing customers or potential customers with the general description of financial instruments and the risks associated therewith? If yes, what are the requirements to the description of risk profile?

According to Chapter 5 of Regulation 4/07 (Article 20), Person providing investment services shall provide customers with the description of securities and the associated risks. The description shall be made in a simple and comprehensible manner and include peculiarities of each type of securities, and the associated risks.

If person providing investment services informs the customer that securities are included in current public offering, and a subsequent Prospectus is published, he shall also inform the customer about the place where Prospectus was published, or can be obtained.

Where the risks derived from the securities are guaranteed by a third person, person providing investment services shall furnish the customer with information about the guarantee and the guarantor.

Article 31 of the Directive contains a similar provision. However, the Directive further establishes that the description of risks shall include, where relevant to the specific type of instrument concerned and the status and level of knowledge of the customer, the following elements:

- the risks associated with that type of financial instrument including an explanation of leverage and its effects and the risk of losing the entire investment;
- the volatility of the price of such instruments and any limitations on the available market for such instruments;
- the fact that an investor might assume, as a result of transactions in such instruments, financial commitments and other additional obligations, including contingent liabilities, additional to the cost of acquiring the instruments;
- any margin requirements or similar obligations, applicable to instruments of that type.

Where the risks associated with a financial instrument composed of two or more different financial instruments or services are likely to be greater than the risks associated with any of the components, the investment firm shall provide an adequate description of the components of that instrument and the way in which its interaction increases the risks.

Evaluation: the Armenian Law seems to comply with the requirements of the Directive, however in some cases it does not provide for detailed requirements to the description of risks.

31. Does the Armenian Law require that an investment firm provide its existing customers or potential customers with information on costs and associated charges?

Yes. Chapter 6 of Regulation 4/07 (Article 24) establishes the requirements to information on costs and associated charges which the investment service provider gives to its customers.

Article 33 of the Directive contains a similar provision.

Evaluation: the Armenian Law complies with the requirement of the Directive.

32. Does the Armenian Law establish general requirements to the information obtained from the customer?

Yes. According to Article 66 of the Law, while providing investment services, the investment service provider shall require from its customer information on its knowledge and experience in the field of investment activity, as well as information about its investment goals.

According to Chapter 7 of Regulation 4/07 (Article 27), in case of management of securities portfolio or provision of consulting services on investments in securities, person providing investment services shall request from the customers necessary information about his knowledge and experience in the area of investment activities, his financial performance and investment purposes, which will enable him to offer or advice the customer on such investments and securities which are most appropriate for the customer.

Article 35 of the Directive contains a similar provision.

Evaluation: the Armenian Law complies with the requirement of the Directive.

33. Does the Armenian Law provide for certain requirements to the provision of information on financial standing of the customer or potential customer?

Yes. According to Article 65 of the Law, the Central Bank shall have the right to define, under its prudential regulations, detailed requirements for the composition, form, content and the provision procedure of information, reports and other similar documents to be provided by the investment service provider to customers.

Chapter 7 of Regulation 4/07 (Article 28) establishes the content of information on financial standing.

Article 35 of the Directive contains a similar provision.

Evaluation: the Armenian Law complies with the requirement of the Directive.

34. Does the Armenian Law provide for certain requirements to the provision of information on investment objectives of the customer or potential customer?

Yes. Chapter 7 of Regulation 4/07 (Article 29) establishes the content of information on investment objectives.

Article 35 of the Directive contains a similar provision.

Evaluation: the Armenian Law complies with the requirement of the Directive.

35. Does the Armenian Law provide that where an investment firm provides investment advice or portfolio management services but receives no information on the customer, it won't be allowed to offer investment services or financial instruments to the customers or potential customers?

Yes. In case of non-receipt of information as referred to in Chapter 7 of Regulation 4/07 (Article 27) an investment service provider will not be allowed to persuade the customer to make any investments in securities.

Article 35 of the Directive provides that where, when providing the investment service of investment advice or portfolio management, an investment firm does not obtain the information the firm shall not recommend investment services or financial instruments to the customer or potential customer.

Evaluation: the Armenian Law complies with the requirement of the Directive.

36. Does the Armenian Law provide for assessment of customer appropriateness by the investment firm?

Yes. According to Chapter 7 of Regulation 4/07 (Article 34), in implementing activities, person providing investment services shall decide whether the customer has sufficient knowledge and experience in the area of investment activities in order to understand risks associated with the respective investment services or securities. The person providing investment services may consider that professional customers have sufficient knowledge and experience in the relevant field.

Article 36 of the Directive contains a similar provision.

Evaluation: this provision complies with the requirement of the Directive.

37. Does the Armenian Law provide for requirements to the content of information on the knowledge and experience of customers in the investment business?

Yes. Chapter 7 of Regulation 4/07 (Article 30) provides the content of information on the knowledge and experience of customers in the investment business.

Article 37 of the Directive contains a similar provision.

Evaluation: the Armenian Law complies with the requirement of the Directive.

Evaluation: this provision complies with the requirement of the Directive.

38. Does the Armenian Law establish a signing of the contract with the retail customer by an investment firm?

Yes. According to Article 64 of the Law, investment services can be provided only based on the written contract signed between the investment service provider and its customers. Violation of the written form of the contract will lead to its invalidity. Chapter 9 of Regulation 4/07 (Article 38) establishes the requirements to the content of the contract for provision of investment services.

According to Article 39 of the Directive, an investment firm that provides an investment service other than investment advice to a new retail customer shall enter into a written basic agreement, in paper or another durable medium, with the customer, setting out the essential rights and obligations of the firm and the customer.

Evaluation: the Armenian Law complies with the requirement of the Directive.

39. Does the Armenian Law provide for requirements to the reporting to the customer with regard to the execution of orders?

Yes. According to Article 65 of the Law, the Central Bank shall have the right to define, under its prudential regulations, detailed requirements for the composition, form, content and the provision procedure of information, reports and other similar documents to be provided by the investment service provider to customers.

According to Chapter 10 of Regulation 4/07 (Article 40), where a person providing investment services fulfills the customer's order (other than the order on management of securities portfolio), he shall promptly, but not later than by close of business of the next working day, furnish the customer with a report on execution of the order through a reliable facility of information transfer. Article 41 of the same chapter further establishes requirements to the content of reporting on the execution of the customer order.

Article 40 of the Directive contains similar provisions and further adds that an investment firm shall supply the customer, on request, with information about the status of his order.

Evaluation: the Armenian Law generally complies with the requirements of the Directive; however it does not additionally require investment firms to supply the customer, on request, with information about the status of his order.

40. Does the Armenian Law provide for requirements to the reporting to the customer with regard to the portfolio management?

Yes. According to Chapter 10 of Regulation 4/07 (Article 43), where a person providing investment services provides services on management of securities portfolio, he shall furnish the customer with the report on management of securities portfolio through a reliable communication facility, at least on a quarterly basis. Article 44 of the same chapter further establishes requirements to the content of reporting on the management of securities portfolio.

Article 41 of the Directive contains similar provisions.

Evaluation: the Armenian Law complies with the requirement of the Directive.

41. Does the Armenian Law require that an investment firm report to customers on financial instruments and assets of the customer? If yes, what information should it include?

The Law does not provide for an arrangement of requiring that an investment firm report to customers on financial instruments and assets of the customer. Article 65 of the Law refers to keeping records and protection of the customer assets. According to the same article, the Central Bank may establish, under its prudential regulations, requisite rules to ensure that the customer rights as referred to this article are protected.

According to Article 43 of the Directive, investment firms that hold customer financial instruments or customer funds shall send a statement in a durable medium of those financial instruments or funds unless such a statement has been provided in any other periodic statement. The statement of customer assets shall include the following information:

- details of all the financial instruments or funds held by the investment firm for the customer at the end of the period covered by the statement;
- the extent to which any customer financial instruments or customer funds have been the subject of securities financing transactions;
- the extent of any benefit that has accrued to the customer by virtue of participation in any securities financing transactions, and the basis on which that benefit has accrued.

Evaluation: the Armenian Law does not comply with the requirements of the Directive.

42. Does the Armenian Law provide for criteria on the execution of customer orders on best conditions?

Yes. According to Article 63 of the Law, an investment service provider shall carry out orders of customers ensuring the best possible conditions, taking into account the volume, price and time of the transaction as well as characteristics resulting from other significant conditions of the order.

Articles 46 and 47 of Chapter 11 of Regulation 4/07 specify in detail the criteria on the execution of customer orders on best conditions.

Article 44 of the Directive has a similar arrangement.

Evaluation: the Armenian Law complies with the requirement of the Directive.

43. Does the Armenian Law establish that an investment firm should manage the customer securities portfolio and receive and transmit customer orders on best conditions?

Yes. According to Article 46 of Chapter 11 of Regulation 4/07, a person providing investment services shall, when charged to carry out his fiduciary duty for managing the securities portfolio and handling and transferring customer orders on execution of transactions in securities, take all reasonable steps in order to execute the customer orders on best possible conditions, taking into account price, costs, period (speed at which an order should be handled), probability of execution of the order and its final settlement, total volume of the order, its nature and other factors associated with execution of the order. With this in view, persons providing investment services carrying out transactions based on customer's order shall develop the respective policy for order

execution.

Article 45 of the Directive has a similar arrangement.

Evaluation: this provision complies with the requirements of the Directive.

44. Does the Armenian Law establish that an investment firm should furnish retail customers with detailed information on the policy of execution of orders?

Yes. According to Article 54 of Chapter 11 of Regulation 4/07, a person providing investment services shall inform customers about his policy of execution of orders and obtain a preliminary consent of a customer for conducting the policy.

Article 55 further says that a person providing investment services shall revise the policy of execution of orders in the event a significant change has taken place, which excludes the possibility of executing the customer's orders on best conditions for the customer in places chosen for execution of transaction through those policies.

Article 46 of the Directive has a similar arrangement.

Evaluation: this provision complies with the requirements of the Directive.

45. Does the Armenian Law provide for general principles on execution of customer orders by an investment firm?

Yes. Articles 56 and 57 of Chapter 12 of Regulation 4/07 establish general principles on execution of customer orders by an investment service provider.

Article 47 of the Directive has a similar arrangement.

Evaluation: this provision complies with the requirements of the Directive.

46. Does the Armenian Law provide for aggregation and allocation of customer orders?

According to Article 58 of Chapter 12 of Regulation 4/07, to ensure a better result, a person providing investment services may consolidate the orders of his customer, or may consolidate transactions carried out at his expense with orders of different customers, and execute them in this way, provided that:

- it will not cost another customer a worse result than if his order would have been executed separately, and
- it is done to the best interest of the customer.

Article 48 of the Directive provides that investment firms shall not be allowed to carry out a customer order or a transaction for own account in aggregation with another customer order unless the following conditions are met:

- it must be unlikely that the aggregation of orders and transactions will work overall to the disadvantage of any customer whose order is to be aggregated;
- it must be disclosed to each customer whose order is to be aggregated that the effect of aggregation may work to its disadvantage in relation to a particular order;

- an order allocation policy must be established and effectively implemented, providing in sufficiently precise terms for the fair allocation of aggregated orders and transactions, including how the volume and price of orders determines allocations and the treatment of partial executions.

Where an investment firm aggregates an order with one or more customer orders and the aggregated order is partially executed, it shall allocate the related trades in accordance with its order allocation policy.

Evaluation: though the Armenian Law establishes certain provisions pertinent to the requirements of the Directive, it only partially complies with those requirements; the legislation does not provide for a policy of order allocation.

47. Does the Armenian Law provide for aggregation and allocation of customer orders?

According to Article 59 of Chapter 12 of Regulation 4/07, where a person providing investment services consolidates its customer's order with a transaction carried out at his expense, preference shall be given to the customer's order, in case of a partial execution of the consolidated order, unless otherwise stipulated by the contract on provision of investment services.

Article 49 of the Directive provides for such an arrangement but it further says that investment firms, as part of the order allocation policy, shall put in place procedures designed to prevent the reallocation, in a way that is detrimental to the customer, of transactions for own account which are executed in combination with customer orders.

Evaluation: the Armenian Law establishes certain provisions pertinent to the requirements of the Directive however it only partially complies with the Directive.

48. Does the Armenian Law establish that a company should be recognized as an eligible counterparty?

No. The Law does not provide for such a procedure.

According to Article 50 of the Directive, Member States may recognise an undertaking as an eligible counterparty if that undertaking falls within a category of customers who are to be considered professional customers. An undertaking may be recognised as an eligible counterparty only in respect of the services or transactions for which it could be treated as a professional customer. It should be noted that Directive 2004/39/EC and Directive 2006/73/EC establish that an eligible counterparty that acts as a customer may request treatment as a professional customer.

Evaluation: the Armenian Law does not comply with the requirements of the Directive.

49. Does the Armenian Law establish that an investment firm should maintain relevant information?

Yes. According to Article 69 of the Law, while providing investment services the investment service provider shall maintain records on the assignments received and handled, pursuant to procedures determined under prudential regulations of the Central Bank. Such records shall be kept at least for 7 years.

Chapter 13 of Regulation 4/07 establishes general rules and requirements for keeping records of the transactions in respect of provision of investment services. Chapter 14 of the same regulation establishes requirements for keeping records of orders and investment decisions. Next Chapter 15 establishes requirements for keeping records of the transactions carried out.

Article 51 of the Directive contains a similar arrangement.

Evaluation: the Armenian Law complies with the requirements of the Directive.

3. Conclusion

Ensuining from the aforementioned review, one may conclude that the Armenian legislation, particularly, the Republic of Armenia Law on the Securities Market and other regulations adopted pursuant thereto generally comply with the requirements of the Directive. However, there are certain aspects which are not regulated or are only partially regulated by the legislation. For instance:

- unlike the Directive, the Law does not provide for the outsourcing of the investment firm's key and critical functions or the provision of investment services or activities;
- the Law does not establish the definition of the conflicts of interest potentially detrimental to the customer and only partially provides for the requirements to the policy of the conflicts of interest;
- the Law does not provide for a procedure to recognize a company as an eligible counterparty;
- unlike the Directive, the Law does not establish a function enabling the investment firm to exercise control over the compliance of its operations with the obligations under the law;
- the Law does not establish requirements to the policy of risk management;
- the Law does not provide for furnishing the management with written reports on activity compliance and risk management;
- the Law does not provide for a definition of personal transaction;
- the Law does not establish a requirement that an investment firm should report to the customers on financial instruments and assets;
- the Law partially governs the aspects in relation to depositing the customer's financial instruments and funds by an investment firm;
- the Law partially governs the aspects in relation to aggregating and allocating customer orders and transactions carried out at the expense of the investment firm.

	Question	Yes	No	Partially	Notes
1.	Does the Armenian Law provide for general organizational requirements to investment companies?			√	The Armenian Law does not establish some other organizational requirements which are laid down in the Directive.
2.	Does the Armenian Law require that an investment firm exercise control over the compliance of its operations with the obligations under the law? If yes, what are the requirements to the performance of such a function?		√		
3.	Does the Armenian Law require that an investment firm formulate a relevant risk management policy and procedures? If yes, is the investment firm required to exercise control over compliance with such a policy and procedures?			√	The Armenian Law does not establish requirements to the policy of risk management, as provided for under the Directive.
4.	Does the Armenian Law require that an investment firm incorporate an internal audit function?	√			Article 60 of the Law
5.	Does the Armenian Law provide that the management body and parties implementing a supervisory function of the investment firm are responsible to monitor whether their company complies with its obligations under the law?		√		
6.	Does the Armenian Law contain an arrangement whereby the management body is reported in writing about the activity compliance, risk management and implementation of an internal audit function?			√	The Armenian Law does not contain an arrangement requiring that written reports on activity compliance and risk management be submitted to the management.
7.	Does the Armenian Law provide for establishment of effective and open procedures for the review of customer complaints by the investment firm?	√			Article 7 of the Armenian Law on Financial Ombudsman
8.	Does the Armenian Law provide for a definition of a personal transaction? If yes, are there requirements applied in relation to personal transactions?		√		
9.	Does the Armenian Law provide for the terms and conditions for outsourcing of the investment firm's key and critical functions or the provision of investment services or activities?		√		
10.	Does the Armenian Law provide for the possibility to outsource functions to investment service providers located in other countries?		√		
11.	Does the Armenian Law require that the investment firm safeguard the assets of a customer? If yes, what the requirements are?	√			Article 67 of the Law
12.	Does the Armenian Law provide for conditions for depositing the customer's financial instruments by an investment firm?			√	The Law does not establish requirements to depositing the financial

					instruments of a customer.
13.	Does the Armenian Law provide for conditions for depositing the customer's funds by an investment firm?			√	The Law does not establish requirements to depositing the funds of a customer.
14.	Does the Armenian Law provide for conditions for usage of the customer's financial instruments by an investment firm?	√			Article 67 of the Law, Regulation 4/07 (4) 18
15.	Does the Armenian Law provide for criteria on the conflicts of interest potentially detrimental to the customer?		√		
16.	Does the Armenian Law require that an investment firm apply an effective policy to prevent the conflicts of interest? If yes, are the procedures and methods incorporated in such a policy in compliance with the requirements of the Directive?			√	The Law does not provide for procedures and methods incorporated in the policy on prevention of conflicts of interest.
17.	Does the Armenian Law provide for a notification to the customer of the conflicts of interest, enabling him to make a decision on investment or ancillary services?		√		
18.	Does the Armenian Law require that an investment firm record the services or activities that give rise to the conflicts of interest potentially detrimental to the customer?			√	The Law establishes a requirement to record and handle customer orders; however it does not specifically require to record the services or activities that give rise to the conflicts of interest potentially detrimental to the customer.
19.	Does the Armenian Law require that an investment firm launch an investment research?	√			Article 172 of the Law
20.	Does the Armenian Law provide for additional requirements to investment firms that launch an investment research?			√	The Law establishes a requirement to prevent the conflicts of interest in relation to preparation and dissemination of investment offers; it however does not specify in detail the relevant actions.
21.	Does the Armenian Law provide for inducement given to the investment firm, which gives no rise to the presumption that the firm acts mala fide?	√			Article 63 of the Law, Article 24 of Regulation 4/07
22.	Does the Armenian Law establish which information that is given to customers is regarded as clear, impartial, fair and not misleading?	√			Regulation 4/07 (3) 3-8
23.	According to the Armenian Law, what are the requirements to the information given to the customers when such information compares the provision of investment services or ancillary services, financial instruments or providers of	√			Article 63 of the Law, Regulation 4/07 (3) 9

	investment services or ancillary services?				
24.	According to the Armenian Law, what are the requirements to the information given to the customers when such information contains an indication of past performance of a financial instrument, financial index or an investment service?	√			Regulation 4/07 (3) 10
25.	According to the Armenian Law, what are the requirements to the information given to the customers if it relates to the future performance?	√			Regulation 4/07 (3) 11
26.	Does the Armenian Law require that an investment firm notify its new or existing customers about the categorization of such customers?	√			Regulation 4/07 (3) 14
27.	Does the Armenian Law establish general requirements to provision of information to customers and potential customers?	√			Article 64 of the Law, Regulation 4/07 (9) 37
28.	Does the Armenian Law specify the content of information on the investment firm and on investment services which the investment service provider gives to retail customers and potential retail customers?	√			Regulation 4/07 (4) 15
29.	Where a securities portfolio management service is involved, does the Armenian Law specify the content of information on the investment firm and on investment services which the investment service provider gives to retail customers and potential retail customers?			√	The Directive provides that the customer shall be given information on the management objectives, the level of risk to be reflected in the manager's exercise of discretion, and any specific constraints on that discretion.
30.	Does the Armenian Law require that the investment firm provide its existing customers or potential customers with the general description of financial instruments and the risks associated therewith? If yes, what are the requirements to the description of risk profile?			√	In some cases, the Armenian legislation does not provide details of the requirements to the description of risks.
31.	Does the Armenian Law require that an investment firm provide its existing customers or potential customers with information on costs and associated charges?	√			Regulation 4/07 (6) 24
32.	Does the Armenian Law establish general requirements to the information obtained from the customer?	√			Article 66 of the Law, Regulation 4/07 (7) 27
33.	Does the Armenian Law provide for certain requirements to the provision of information on financial standing of the customer or potential customer?	√			Article 65 of the Law, Regulation 4/07 (7) 28
34.	Does the Armenian Law provide for certain requirements to the provision of information on investment objectives of the customer or potential customer?	√			Regulation 4/07 (7) 29

35.	Does the Armenian Law provide that where an investment firm provides investment advice or portfolio management services but receives no information on the customer, it won't be allowed to offer investment services or financial instruments to the customers or potential customers?	√			Regulation 4/07 (7) 27
36.	Does the Armenian Law provide for assessment of customer appropriateness by the investment firm?	√			Regulation 4/07 (7) 34
37.	Does the Armenian Law provide for requirements to the content of information on the knowledge and experience of customers in the investment business?	√			Regulation 4/07 (7) 30
38.	Does the Armenian Law establish a signing of the contract with the retail customer by an investment firm?	√			Article 64 of the Law, Regulation 4/07 (9) 38
39.	Does the Armenian Law provide for requirements to the reporting to the customer with regard to the execution of orders?	√			Article 65 of the Law, Regulation 4/07 (10) 40 and 41
40.	Does the Armenian Law provide for requirements to the reporting to the customer with regard to the portfolio management?	√			Regulation 4/07 (10) 43 and 44
41.	Does the Armenian Law require that an investment firm report to customers on financial instruments and assets of the customer? If yes, what information should it include?		√		
42.	Does the Armenian Law provide for criteria on the execution of customer orders on best conditions?	√			Article 63 of the Law, Regulation 4/07 (11) 46 and 47
43.	Does the Armenian Law establish that an investment firm should manage the customer securities portfolio and receive and transmit customer orders on best conditions?	√			Regulation 4/07 (11) 46
44.	Does the Armenian Law establish that an investment firm should furnish retail customers with detailed information on the policy of execution of orders?	√			Regulation 4/07 (11) 54
45.	Does the Armenian Law provide for general principles on execution of customer orders by an investment firm?	√			Regulation 4/07 (12) 56 and 57
46.	Does the Armenian Law provide for aggregation and allocation of customer orders?			√	The Armenian Law does not provide for a policy for order allocation.
47.	Does the Armenian Law provide for aggregation and allocation of customer orders?			√	The Armenian Law partially governs the aspects in relation to consolidating and allocating customer orders and transactions carried out at the expense of the investment firm.

48.	Does the Armenian Law establish that a company should be recognized as an eligible counterparty?		√		
49.	Does the Armenian Law establish that an investment firm should maintain relevant information?	√			Article 69 of the Law, Regulation 4/07, Chapters 13,14 and15
	Total	28	9	12	