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European Bank
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Corporate Governance in Transition Economies

Armenia Country Report

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Prepared by:
Gian Piero Cigna
Pavle Djuric
Yaryna Kobel
Alina Sigheartau

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If you believe that the information has changed or is incorrect, please contact Gian Piero Cigna at cignag@ebrd.com

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This Report – along with all other country reports prepared within this initiative – is available at: http://www.ebrd.com/what-we-do/sectors/legal-reform/corporate-governance/sector-assessment.html

Foreword

As part of its Legal Transition Programme, the European Bank for Reconstruction and Development ("EBRD") has been assessing the state of legal transition in its countries of operations. These assessments provide an analysis of the progress of reform and identify gaps and future reform needs, as well as strengths and opportunities.

In 2012, the Legal Transition team within the EBRD Office of the General Counsel (LTT) developed with the Assistance of Nestor Advisors a methodology for assessing corporate governance frameworks and the governance practices in the EBRD countries of operations. This assessment was implemented in 2014-2015 (the "Assessment").

The Assessment aims at measuring the state of play (status, gaps between local laws/regulations and international standards, effectiveness of implementation) in the area of corporate governance

The Assessment is meant to provide for (i) a comparative analysis of both the quality and effectiveness of national corporate governance legislation (including voluntary codes); (ii) a basis to assess key corporate governance practices of companies against the national legislation; (iii) an understanding whether the legal framework is coupled with proper enforcement mechanisms (e.g., sanctions) and/or with authorities able to ensure proper implementation; (iv) a support to highlight which are the major weaknesses that should be tackled by companies and legislators for improving the national corporate governance framework; and (v) a tool which will enable the EBRD to establish "reference points" enabling comparison across countries.

This country report is part of a series of 34 country reports. A general report synthesising all countries will close the Assessment.

Methodology

This Assessment is based on a methodology designed to measure the quality of legislation in relation to best practices requirements and the effectiveness of its implementation as evidenced by companies' disclosure, also taking into consideration the capacity of the institutional framework (e.g., courts, regulators) to sustain quality governance. The analytical grid developed for assessing the governance framework is based on international recognised best-practice benchmarks (e.g., OECD Corporate Governance Principles, Development Financial Institutions, EBRD, IFC and World Bank ROSC governance methodologies). The methodology is applied identically across all the countries reviewed. The process for gathering, analysing and reporting information is applied identically for each of the countries assessed, which allows comparing countries to each other across a long a set of benchmarking points.

For the purpose of the Assessment, the corporate governance framework and the practices were divided in five key areas: (i) Structure and Functioning of the Board; (ii) Transparency and Disclosure of company information; (iii) Internal Control; (iv) Rights of Shareholders; and (v) Stakeholders and Institutions. Each of these key areas is further divided in sections (for instance, the area "Structure and Functioning of the Board" is divided in five sections: Board composition; Gender diversity at the board; Independent directors; Board effectiveness; and Responsibilities of the board). Each section is further divided in subsections (for instance, the section "Independent Directors" is divided in three subsections: "Requirement to have independent directors"; "Definition of Independence"; and "Disclosed practices").

The assessment started by sending a questionnaire to law firms, audit firms, national regulator(s), ten largest (listed) companies, and stock exchange(s) in each country. Questions were different according to the respondents, which were asked to provide information on the legislation and on how they believe the legislation is implemented.

Responses were assigned to the corresponding subsection(s) and validated by the EBRD corporate governance specialists by looking at the applicable framework and at the disclosure offered by the ten largest (listed) companies in each country. In this respect, the working hypothesis was that the ten largest listed companies are those offering the best disclosure in each country. As such, we presumed that when certain practices were not disclosed by them, they were unlikely to be disclosed by smaller or unlisted companies. The ten largest companies were identified according to their market capitalisation. When a country did not have a stock exchange, there were less than ten listed issuers or there were no data on capitalisation of issuers, the ten largest companies were identified according to their revenues and size of the labour force. In case the largest companies were mostly of one sector (e.g., financial institutions), then the sample of ten companies was corrected to reflect other sectors of the economy.

The validation of responses was undertaken by the corporate governance specialists within the Legal Transition Team through desktop research. This research was conducted both on legislation and on the practices disclosed by the largest (listed) companies (e.g., companies' websites, annual reports, stock exchanges database etc.). In addition, the relevant reports by international financial institutions (e.g., IMF, World Bank, IFC, Transparency International, etc.) were analysed and taken into consideration. Answers received by respondents that were not grounded by specific references to legislation or consistent with the disclosed practices were not taken into consideration.

Following the validation process, each subsection was compiled by adding specific references to legislation and practices. Conclusions were then formulated for each subsection, each rated as per their adherence to international governance standards. The score ranges from 1 (very weak) to 5 (strong). The rating for each section was then calculated by averaging the ratings of the subsections.

Because understanding corporate governance requires a "holistic perspective", where each component needs to have a place in the overall picture – pretty much like a puzzle - in case one of the subsection was rated "weak" or "very weak", the resulting average was decreased by 0.2; in case more than one subsection was rated “weak” or “very weak”, the resulting average was decreased by 0.5. This is because if just one component is not fitting well with the others, then all others are weakened. Similarly, the overall strength diminishes if there are more weak components.

Conversely, in order for the framework to be strong, all components need to be well fitting with each other. Hence, in case all subsections were scored “moderately strong” or “strong”, then the resulting average was increased by 0.5. However, this “positive” adjustment was used with some care as the assessment looked at the top ten largest companies in the country, hence findings tended to be often overly optimistic.

Key areas were then rated according to the same criteria.

The ratings are presented through the colours detailed in the box below and they demonstrate the adequacy or need of reform in respect to each governance area and section.

Ratings:

“Strong to very strong” (DARK GREEN) - The corporate governance framework / related practices of companies are fit-for-purpose and consistent with best practice.

“Moderately strong” (LIGHT GREEN) - Most of the corporate governance framework / related practices of companies are fit-for-purpose but further reform is needed on some aspects.

“Fair” (YELLOW) - The corporate governance framework / related practices of companies present some elements of good practice, but there are a few critical issues suggesting that overall the system should be assessed with a view of reform.

“Weak” (ORANGE) - The corporate governance framework / related practices of companies may present few elements of good practice, but overall the system is in need of reform.

“Very weak” (RED) - The corporate governance framework / related practices of companies present significant risks and the system is in need of significant reform.

We believe corporate governance cannot be captured and measured simply by numerical values. Hence, alongside the “quantitative” assessment obtained according to the methodology described above, a “qualitative” assessment was also undertaken, by classifying our findings for each section as “strengths” and “weaknesses”. Because understanding corporate governance requires a “holistic perspective”, when the “quantitative” assessment was finalised, the assessment team compared it with the “qualitative” assessment, and when any inconsistency (i.e. material weaknesses or strengths) was noticed, the average scores of the sections were adjusted by up to ±0.5.

A preliminary version of the Assessment was made public for consultation. The comments and corrections received during the process were analysed by the corporate governance specialists. When confirmed, the corrections were reflected in the final ratings and in this Assessment.

Overview

Legislative framework

The corporate governance framework in Armenia is essentially comprised by the Law on Joint Stock Companies, the Law on Banks and Banking Activity, the Law on Securities Market and a Corporate Governance Code, which was adopted in 2010. The Code is to be implemented by listed companies on a "comply or explain" basis.

Structure and functioning of the board

Joint stock companies are organised under a one-tier system, where the CEO can be the chair of the board. The boards of the ten largest listed companies appear to be well sized. Evidence has shown that smaller boards tend to perform better, provided that they have the right mix of skills and necessary support. This does not seem to be always the case in Armenia. Legal entities can be board members. We do not think this is the right solution. Only banking legislation provides for qualification requirement of board members.

The Corporate Governance Code recommends board and audit committee to include at least two independent directors and have expertise according to the functions that they are called to undertake. However, only three companies – out of the ten largest listed in the country - disclose having independent members in their boards and only two companies disclosed having established an audit committee.

Gender diversity at the board is very limited.

The law does not assign to the board all its key functions, there is no extensive practice of board evaluation and only a few companies have introduced a corporate secretary function. All together, this reduces the capacity of the board to play a strategic role within the company. Disclosure on board and committee's activities and meetings is limited and does not allow to assess if the board and committees are playing a driving role in the company. When the frequency of meetings is disclosed, it appears that boards meet very often, possible sign of being overwhelmed with operational issues.

The legal framework regulating liability and fiduciary duties of board members does not seem to be well developed. Related party transactions are regulated by the law and the law requires involving independent board members in the approval process, but the limited number of independent directors raises doubts about the objectivity of the process.

Transparency and Disclosure

Companies are required to prepare annual reports including financial and non-financial information and all companies appear to formally comply with the requirement stipulated by law however disclosure requirements provided by the listing rules and recommendations of the corporate governance code are often disregarded. In particular, disclosure of non-financial information is limited.

The law also requires companies and banks to prepare and disclose financial information in line with IFRS and all ten largest listed companies appear to comply with this requirement. It appears that the large majority of companies provide comprehensive disclosure on the external auditor, apart from the provision of non-auditing services, which is rarely disclosed.

Internal Control

Banks are required by law to establish an internal audit function. The Corporate Governance Code recommends listed companies to have an internal auditor but in practice it appears that this function is established only in banks. Banks are also required to establish a stand-alone compliance function.

The Corporate Governance Code recommends companies to establish an audit committee made of non-executive board members, whose majority should be independent. The law instead requires companies to create a "control commission", appointed by and reporting to the general shareholders' meeting (GSM). Board members cannot be member of the control commission. By law, there is no qualification or independence requirement for members of the control commission. There is very little evidence (if any) of the added value of this body, which is not a "board committee". Only two companies - among ten largest listed in the country - disclosed having established an audit committees; however, the committees' composition is not disclosed, hence it is not possible to assess whether they are composed of independent and qualified directors. Further, disclosure on audit committee's and control commission's activities and meetings is very limited hence it is not possible to understand if they play a strategic role in the company. The Corporate Governance Code recommends companies to have a code of ethics, but only a minority of companies appear to have one.

All companies are required to have external auditors, which can also provide non-auditing services. The provision of non-auditing services can undermine the auditors' independence. Because of the limited number of audit committees, it is not clear who should run the "independence test" of auditors. The National Bank of Armenia monitors disclosure of conflicts of interest and related party transactions.

Rights of Shareholders

Basic shareholders rights appear to be granted by law. Cumulative voting is required for large companies and shareholders representing 2% of the capital can propose new items to the agenda and nominate directors. Shareholders' right to access information is provided by law. Shareholders do not seem to enjoy pre-emptive rights on capital increase and the board can decide upon increase of capital. This is a major weakness. Further, it is not clear if shareholders have the right to ask questions at the general shareholders' meeting (GSM).

Insider trading is regulated by law but it is not clear how the law is enforced in practice. It appears that there is no regulation restricting directors to trade on company shares. In this respect, the Corporate Governance Code recommends companies to establish trading windows and disclose transactions. However, no company makes such a disclosure. Conflict of interest and related party transactions are regulated by law, but the limited number of independent directors raises doubts about the objectivity of the approval process.

Listed companies are required to have their shares registered at the Central Depository. It is not clear if shareholders agreements are enforceable.

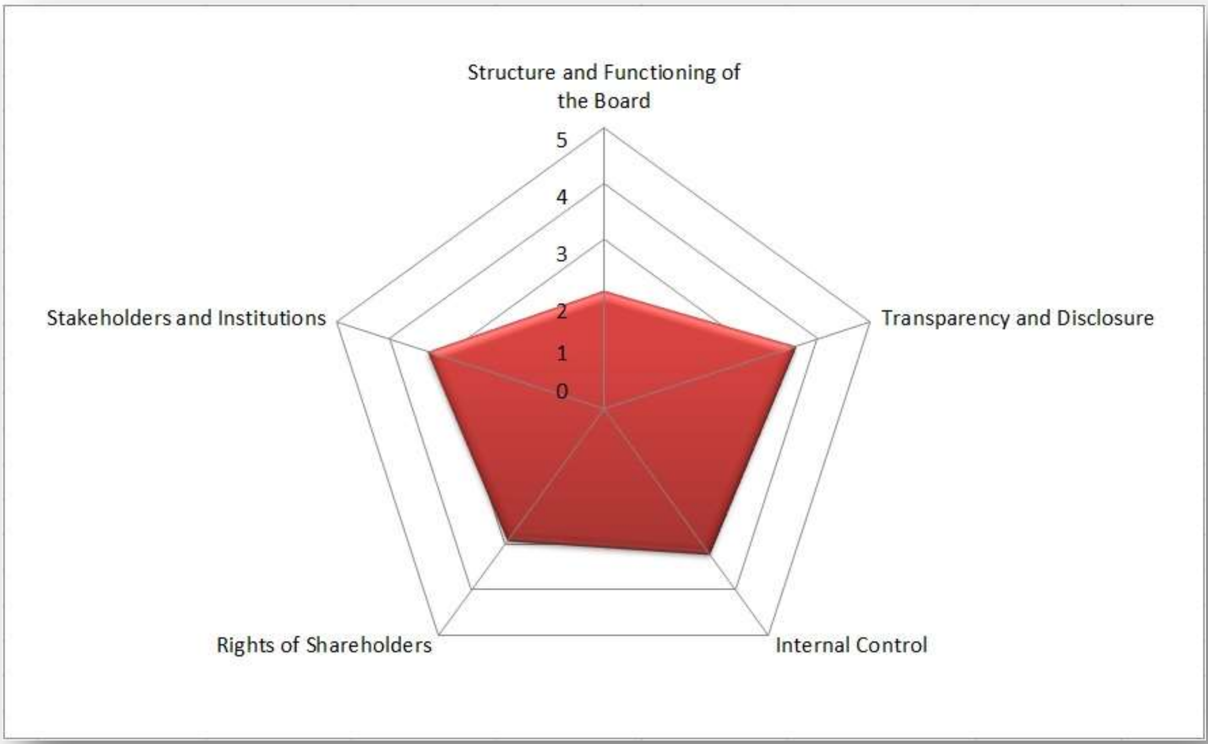
Stakeholders and Institutions

The stock exchange in Armenia has limited liquidity but it appears active in the promotion of good corporate governance. The stock exchange offers an informative website where is possible to find issuers' financial and non-financial information. International audit firms have a significant presence in the country, but the presence of international law firms and international rating agencies is limited.

A Corporate Governance Code was developed in 2007, which complements well the law and it seems fairly well implemented by – the limited number of – listed companies. It is not clear if the Code's implementation is monitored. Having adopted a corporate governance code is not an end in itself, but the start of a process that should lead to better disclosure and transparency. It is important that Armenian authorities commit the necessary time and resources in order to ensure proper implementation of the code so to establish an active dialogue with companies and provide guidance on how to improve the companies' practices. This effort should contribute to enhance ownership disclosure, shareholders rights and quality of information; to better monitor self-dealing and related party transactions; and to strengthen the oversight role of boards.

It appears that there are a few inconsistencies in corporate governance legislation and some key corporate governance issues are not regulated. Listed companies do not seem to pay much attention to requests by stakeholders, and international organisations indicators show a framework where corruption is still perceived as a critical problem. It appears that the country has improved significantly in the World Bank Doing Business ranking, but its indicators focus primarily on law on the books.

Corporate Governance Legislation and Practices in Armenia



Source: EBRD, Corporate Governance Assessment 2016

Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in best practices and international standards (e.g., OECD Corporate Governance Principles). The fuller the 'web', the closer the corporate governance legislation and practices of the country approximates best practices.

Key: Very weak: 1 / Weak: 2 / Fair: 3 / Moderately Strong: 4 / Strong to very strong: 5

Key Areas and Rating	Strengths and Weaknesses
1. Structure and Functioning of the Board *Weak*	*Joint stock companies are organised under a one-tier system, where the CEO can be the chair of the board. The boards of the ten largest listed companies appear to be well sized. Evidence has shown that smaller boards tend to perform better, provided that they have the right mix of skills and necessary support. This does not seem to be always the case in Armenia.* *Legal entities can be board members. We do not think this is the right solution.* *Only banking legislation provides for qualification requirements of board members.* *The Corporate Governance Code recommends board and audit committee to include at least two independent directors and have expertise according to the functions that they are called to undertake. However, only three companies – out of the ten largest listed in the country - disclose having independent members in their boards and only two companies disclosed having established an audit committee.* *Gender diversity at the board is very limited.* *The law does not assign to the board all its key functions, there is no extensive practice of board evaluation and only a few companies have introduced a corporate secretary function. All together, this reduces the capacity of the board to play a strategic role within the company.* *Disclosure on board and committee's activities and meetings is limited and does not allow to assess if the board and committees are playing a driving role in the company. When the frequency of meetings is disclosed, it appears that boards meet very often, possible sign of being overwhelmed with operational issues.* *The legal framework regulating liability and fiduciary duties of board members does not seem to be well developed.* *Related party transactions are regulated by the law and the law requires involving independent board members in the approval process, but the limited number of independent directors raises doubts about the objectivity of the process.*
1.1. Board Composition *Weak*	***Strengths:*** • *The law assigns to independent board members a role in approving transactions with conflicts of interests, however this applies only to companies with more than 500 shareholders. Further, only a few companies disclose having independent directors.* • *The banking legislation provides for qualification requirements of board members. The Corporate Governance Code provides recommendations in this respect for all companies and also recommends members of the audit committee to be qualified for the committee's functions.* ***Weaknesses:*** • *Boards tend to be well sized (eight out of the ten largest listed companies that disclosed the size of their board had 7.5 members of the board on average) and evidence has shown that smaller boards tend to perform better, provided that they have the necessary mix of skills and support (e.g., corporate secretary) – however, this does not seem to be the case in Armenia.* • *The CEO can be the chair of the board.* • *Only the Corporate Governance Code recommends companies to have an independent audit committee. Only two – among the ten largest listed companies - disclosed having established an audit committee; and one of them also a nomination committee; however the committees' composition is not disclosed, so it is not possible to understand if committees are made of qualified and independent board members.* • *The definition of independent board members provided by law is not comprehensive.* • *Legal entities can be board members.*
1.2. Gender Diversity at the board (11.7%) *Weak*	• *Eight among the ten largest listed companies disclose the size of the board. It appears that there are women on boards in six out of the eight largest companies that disclose this information: one in each board (average in these boards 15.6%).* • *In total, there are 6 women among 60 members of boards in the eight companies with an average of 11.7%.*
1.3. Independent Directors *Weak*	***Strengths:*** • *The Corporate Governance Code recommends companies to have at least two independent directors and the chair of the board to be independent. The Code also includes a definition of independence. To note that the definition of independence recommends that "the board should determine whether the*

Key Areas and Rating	Strengths and Weaknesses
	director is independent in character and judgement". The company's annual report should include information on which directors are independent. The Code also recommends companies to establish an audit committee comprised of non-executive directors, where the chairman and a majority of members are independent. However the Code's recommendations do not seem to be well implemented. • *The Law on Joint Stock Companies requires involving "independent board members" in transactions with conflicts of interests (however this applies only to companies with more than 500 shareholders).* ***Weaknesses:*** • *There are at least two definition of independence: one in the law and one in the Corporate Governance Code. The one in the law is not comprehensive.* • *Only three companies disclose having independent members in their boards. It is not disclosed which definition of independence applies and if independent directors sit in committees.*
1.4. Board Effectiveness *Weak*	***Strengths:*** • *By law, the board is in charge of appointment and removal of executives.* ***Weaknesses:*** • *The law does not clearly assign the board with the authority to approve the company's strategy and define the company's risk profile.* • *There is no established practice of board evaluation.* • *The corporate secretary function does not seem to be well developed.* • *Disclosure on board and committees' activities and meetings is very limited and does not allow to understand if they have a strategic role in the companies.*
1.5. Responsibilities of the Board *Fair*	***Strengths:*** • *Fiduciary duties, liability and conflicts of interest are regulated by the law.* ***Weaknesses:*** • *The law does not clearly assign all key functions to the board.* • *The limited number of independent directors in companies raises doubts about the objectivity of the related party transaction approval process.*

Key Areas and Rating	Strengths and Weaknesses
2. Transparency and Disclosure *Fair*	*Companies are required to prepare annual reports including financial and non-financial information and all companies appear to formally comply with the requirement stipulated by law; however disclosure requirements provided by the listing rules and recommendations of the Corporate Governance Code are often disregarded. In particular, disclosure of non-financial information is limited.* *The law also requires companies and banks to prepare and disclose financial information in line with IFRS and all ten largest listed companies appear to comply with this requirement.* *It appears that the large majority of companies provide comprehensive disclosure on the external auditor, apart from the provision of non-auditing services, which is rarely disclosed.*
2.1. Non-Financial Information Disclosure *Weak/Fair*	***Strengths:*** • *Companies are required to prepare annual reports including financial and non-financial information and the annual reports of all ten largest listed companies are posted on the regulator's website. However, information is available only in Armenian.* • *Eight companies (including the four banks) – out of the ten largest listed in the country - disclose the names of their directors but only three indicated who the independent board members are. It is not clear which definition of independence is applied.* • *Six companies included some details on the qualifications of their board members on their websites or in their corporate governance statements.* • *Nine companies disclose information on their main shareholders; but only two of them seem to go into details and disclose information on beneficial ownership, as required by law.* • *Six companies posted the minutes of the general shareholders' meetings on their websites.* • *Listed companies are required to disclose their compliance with the corporate governance code and all companies seem to comply. However, often disclosure and explanations are not of good quality.* ***Weaknesses:*** • *Only three companies disclose some information about their strategy.* • *Only five companies posted their Articles (in Armenian only) on their websites.* • *Only two companies disclose a summary of the board activities. Three companies disclose the number of board meetings and only one the number of audit committee meetings. The activities of committees are not disclosed.* • *No company disclose the composition of board committees.*
2.2. Financial Information Disclosure *Strong*	***Strengths:*** • *Companies are required to prepare and disclose annual reports including financial information. Financial information is aligned to IFRS. All ten largest listed companies prepared their financial statements in line with the IFRS and disclosed them online.*
2.3. Reporting to the Market and to Shareholders *Fair*	***Strengths:*** • *Annual reports are generally well disclosed but they include mainly financial information only.* • *The majority of the largest listed companies posted the minutes of the general shareholders' meetings on their websites.* ***Weaknesses:*** • *Disclosure of non-financial information is generally poor.*
2.4. Disclosure on the External Audit *Moderately strong*	***Strengths:*** • *All joint stock companies are required to have the financial statements audited by an independent external auditor. When created, it seems that the audit committee is in charge of monitoring the auditor's independence. However, there is no requirement to have an audit committee in place and only two companies disclosed having an audit committee in place.* • *The general shareholders' meeting has the exclusive authority to appoint the auditor.* • *Listed companies are required to publish on their website the auditor's name and report. Nine companies comply with this requirement.* ***Weaknesses:*** • *Provision of non-auditing services by the external auditor is allowed, under the scrutiny of the audit committee. The limited practice of establishing an audit committee and very limited disclosure on the non-auditing services provided raises some doubts about the independence of the external auditor.*

Key Areas and Rating	Strengths and Weaknesses
3. Internal Control *Fair*	*Banks are required by law to establish an internal audit function. The Corporate Governance Code recommends listed companies to have an internal auditor but in practice it appears that this function is established only in banks. Banks are also required to establish a stand-alone compliance function.* *The Corporate Governance Code recommends companies to establish an audit committee made of non-executive board members, whose majority should be independent. The law instead requires companies to create a "control commission", appointed by and reporting to the general shareholders' meeting (GSM). Board members cannot be members of the control commission. By law, there is no qualification or independence requirement for members of the control commission. There is very little evidence (if any) of the added value of this body, which is not a "board committee". Only two companies - among ten largest listed in the country - disclosed having established an audit committee; however, the committees' composition is not disclosed, hence it is not possible to assess whether they are composed of independent and qualified directors. Further, disclosure on audit committee's and control commission's activities and meetings is very limited hence it is not possible to understand if they play a strategic role in the company.* *The Corporate Governance Code recommends companies to have a code of ethics, but only a minority of companies appear to have one.* *All companies are required to have external auditors, which can also provide non-auditing services. The provision of non-auditing services can undermine the auditors' independence. Because of the limited number of audit committees, it is not clear who should run the "independence test" of auditors.* *The National Bank of Armenia monitors disclosure of conflicts of interest and related party transactions.*
3.1. Quality of the Internal Control Framework *Fair*	***Strengths:*** • *Banks are required to establish an internal audit function and a standalone compliance function.* • *The major banks disclose having a code of ethics in place, however there is no information about their implementation in practice.* • *The protection of whistleblowers in Armenia is divided into two legal regimes: one regulating reporting persons who are public servants, and another which regulates ordinary citizens. However, there is no comprehensive regime.* ***Weaknesses:*** • *Companies and banks are not required to have an audit committee, but a control commission must be created. The control commission is not a board committee, being appointed by and reporting to the GSM. The added value of having a control commission is not clear.*
3.2. Quality of Internal and External Audit *Fair*	***Strengths:*** • *Banks are required to establish an internal audit function reporting to the board. Because of the limited presence of independent directors in boards, the independence of the internal auditors is questionable and should be carefully assessed.* • *All joint stock companies are required to have their financial statements audited by an external auditor who should be independent and should not have "property interest links with the Company or its shareholders".* ***Weaknesses:*** • *It is not clear who should undertake the external auditor's "independence test".* • *The provision of non-auditing services is allowed. This can undermine the auditors' independence.* • *There is no rotation requirement for external auditors.*
3.3. Functioning and Independence of the Audit Committee *Weak*	***Strengths:*** • *The Corporate Governance Code recommends companies to establish an audit committee comprised of non-executive directors, where the chairman and a majority of members are independent. However the Code's recommendations do not seem to be well implemented.* ***Weaknesses:*** • *There is no requirement of law to establish an audit committee. The law requires companies to create a control commission, appointed by the general shareholders' meeting. The members of the control commission cannot be "members of the company's management body". It is not clear if this also precludes board members to be members of the control commission. If this is the case, the solution*

Key Areas and Rating	Strengths and Weaknesses
	raises some doubts. We believe it is important that the audit committee include only (qualified and independent) board members if the functions delegated to the committee are typical board functions. Secondly, it is essential that those members sitting in the committee and recommending specific actions to the board follow up on such recommendations and vote on the committee's recommendations at the board meeting, therefore reinforcing their positions and the board "objective judgement". Further, we believe that audit committee members should have a full vision of the business of the company in order to express their determinations – while "outsiders" might only have a partial understanding. Finally, committees that include "outsiders" might create problems with confidentiality and accountability issues, since such outsiders might not be bound by duties of loyalty and care required to board members. While it is legitimate that the audit committee might need external advice or expertise on specific issues, it should be able to request such advice, but it should not allow the advisor(s) to replace the committee in its determinations and recommendations. • *There is no qualification or independence requirement for members of the control commission.* • *Disclosure on audit committee/control commission activities and meetings is very limited hence it is not possible to understand if they play a strategic role in the company.*
3.4. Control over Related Party Transactions and Conflict of Interest *Moderately strong*	***Strengths:*** • *Related party transactions are regulated by law. The framework is similar for banks and companies.* • *Companies are required to disclose related party transactions in their annual reports and most companies appear to comply with this requirement.* • *The National Bank of Armenia monitors disclosure of conflicts of interest and related party transactions.* ***Weaknesses:*** • *The lack of independent directors on boards might undermine the objective board oversight over related party transactions and conflicts of interests.*

Key Areas and Rating	Strengths and Weaknesses
4. Rights of Shareholders *Fair*	*Basic shareholder rights appear to be granted by law. Cumulative voting is required for large companies and shareholders representing 2% of the capital can propose new items to the agenda and nominate directors. Shareholders' right to access information is provided by law.* *Shareholders do not seem to enjoy pre-emptive rights on capital increase and the board can decide upon increase of capital. This is a major weakness. Further, it is not clear if shareholders have the right to ask questions at the general shareholders' meeting (GSM).* *Insider trading is regulated by law but it is not clear how the law is enforced in practice. It appears that there is no regulation restricting directors to trade in company shares. In this respect, the Corporate Governance Code recommends companies to establish trading windows and disclose transactions. However, no company makes such a disclosure.* *Conflict of interest and related party transactions are regulated by law, but the limited number of independent directors raises doubts about the objectivity of the approval process.* *Listed companies are required to have their shares registered at the Central Depository. It is not clear if shareholders' agreements are enforceable.*
4.1. General Shareholders' Meeting (GSM) *Fair/Weak*	***Strengths:*** • *Shareholders representing 10% of the capital can call a general shareholders' meeting (GSM).* • *Shareholders representing 2% of the capital can propose new items to the agenda and nominate directors.* • *Cumulative voting is required for large companies.* • *One share-one vote principle applies.* ***Weaknesses:*** • *Capital increase can be decided by the board, without shareholders' approval and shareholders do not enjoy pre-emptive rights in public offering. This is a major weakness.* • *The GSM notice and agenda should be sent to shareholders at least 15 days before the meeting, which might not be enough to ensure informed participation.* • *The law is silent on whether shareholders can submit questions in advance and ask them during the GSM.*
4.2. Protection against Insider Trading and Self-dealing *Weak*	***Strengths:*** • *Insider trading and market abuse are regulated by law.* ***Weaknesses:*** • *It is not clear if and how the legislation on market abuse and insider trading is enforced in practice.* • *The lack of independent directors does not allow to ensure that related party transactions and conflicts of interest are objectively dealt.*
4.3. Minority Shareholders Protection and Shareholders' Access to Information *Weak/Fair*	***Strengths:*** • *Cumulative voting is required for large companies.* • *Derivative claim is provided by law – albeit not much used in practice.* • *By law, shareholders have the right to access corporate documentation.* • *A three-quarter majority is required in case of major corporate changes (the blocking minority shareholding for major corporate changes is 25%+1).* ***Weaknesses:*** • *Annual reports are generally available but with little or no non-financial information.* • *Shareholders do not enjoy pre-emptive rights in public offering.* • *Large transactions, involving up to 50% of the company's assets can be decided by the board.*
4.4. Registration of Shareholdings *Fair*	***Strengths:*** • *Free transferability of shares cannot be restricted.* • *The law requires disclosure of significant shareholding variations in companies and banks.* ***Weaknesses:*** • *It is not clear if shareholders' agreements are enforceable.* • *The sanctions for breach of disclosure variations in companies and banks might be too low to discourage breaches.*

Key Areas and Rating	Strengths and Weaknesses
5. Stakeholders and Institutions *Fair*	*The stock exchange in Armenia has limited liquidity but it appears active in the promotion of good corporate governance. The stock exchange offers an informative website where is possible to find issuers' financial and non-financial information.* *International audit firms have a significant presence in the country, but the presence of international law firms and international rating agencies is limited.* *A Corporate Governance Code was developed in 2007, which complements well the law and it seems fairly well implemented by – the limited number of – listed companies. It is not clear if the Code's implementation is monitored. Having adopted a corporate governance code is not an end in itself, but the start of a process that should lead to better disclosure and transparency. It is important that Armenian authorities commit the necessary time and resources in order to ensure proper implementation of the code so to establish an active dialogue with companies and provide guidance on how to improve the companies' practices. This effort should contribute to enhance corporate governance practices.* *It appears that there are a few inconsistencies in corporate governance legislation and some key corporate governance issues are not regulated.* *Listed companies do not seem to pay much attention to requests by stakeholders, and international organisations indicators show a framework where corruption is still perceived as a critical problem.* *It appears that the country has improved significantly in the World Bank Doing Business ranking, but its indicators focus primarily on law on the books.*
5.1. Corporate Governance Structure and Institutions *Fair*	***Strengths:*** • *The stock exchange appears active also in the promotion of good corporate governance.* • *The exchange offers an informative website where is possible to find financial and corporate governance information for issuers.* • *International audit firms have a significant presence in the country.* ***Weaknesses:*** • *The stock exchange has limited liquidity.* • *International rating agencies are not very active.* • *The presence of international law firms is limited.*
5.2. Corporate Governance Code *Fair*	***Strengths:*** • *A Corporate Governance Code was developed in 2007.* • *The Code provides good standards and seems to be implemented by the limited number of listed companies.* • *The exchange offers an informative website where is possible to find financial and corporate governance information for issuers.* • *International audit firms have a significant presence in the country.* ***Weaknesses:*** • *The Code was never reviewed since its adoption.* • *It appears there is no monitoring on the Code's implementation.* • *It does not appear that courts refer to the Code as a source of obligation for issuers or rights for stakeholders.*
5.3. Institutional Environment *Fair*	***Strengths:*** • *The World Bank Doing Business ranking places the country in a relatively good position.* ***Weaknesses:*** • *According to the 2015 EBRD Assessment on Accessibility of Court Decisions, ease of access by public was rated as relatively low, with lack of prompt publication of court decisions beings highlighted as one of the major issues,* • *It appears that there are a few inconsistencies in corporate governance legislation and some key corporate governance issues are not regulated.* • *International organisations' indicators show a framework where corruption is still perceived as a critical problem.*