

## Free Movement of Services and Capital

### 1. Banking

#### Introduction

The Armenian legislation in the field of banking partially complies with the requirements of the EU legislation. The EU banking legislation regulates issues related to the establishment of financial institutions and freedom to provide services, structure and operation of credit institutions, accounting of banks, deposit guarantee schemes, payments systems, financial operations, investments. In Armenia these issues are regulated by the Armenian laws on Banks and Banking<sup>1</sup>, on Credit Organizations<sup>2</sup>, on Securities Market Regulation<sup>3</sup>, on Payment and Settlements Systems and Payment and Settlements Organizations<sup>4</sup>, on Bankruptcy of Banks and Credit Institutions<sup>5</sup>, Guarantee of Remuneration of Bank Deposits of Individuals<sup>6</sup>, Combating the Legalization of Proceeds from Crime and Financing of Terrorism<sup>7</sup>, on the Currency Regulation and Currency Control<sup>8</sup> and other prudential legal acts.

The description of the parts of the subchapter on “Banking” is given below.

The EU legislation on the Establishment of financial institutions and freedom to provide services regulates legal relations dealing with the activities of credit institutions and financial instrument markets. Based on the screening results, it should be mentioned that the Armenian legislation on the Establishment of financial institutions and freedom to provide services does not formally comply with the EU requirements, particularly, the Armenian legislation lacks a single legal act regulating the activities of banks, credit institutions and other investment companies operating in the securities market within the framework of the same Law. However, in terms of content, most provisions comply with the requirements of the EU legislation.

The EU legislation on the functioning and structure of credit institutions regulates the legal relations relating to the reorganization and winding-up of credit institutions, capital adequacy. Based on the screening results, it can be concluded that even though there is a legislation on reorganization and winding-up of credit institutions in Armenia, it does not contain a part of the norms required by the EU. There is partial compliance in regard to the legislation on capital adequacy of investment companies and credit institutions. The latter is connected with the fact that the Armenian financial derivatives market is underdeveloped.

The EU legislation on the accounting of banks and other financial institutions regulates the legal relations relating to the annual accounts of banks and other financial institutions, as well as those of foreign credit and financial institutions. The legislation on accounting of banks operating in Armenia is mainly compliant with the EU requirements. The EU legislation has a separate legal act regulating the mechanisms of submission of annual accounting documentation by branches of credit institutions established in or having a

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<sup>1</sup> HO-68, 30.06.1998

<sup>2</sup> HO-359, 29.05.2002

<sup>3</sup> HO-82, 06.07.2000

<sup>4</sup> HO-150, 24.11.2004

<sup>5</sup> HO-262, 06.11.2001

<sup>6</sup> HO-142, 24.11.2004

<sup>7</sup> HO-13, 14.12.2004

<sup>8</sup> HO-135, 24.11.2004

Head office outside of EU Member States. The lack of a relevant legal act in Armenia is due to the fact that Armenia is not an EU Member State.

Though most of the provisions of the Armenian legislation on deposit guarantee schemes comply with the EU requirements, however, there is incompliance in terms of the amount of guaranteed deposits and there can also be incompliance in the calculation procedure stipulated in the EU.

The EU legislation on payments system regulates issues relating to electronic payments, settlement finality in payments. Based on the screening results it should be mentioned that the Armenian legislation on payments system mainly complies with the requirements of the EU legislation. There are substantial differences in regard to the fact that bankruptcy procedures are not as specified in the Armenian legislation, as in the EU legislation. There are also differences in the definitions used in the Law.

The EU legislation on financial transactions regulates issues related to money laundering, cross-border credit transfers, late payments, and distance contracts for financial services. Based on the screening results, it should be noted that the Armenian legislation on financial transactions does not cover legal acts regulating the marketing of financial services, cross-border payments in euro. The Armenian legislation on money laundering is mainly compliant with the EU requirements. The existing incompliances are mainly related to the differences in definitions. The Armenian legislation on cross-border credit and money transfers is mainly incompliant with EU requirements. The latter is explained by the fact that Armenia is not an EU Member State.

The EU legislation on investments regulates issues related to investment services, as well as collective investment undertakings. Based on the screening results, it can be concluded that the Armenian legislation on investments does not comply with the requirements of EU rules. A serious reason for incompliance is also the fact that the Armenian legislation does not cover legal acts on all types of investment undertakings; it is mainly concentrated on direct investment issues.

Within the framework of the Programme, the subchapter “Banking” is envisaged to be fully approximated with the requirements of EU legislation in the course of 2007-2009.

## **Y2007**

Highlighting the importance of the overall regulation of the banking system, the Armenian legislation on banking shall be approximated with the Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994.<sup>9</sup>

Particularly, with the purpose of approximating the relevant Armenian legislation with the requirements of the Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994, amendments shall be made to the RoA Law on Guarantee of Remuneration of Bank Deposits of Physical Entities for regulation of legal relations of deposits guarantee.

The Armenian legislation on banking shall also be approximated with the Council Directive 93/22/EEC of 10 May 1993 and Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004<sup>10</sup>.

To approximate the Armenian legislation on investment services in the securities field with the requirements of the Council Directive 93/22/EEC of 10 May 1993, amendments shall

<sup>9</sup> Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes,

<sup>10</sup> Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field, Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments.

be made to the RoA Law on Securities Market Regulation and to the Decision of the Securities Commission on Repealing a number of decisions of the Securities Commission of Armenia in the Securities Market Regulatory Code.

To approximate the Armenian legislation on financial instruments market to the requirements of the Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004, amendments shall be made to the RoA Laws on Securities Market Regulation, on Licensing and to the Decision of the Securities Commission on Repealing a number of decisions of the Securities Commission of Armenia in the Securities Market Regulatory Code.

### **Y2008**

The Armenian banking legislation shall be approximated with the Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000, the Council Directive 91/308/EEC of 10 June 1991 and the Directive No 2001/24 of the European Parliament and of the Council of 4 April 2001.<sup>11</sup>

For regulation of the activity of credit institutions, amendments shall be made to the RoA Laws on Banks and Banking; and on Credit Organizations with a view to approximating it with the requirements of the Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000.

The legislation on legal regulation of issues relating to money laundering shall be approximated with the requirements of the Council Directive 91/308/EEC of 10 June 1991. Particularly, amendments shall be made to the RoA Law on Combating the legalization of proceeds from crime and financing of terrorism.

In an effort to regulate the legal relations of reorganization and winding up of credit institutions, relevant amendments shall be made to the RoA Law on Bankruptcy of Banks and Credit Institutions based on the requirements of the Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001.

### **Y2009**

The approximation of the Armenian legislation shall be based on the Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002, Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998, the Council Directive 93/6 of 15 March 1993 and the Directive No 97/5 of the European Parliament and of the Council of 27 January 1997.<sup>12</sup>

There is a full gap in the Armenian legislation in regard to the legal framework regulating distance marketing of financial services. A draft law on distance marketing of consumer financial service shall be elaborated in line with the Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002.

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<sup>11</sup> Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions, Council Directive 91 /308/EEC of 10 June 1991 on prevention of the use of the financial system for the purpose of money laundering, Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001 on the reorganization and winding up of credit institutions

<sup>12</sup> Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services, Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems, Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investments firms and credit institutions, Directive 97/5/EC of the European Parliament and of the Council of 27 January 1997 on cross-border credit transfers

To approximate the legal relations related to the payment system and settlement finality in payments with the requirements of the Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998, amendments shall be made to the RoA laws on Payment and Settlements Systems and Payment and Settlements Organization, and on the Securities Market Regulation.

For the approximation of the Armenian legislation on the capital adequacy of investment firms and credit institutions, relevant acts on capital adequacy of investment firms and credit institutions shall be elaborated.

With an aim to regulate the legal relations of cross-border credit transfers, amendments shall be made to the RoA Law on Funds Transfers by Payment Order according to the requirements of the Directive 97/5/EC of the European Parliament and of the Council of 27 January 1997.

**1.1. Legislative Approximation**

0	1	2	3	4	5	6
N/N	Measures	EU Legal Source	Responsible Body	Submission Date	Necessary Resources (man/ days)	EU Technical Assistance
<b>2007</b>						
1.	Elaboration of a draft law on making amendments to the RoA Law on Guarantee of Remuneration of Bank Deposits of Physical Entities	Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	1 <sup>st</sup> quarter	27	Consultancy, provisional expertise
2.	<ul style="list-style-type: none"> <li>Elaboration of a draft law on making amendments to the RoA Law on the Securities Market Regulation</li> <li>Elaboration of a draft law on making amendments to the Securities Market Regulatory Code</li> </ul>	Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	3 <sup>rd</sup> quarter	84	Consultancy, provisional expertise
3.	<ul style="list-style-type: none"> <li>Elaboration of a draft law on making amendments to the RoA Law on Securities Market Regulation</li> <li>Elaboration of a draft law on making amendments to the RoA Law on Licensing</li> <li>Elaboration of a draft law on making amendments to the RoA Law on the Securities</li> </ul>	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	4 <sup>th</sup> quarter	162	Consultancy, provisional expertise

	Market Regulation <ul style="list-style-type: none"> <li>Elaboration of a draft decree on making amendments to the Decision of the Securities Commission on Repealing a number of decisions of the Securities Commission of Armenia in the Securities Market Regulatory Code</li> </ul>					
<b>TOTAL</b>					<b>273</b>	
<b>2008</b>						
4.	<ul style="list-style-type: none"> <li>Elaboration of a draft law on making amendments to the RoA Law on Banks and Banking</li> <li>Elaboration of a draft law on making amendments to the RoA Law on Credit Institutions</li> </ul>	Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	2 <sup>nd</sup> quarter	153	Consultancy
5.	Elaboration of a draft law on making amendments to the RoA Law on Combating the legalization of proceeds from crime and financing of terrorism	Council Directive 91/308/EEC of 10 June 1991 on prevention of the use of the financial system for the purpose of money laundering	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	2 <sup>nd</sup> quarter	21	Provisional expertise
6.	Elaboration of a draft law on making amendments to the RoA Law on Bankruptcy of Banks and Credit Institutions	Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001 on the reorganization and winding up of	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank	2 <sup>nd</sup> quarter	42	Provisional expertise

		credit institutions	of Armenia)			
<b>TOTAL</b>					<b>216</b>	
<b>2009</b>						
7.	Elaboration of a draft law on distance marketing of consumer financial services	Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	1 <sup>st</sup> quarter	36	Consultancy, provisional expertise, training
8.	Elaboration of a draft law on making amendments to the RoA Law on Payment and Settlements Systems and Payment and Settlements Organization, Elaboration of a draft law on making amendments to the RoA Law on the Securities Market Regulation	Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	1 <sup>st</sup> quarter	36	Consultancy, provisional expertise
9.	Elaboration of a draft Resolution of the Central Bank Board on capital adequacy of investment firms and credit institutions	Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investments firms and credit institutions.	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	1 <sup>st</sup> quarter	150	Consultancy
10.	Elaboration of a draft law on making amendments to the RoA	Directive 97/5/EC of the European	Ministry of Finance and Economy of	1 <sup>st</sup> quarter	36	Consultancy, provisional expertise

	Law on Funds Transfers by Payment Orders	Parliament and of the Council of 27 January 1997 on cross-border credit transfers	Armenia (with participation of the Central Bank of Armenia)			
<b>TOTAL</b>					<b>258</b>	
<b>TOTAL</b>					<b>747</b>	



**1.2. Institutional Capacities**

0	1	2	3	4
NN	Institution	Reorganization	Training Needs	Technical Assistance Needs
1.	RoA Ministry of Finance and Economy Central Bank of Armenia	-	Training courses on Deposit Guarantee Schemes (5 days / 2007)	Consultancy, provisional expertise
2.	RoA Ministry of Finance and Economy Central Bank of Armenia	-	Training courses on Investment Services in the field of Securities (7 days / 2007)	Consultancy, provisional expertise
3.	RoA Ministry of Finance and Economy Central Bank of Armenia	-	Training courses on Markets of Financial Instruments (4 days/2007)	Consultancy, provisional expertise
4.	RoA Ministry of Finance and Economy Central Bank of Armenia		Training courses on Prevention of the use of the financial system for the purpose of money laundering (5 days/2008)	Consultancy, provisional expertise
5.	RoA Ministry of Finance and Economy Central Bank of Armenia		Training courses on Distance marketing of consumer financial services (5 days/ 2009)	Consultancy, provisional expertise
6.	RoA Ministry of Finance and Economy Central Bank of Armenia		Training courses on Capital adequacy of investment firms and credit institutions (5 days/2009)	Consultancy, provisional expertise
7.	RoA Ministry of Finance and Economy Central Bank of Armenia		Training courses on Cross-border credit transfers	Consultancy, provisional expertise

## 2. Insurance

### **Introduction**

The Armenian legislation regulating the sphere of insurance does not comply with the requirements of the EU legislation. The majority of legal acts stipulated by the EU legislation are not provided by the legislation of Armenia. The EU insurance legislation regulates issues relating to the freedom to provide services, insurance companies, transport insurance, life assurance and non-life insurance (other fields relating to human activity). The abovementioned issues in Armenia are regulated by the Law on Insurance<sup>13</sup>, the decrees of the RoA Ministry of Finance and Economy on the Application of chart of accounts of financial and economic activity of insurance companies and on the Approval of the types of annual (interim) financial statements of insurance companies and their completion order<sup>14</sup>, which do not fully envisage the requirements of EU legislation.

The EU legislation relating to the freedom to provide services in the field of insurance mainly regulates insurance mediation issues, which include the determination of insurance mediation, registration of insurance and reinsurance intermediaries, professional skills, information provided by the intermediaries to the customers, settlement of disputes. Based on the screening results it should be mentioned that although the RoA Law on Insurance includes certain rules regulating this field, however the majority of the rules required by the EU legislation are not covered by of the legislation of Armenia.

The EU legislation on insurance companies regulates issues relating to the accounts, management, winding-up and reorganization of insurance companies, and export credit insurance. These fields are regulated by separate directives of the EU legislation. Based on the screening results it can be concluded that although the Armenian legislation regulates issues relating to the accounts of insurance companies, however there are essential differences in regard to the fact that the sub-clauses defined in assets and liabilities of accounts of insurance companies presented in the Armenian legislation differ from those of the EU. The Armenian legislation on management, winding-up and reorganization is provided by separate rules endorsed in the Law on Insurance but the major part of rules stipulated by the EU legislation is missing. Armenia does not have legislation on export credit insurance.

The EU legislation on transport insurance regulates legal relations covering civil liabilities regarding to the use of vehicles, issues relating to the insurance of aircrafts and aircraft operators. Currently the Armenian legislation on insurance of motor vehicles is missing, and the legislation on insurance of aircrafts and aircraft operators should be further amended.

The EU legislation on life assurance covers both insurance of separate persons and group of persons. The legislation clearly separates the obligations of insured person from other obligations. There is no legislation in Armenia regulating this field. The life assurance and non-life insurance are not separated in the Armenian legislation.

The EU legislation on insurance other than life assurance regulates issues relating to the legal expenses of insurance, credit insurance. There is no legislation in Armenia regulating this field.

Within the framework of this Programme, the subchapter “Free Movement of Services” shall be entirely approximated with the requirements of the EU legislation by 2009.

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<sup>13</sup> HO-99, 11.06.2004

<sup>14</sup> Bulletin of the prudential legal acts of the Republic of Armenia 1999/5 23.04.1999

**Y2006**

The Armenian legislation on insurance shall be approximated with the Council Directive 91/674/EEC of 19 December 1991.<sup>15</sup>

Particularly, amendments shall be made to the following decrees of the Ministry of Finance and Economy, or to legal acts elaborated based on the latter: on the Chart of accounts of financial and economic activity of insurance companies, on the Application of chart of accounts of financial and economic activity of insurance companies, as well as on the Approval of the types of annual (interim) financial statements of insurance companies and their completion order”, with the purpose of approximating the Armenian legislation relating to the accounts of insurance undertakings with the requirements of the Council Directive 91/674/EEC of 19 December 1999.

The Armenian legislation on insurance shall be approximated with the Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002, Directive 2001/17/EC of the European Parliament and of the Council of 19 March 2001, Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002, Council Directive 87/344/EEC of 22 June 1987, Council Second Directive 92/49/EEC of 18 June 1992.<sup>16</sup>

The Armenian legislation on insurance mediation shall be approximated with the requirements of the Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002. The legislation on winding-up and reorganization of insurance companies shall be approximated with the requirements of Directive 2001/17/EC of the European Parliament and of the Council of 19 March 2001. To this end, amendments shall be made to the RoA Law on Insurance.

**Y2007**

The legislation on supervision of insurance undertakings and groups shall be approximated with the requirements of the Directive 98/78/EC of the European Parliament and the Council of 27 October 1998.<sup>17</sup> Relevant amendments shall be made to the RoA Law on Insurance.

**Y2008**

Council Directive 98/29/EC of 7 May 1998 and First Council Directive 73/239/EEC of 24 July 1973 shall serve as the basis for the approximation of the Armenian legislation.<sup>18</sup>

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<sup>15</sup> Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings

<sup>16</sup> Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation  
Directive 2001/17/EC of the European Parliament and of the Council of 19 March 2001 on the reorganization and winding-up of insurance undertakings

Directive 2002/83/EC of the European Parliament and the Council of 5 November 2002 concerning life assurance  
Council Directive 87/344/EEC of 22 June 1987 on the coordination of laws, regulations and administrative provisions relating to legal expenses insurance

Council Second Directive 92/49/EEC of 18 June 1992 on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance.

<sup>17</sup> Directive 98/78/EC of the European Parliament and the Council of 27 October 1998 on the supplementary supervision of insurance undertakings and insurance group

<sup>18</sup> Council Directive 98/29/EC of 7 May 1998 on harmonization of the main provisions concerning export credit insurance for transactions with medium and long-term cover

First Council Directive 73/239/EEC of 24 July 1973 on the coordination of laws, Regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance

In an effort to approximate the Armenian legislation on export credit with the requirements of the Council Directive 98/29/EC of 7 May 1998, a draft law on export credit shall be elaborated.

To approximate the Armenian legislation on insurance other than life assurance with the requirements of the First Council Directive 73/239/EEC of 24 July 1973, a draft law on Taking-up and pursuit of the business of insurance other than life assurance shall be elaborated.

**Y2009**

To approximate the legislation relating to the civil liability in respect of the use of motor vehicles with the requirements of the Third Council Directive 90/232/EEC of 14 May 1990 and the Directive 2000/26/EC of the European Parliament and of the Council of 16 May 2000<sup>19</sup>, a draft law on insurance against civil liability in respect of the use of motor vehicles shall be elaborated. With the purpose of improving the institutional capacities in this field, consultancy services shall be provided.

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<sup>19</sup> Third Council Directive 90/232/EEC of 14 May 1990 on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles  
Directive 2000/26/EC of the European Parliament and of the Council of 16 May 2000 on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles.

**2.1 Legislative Approximation**

0	1	2	3	4	5	6
N/N	Measures	EU Legal Source	Responsible Institution	Submission Date	Necessary Resources (man/ days)	EU Technical Assistance
<b>2006</b>						
1.	Elaboration of a draft resolution of the Central Bank Board of Armenia on <ul style="list-style-type: none"> <li>the Approval of the types of annual (interim) financial statements of insurance companies and their completion order</li> <li>the Application of chart of accounts of financial and economic activity of insurance undertakings</li> </ul>	Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank)	4 <sup>th</sup> quarter	93	Consultancy
2.	Elaboration of a draft law on making amendments to the RoA law on Insurance	<ul style="list-style-type: none"> <li>Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation</li> <li>Directive 2001/17/EC of the European Parliament and of the Council of 19 March 2001 on the reorganization and winding-up of insurance</li> </ul>	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank)	4 <sup>th</sup> quarter	105	Consultancy

		<ul style="list-style-type: none"> <li>undertakings</li> <li>• Council Second Directive 92/49/EEC of 18 June 1992 on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance</li> <li>• Directive 2002/83/EC of the European Parliament and the Council of 5 November 2002 concerning life assurance</li> <li>• Council Directive 87/344/EEC of 22 June 1987 on the coordination of laws, regulations and administrative provisions relating to legal expenses insurance</li> </ul>				
<b>TOTAL</b>					<b>198</b>	
<b>2007</b>						
3.	Elaboration of a draft law on making amendments to the RoA law on Insurance	Directive 98/78/EC of the European Parliament and the Council of 27 October 1998 on the supplementary	Ministry of Finance and Economy of Armenia	3 <sup>rd</sup> quarter	33	Consultancy

		supervision of insurance undertakings and insurance group	(with participation of the Central Bank)			
<b>TOTAL</b>					<b>33</b>	
<b>2008</b>						
4.	Elaboration of a draft RoA law on export credit	Council Directive 98/29/EC of 7 May 1998 on harmonization of the main provisions concerning export credit insurance for transactions with medium and long-term cover	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank)	3 <sup>rd</sup> quarter	36	Consultancy
5.	Elaboration of a draft law on the Taking-up and pursuit business of insurance other than life assurance	First Council Directive 73/239/EEC of 24 July 1973 on the coordination of laws, Regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank)	4 <sup>th</sup> quarter	93	Consultancy
<b>TOTAL</b>					<b>129</b>	
<b>2009</b>						
6.	Elaboration of a draft RoA law on insurance against civil liability in respect of the use of motor vehicles	Third Council Directive 90/232/EEC of 14 May 1990 on the approximation of the laws of the Member States relating to	Ministry of Finance and Economy of Armenia  (with participation	2 <sup>nd</sup> quarter	30	Consultancy

		insurance against civil liability in respect of the use of motor vehicles Directive 2000/26/EC of the European Parliament and of the Council of 16 May 2000 on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles.	of the Central Bank)			
<b>TOTAL</b>					<b>30</b>	
					<b>390</b>	



**2.2 Institutional Capacities**

0	1	2	3	4
N/N	Institution	Reorganization	Training Needs	Technical Assistance Needs
1.	<ul style="list-style-type: none"> <li>RoA Ministry of Finance and Economy</li> <li>Central Bank of Armenia</li> </ul>		Training courses on export credit insurance (5 days / 2008)	Consultancy
2.	<ul style="list-style-type: none"> <li>RoA Ministry of Finance and Economy</li> <li>Central Bank of Armenia</li> </ul>		Training courses on taking-up and pursuit of business of direct insurance other than life assurance (5 days / 2008)	Consultancy
3.	<ul style="list-style-type: none"> <li>Central Bank of Armenia</li> </ul>		Training courses on insurance against civil liability in respect of the use of motor vehicles (5 days / 2009)	Consultancy

**3. Transactions in Securities****Introduction**

In the field of transactions in securities, the Armenian legislation, as to the regulation of separate sectors, is generally in compliance with the requirements of the EU legislation; meanwhile in regard to the regulation of other sectors, the legal rules in line with EU legislation are either missing in the Armenian legislation or there are significant discrepancies between them.

The EU legislation on transaction in securities regulates legal relations connected with the public disclosure of inside information and prohibition of price manipulations, publication of prospectus of issuing securities and mandatory information to be included in prospectus, listing securities in stock-exchange, activity of collective investment undertakings, investor compensation schemes, as well as occupational retirement. The mentioned issues in Armenia are regulated by the Armenian Law on Securities Market Regulation<sup>20</sup>, Decision of the Securities Commission on Repealing a number of decisions of the Securities Commission of Armenia in the Securities Market Regulatory Code<sup>21</sup>, the Armenian Law on Licensing<sup>22</sup>, Government Decree No. 469 on Investment Funds<sup>23</sup> and other legal acts, which, however, are not fully covered by the requirements of EU legislation.

Based on the screening results it should be mentioned that though the relevant prudential rules of the Armenian legislation prohibit the use of “inside information” by any person (insider), however, these rules do not stipulate a requirement for public disclosure of the mentioned information by any insider. In fact, relevant Armenian legal rules do not fully regulate issues relating to the public disclosure of inside information, as the public disclosure of “inside information” is envisaged only by the issuers within the scope of submitting their current reports to the Securities Commission of Armenia. While defining the concept of “market manipulation (abuse)”, the relevant Armenian legislation is limited to the definitions of only several particular cases of price abuse, and, therefore does not provide for other potential manifestations of market abuse in that definition.

Although the relevant Armenian legislative rules related to the requirement of publication of prospectus, the information to be included in the prospectus, the requirement of prudential supervision and registration of the registration statement, including the prospectus, by the authoritative body in case securities are offered to the public or admitted to trading in the regulated market, are mainly in compliance with the requirements of the EU legislation, however they do not fully cover all requirements of the EU legislation. Particularly, the Armenian legislation does not cover all the exceptions of the requirement for the prospectus, which are stipulated by the EU legislation. Also, the Armenian legislation does not stipulate the possibility to split the prospectus into separate documents, in case of which the obligation of the issuer to disclose prospectus while issuing new securities can be limited only to the publication of the relevant document with amendments.

The RoA Law on Regulation of Securities Market, as to the listing of securities in the stock exchanges, defines that for the listing of securities in stock exchanges it is first necessary to register that security in the given stock exchange by presenting the registration statement of the security. The information provided in the registration statement basically corresponds to the information to be included in the prospectuses. In fact, the Law defines that further listing of securities in the stock exchange is possible only after the registration

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<sup>20</sup> HO-82, 06.07.2000

<sup>21</sup> Decision of the Securities Commission of Armenia, No 392/01, 28.09.2001

<sup>22</sup> Government Decree of Armenia, No 469, 30.09.1994

<sup>23</sup> Government Decree of Armenia, No 469, 30.09.1994

of the security. Meanwhile, it delegates the Securities Commission of Armenia with the authority to define the conditions and requirements (which are not defined yet) for the securities listing in stock exchanges, with the purpose of protecting the interests of investors and ensuring fair pricing of securities.

Based on the screening results it should be mentioned that the only legal act on collective investment institutions which is currently in force (Government Decree No. 469 on Investment Funds) mainly does not meet the requirements of the EU legislation. Thus, the mentioned Decree provides for the existence of corporate investment funds only, and thus excluding the possibility of establishing other types of investment funds (particularly, contractual investment funds). Moreover, the Government Decree No. 469 prohibits the investment fund to buy back or repay its own shares (except for the cases stipulated by the legislation on Joint-Stock Companies), whereas this mechanism is one of the most common features of open investment funds.

The Armenian legislation does not currently envisage any law or other legal act regulating the sphere of fully-funded pension system and investor compensation schemes.

Within the framework of this Programme, the subchapter "Transactions in Securities" shall be completely approximated with the requirements of the EU legislation by 2009.

#### **Y2006**

Highlighting the necessity of thorough regulation of legal relations in terms of public disclosure of inside information, as well as prohibition of market manipulations, the Armenian legislation shall be approximated with the requirements of relevant EU acts.<sup>24</sup> Particularly, amendments shall be made to the Law of the Republic of Armenia on Securities Market Regulation with the purpose of establishing a complete legal framework for the requirements of public disclosure of inside information, definition of market manipulations, fair presentation of investment recommendations and the disclosure of conflicts of interest, traditions of business cycle, the definition of inside information in relation to derivatives on commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions, exemptions for buy-back programmes and stabilization of financial instruments. To this end, it will be necessary to strengthen the relevant institutional capacities through training courses on the peculiarities of the EU legal regulation of the mentioned fields.

#### **Y2007**

To ensure the full compliance of the legal framework regulating the establishment and activities of collective investment undertakings in Armenia with the requirements of the relevant EU legal act<sup>25</sup>, a draft RoA law on Investment Funds shall be elaborated. The mentioned draft law shall provide opportunities for the establishment and further operation of both corporate and contractual investment funds, according to the requirements prescribed by the EU legislation relating to the peculiarities for the establishment and further operation of the mentioned institutions.

<sup>24</sup> Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse), Commission Directive 2003/124/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the definition and public disclosure of inside information and the definition of market manipulation; Commission Directive 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest, Commission Regulation (EC) No 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments, Commission Directive 2004/72/EC of 29 April 2004 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards accepted market practices, the definition of inside information in relation to derivatives on commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions.

<sup>25</sup> Council Directive 85/611 of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

Necessary amendments shall be made to the Decision of the Securities Commission on Repealing a number of decisions of the Securities Commission of Armenia in the Securities Market Regulatory Code, thus ensuring full compliance with the requirements of the Directive 2001/34/EC of the European Parliament and of the Council of 28 May 2001 on the admission of securities to official stock exchange listing and on information to be published on those securities. As a result of the mentioned amendments, relevant conditions and terms shall be defined for listing of securities in stock exchanges, which are necessary for protecting the interests of investors and ensuring the fair pricing of securities.

To harmonize the Armenian legislation on the publication of prospectus when securities are offered to the public or admitted to trading in the regulated market with the EU relevant legal acts<sup>26</sup>, amendments shall be made to the RoA Law on Securities Market Regulation.

### Y2008

In the context of the requirements of the EU legislation<sup>27</sup> on the implementation of the fully funded pension system, a draft law on Fully Funded Pension Insurance shall be elaborated, which will regulate legal relations arising during the operation of the institutions implementing fully funded pension insurance, particularly, issues relating to the establishment of pension insurance institutions (especially, private pension funds), licensing and supervision of their activities, the formation of management bodies of the mentioned institutions, and their authorities, rights of the participants of the pension schemes, participation in the pension schemes, as well as termination of the participation, opening and maintenance of individual pension accounts, directions and quantitative restrictions of the pension investment assets, calculation and public disclosure of net value of pension assets, publication of reports, as well as disclosure of defined information, imposing sanctions in case of violation of legislative requirements.

Highlighting the necessity to introduce investor-compensation schemes in securities, a draft law on investor-compensation schemes in securities shall be elaborated as a potential instrument to increase the active participation of investors in the securities market.

The mentioned draft law shall be based on the requirements of the relevant EU legal act<sup>28</sup> on investor-compensation schemes. Particularly, obligations of entities carrying out specialized activities in the securities market shall be defined relating to mandatory participation in any investor-compensation scheme. The mentioned draft law shall stipulate cases of investors' compensation, calculation of the amount of investors' claim, as well as terms and procedure for paying the compensation amounts, imposition of relevant penalties in case of failure to fulfil the commitments arising from the participation in the investor-compensation schemes.

Courses shall be conducted on basic principles and peculiarities applied in the field of investor-compensation schemes in securities.

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<sup>26</sup> Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, Council Directive 89/298/EEC of 17 April 1989 coordinating the requirements for the drawing-up, scrutiny and distribution of the prospectus to be published when transferable securities are offered to the public.

<sup>27</sup> Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision.

<sup>28</sup> Directive 97/9/EC of the European Parliament and of the Council of 3 March 1997 on investor-compensation schemes

**3.1 Legislative Approximation**

0	1	2	3	4	5	6
N/N	Measures	EU Legal Source	Responsible Institution	Submission Date	Necessary Resources (man/ days)	EU Technical Assistance
<b>2006</b>						
1.	Elaboration of a draft law on making amendments to the RoA Law on Securities Market Regulation	<p>Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse)</p> <p>Commission Directive 2003/124/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the definition and public disclosure of inside information and the definition of market manipulation</p> <p>Commission Directive 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the</p>	<p>Ministry of Finance and Economy of Armenia</p> <p>(with participation of the Central Bank of Armenia)</p>	4 <sup>th</sup> quarter	87	Consultancy, provisional expertise

		<p>European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest</p> <p>Commission Regulation (EC) No 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments</p> <p>Commission Directive 2004/72/EC of 29 April 2004 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards accepted market practices, the definition of inside information in relation to derivatives on commodities, the drawing up of lists of insiders, the notification</p>				
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		of managers' transactions and the notification of suspicious transactions				
<b>TOTAL</b>					<b>87</b>	
<b>2007</b>						
2.	Elaboration of a draft law on Investment Funds	Council Directive 85/611 of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	2 <sup>nd</sup> quarter	105	Consultancy, provisional expertise
3.	Elaboration of a draft decision of the Securities Commission of Armenia on making amendments to the Securities Market Regulatory Code (Decision No. 392/01 of 28.09.2001 of the Securities Commission of Armenia)	Directive 2001/34/EC of the European Parliament and of the Council of 28 May 2001 on the admission of securities to official stock exchange listing and on information to be published on those securities	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	2 <sup>nd</sup> quarter	111	Provisional expertise
4.	Elaboration of a draft law on making amendments to the RoA Law on Securities Market Regulation	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC	Ministry of Finance and Economy of Armenia  (with participation of the Central Bank of Armenia)	4 <sup>th</sup> quarter	81	

		Council Directive 89/298/EEC of 17 April 1989 coordinating the requirements for the drawing-up, scrutiny and distribution of the prospectus to be published when transferable securities are offered to the public				
<b>TOTAL</b>					<b>297</b>	
<b>2008</b>						
5.	Elaboration of a draft law on Fully Funded Pension Insurance	Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision	Ministry of Labour and Social Affairs of Armenia (with participation of the Central Bank of Armenia)	2 <sup>nd</sup> quarter	45	Consultancy, provisional expertise
6.	Elaboration of a draft law on investor-compensation schemes in securities	Directive 97/9/EC of the European Parliament and of the Council of 3 March 1997 on investor-compensation schemes	Ministry of Finance and Economy of Armenia (with participation of the Central Bank of Armenia)	4 <sup>th</sup> quarter	21	Consultancy, provisional expertise
<b>TOTAL</b>					<b>21</b>	
<b>TOTAL</b>					<b>450</b>	



**3.2 Institutional Capacities**

0	1	2	3	4
NN	Institution	Reorganization	Training Needs	Technical Assistance Needs
1.	RoA Ministry of Finance and Economy Central Bank of Armenia	-	Training courses on disclosure of inside information and prohibition of price abuse (5 days / 2006)	Consultancy, provisional expertise
2.	RoA Ministry of Labour and Social Affairs RoA Ministry of Finance and Economy Central Bank of Armenia	-	Training courses on public regulation of fully funded pension insurance system (5 days / 2008)	Consultancy, provisional expertise
3.	Central Bank of Armenia RoA Ministry of Finance and Economy	-	Training courses on investor-compensation schemes in securities (3 days / 2008)	Consultancy, provisional expertise

**4. Financial Conglomerates****Introduction**

The Armenian legislation on credit institutions, insurance undertakings and investment firms in a financial conglomerate is completely missing. The EU legislation in the field of financial conglomerates defines the concept of institutions in a financial conglomerate, regulates legal relations relating to the solvency of financial conglomerates, concentration of risks of different divisions in the same conglomerate, vocational qualification and management in the same field. The mentioned issues are not regulated by the legislation of Armenia.

Within the framework of the Programme, it is envisaged to fully approximate the subchapter “Financial Conglomerates” with the requirements of the EU legislation during 2006-2008.

**Y2008**

In an effort to regulate the operation of financial conglomerates, a draft law on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate shall be elaborated in compliance with the requirements of the Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002.

**4.1 Legislative Approximation**

0	1	2	3	4	5	6
N/N	Measures	EU Legal Source	Responsible Institution	Submission Date	Necessary Resources (man/ days)	EU Technical Assistance
<b>2008</b>						
1.	Elaboration of a draft law on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate	Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate	Ministry of Finance and Economy of Armenia (with participation of the Central Bank of Armenia)	2 <sup>nd</sup> quarter	57	Consultancy
<b>TOTAL</b>					<b>57</b>	

**4.2 Institutional Capacities**

0	1	2	3	4
NN	Institution	Reorganization	Training Needs	Technical Assistance Needs
1.	RoA Ministry of Finance and Economy Central Bank of Armenia	-	Training courses on supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate (5 days / 2008)	Consultancy