

APPROVED

by the extraordinary general meeting of shareholders  
of “ARMBROK” ojsc on 4 November 2022

Aram Kayfajyan, Chairman of the Meeting and  
Chief Executive Officer of “ARMBROK” ojsc

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“ARMBROK” open joint stock company

# Rules for Broker and Dealer Activity

(updated)

Rules of “Armbrok” open joint stock company (hereinafter: “the Company”) for broker and dealer activity have been developed based on the legislation governing the securities market of the Republic of Armenia, legal acts of the Central Bank of Armenia, and the Company's charter.

## **Rule 1. Definitions**

The following concepts used herein shall have meanings as follows:

**“Law”**: Law of the Republic of Armenia “On Securities Market”.

**“Central bank”**: Central Bank of the Republic of Armenia.

**“Stakeholder”**: Chief Executive Officer, Deputy Chief Executive Officer or head and a member of a similar body of the Company, staff providing investment services as part or on behalf of the Company.

**“Broker activity”**: the carrying out of operations in securities on behalf of the Company or the client, on the client’s account.

**“Dealer activity”**: the carrying out of operations in securities on behalf and on the account of the Company.

**“Agreement”**: a document executed as part of the Broker activity between the Company and the client, which specifies the rights and responsibilities of the parties with regard to the making and execution of deals in securities and funds of the client.

**“Order”**: an instruction issued by the client to execute a transaction in securities, as well as the request, instruction, application, or offer of the Company.

**“Margin”**: the ratio (in percentage) between the client’s funds and the total transaction value during a short sale of securities or buying securities on margin.

Other concepts used in these rules shall have the meanings defined by the Law and legal normative acts of the Central bank.

## **Rule 2. Information Provided to and Required from the Client**

- a) Prior to the conclusion of the Agreement, the Company shall provide the client with the information defined by its “Regulation on Document Circulation and Information Exchange for Provision of Investment and Non-Core Services.”
- b) Prior to the conclusion of the Agreement the Company shall request that the client submit the information defined by its “Regulation on Document Circulation and Information Exchange for Provision of Investment and Non-Core Services.”

### **Rule 3. The Agreement**

- a) Prior to the conclusion of the Agreement, the Company shall provide the client with the opportunity to get acquainted with legal acts governing the provision of investment services.
- b) The Agreement shall specify:
  - 1. The rights and responsibilities of the Company and the client.
  - 2. Procedure for calculation and payment of fees for investment services rendered.
  - 3. Procedure, deadlines, and format of the reports and other documents to be presented to the client.
  - 4. Procedure for contacting the client, as well as contact methods that are considered by the client reliable means of communication.
  - 5. Liability of the parties for failing to comply with the provisions of the Agreement.
  - 6. Procedure for resolution of disputes between the parties.
  - 7. Duration of the Agreement, procedure for making amendments and addenda thereto, procedure for the termination of the Agreement including the client's right to terminate it unilaterally with at least a 10-day notice to the Company.
  - 8. Procedure for returning the client's funds in case of termination of the Agreement.
  - 9. Other mandatory details stipulated by the Law.
- c) In addition to the information listed under point b) above, the Agreement may contain other provisions not prohibited by the Law, legal normative acts, and the internal rules and regulations of the Company.
- d) The head of the executive body of the Company may approve an Agreement template.
- e) The execution of the Agreement and the provision of services to the client shall be subject to the procedures defined by the "Rules on Prevention of Money Laundering and Terrorism Financing."

### **Rule 4. Procedure for Submission of Orders by Clients**

- a) Any transaction with securities and/or funds of the client may only be carried out based on the client's Order delivered to the Company prior to the execution of the transaction.
- b) The client shall submit the Order in the format approved by the head of the executive body of the Company or in any other format preferred by the client,

which, however, shall contain all the information required in the Order format approved by the head of the executive body of the Company.

- c) Unless otherwise defined by the Agreement, prior to or along with the submission of the Order, the client shall also transfer to the Company the funds required to execute the transaction. If the Agreement stipulates that the client may transfer the said funds after the execution of the Order, within no more than two business days, then this shall not be considered as issuing a client with a loan to perform securities transactions, and provisions of Rule 9 shall not apply.
- d) The client shall submit, amend, or withdraw his Orders pursuant to the procedure specified in the Company's "Regulation on Document Circulation and Information Exchange for Provision of Investment and Non-Core Services."
- e) The submission of an Order by a client shall be considered as authorization to the Company to execute the transactions in the securities in question required by the Order, including the pre-depositing and transfer of the securities.

## **Rule 5. Procedure for Execution of Transactions**

- a) When executing transactions on its own behalf or on behalf and on the account of the client the Company shall:
  - 1. Make sure that Orders for the transaction have been properly registered and submitted for execution.
  - 2. Other conditions being equal, execute Orders in the sequence, in which they were received, except if this is impossible due to the parameters of the Order or the market situation.
  - 3. Immediately advise the client on any material difficulties or adverse circumstances that make it impossible to duly comply with the terms and conditions of the client's Order.
- b) In order to ensure better result, the Company may combine a client's Order or a transaction carried out on the Company's account with another client's Order and execute them collectively, provided that:
  - 1. For none of the clients this method provides a worse result than if the Orders were executed separately,
  - 2. It is in the best interests of the client.
- c) If a client's Order is combined with a transaction carried out on the Company's account, then, in the event the combined Order is executed in part, priority will be given to the client, unless otherwise is defined by the Agreement.
- d) Upon receipt of the Order the relevant employee of the Company compiles the broker orders. Orders submitted by the Clients shall have priority execution over the Company's dealer orders.

- e) Transactions on the Stock exchange shall be done and executed pursuant to the Law, legal acts based thereon, and the rules of the Stock exchange.
- f) Transactions in the non-regulated (OTC) market shall be done and executed pursuant to the Law and legal acts based thereon. Details of executing transactions in the non-regulated market shall be defined by the agreement between the Company and the client, and/or securities sale and purchase contracts.

## **Rule 6. Submission of Reports to Clients**

- a) Immediately upon the execution of the client's Order, but in any case no later than by the end of the day following the transaction date, the Company shall provide the client with a report on Order execution.
- b) The report on Order execution shall contain at least the following details:
  1. Name of the Company,
  2. Full name/name (in case of legal entities) of the client or client identification code,
  3. Transaction date (yy/mm/dd),
  4. Transaction time (hh:mm),
  5. Order type (market, limit, etc.),
  6. Transaction venue (stating the name of the stock exchange, the name of another regulated market, or "non-regulated market"),
  7. Securities identification code, number of the issue (if unavailable, then the issuer's name and type of securities; for derivatives—their description),
  8. Type of transaction stated in the Order (purchase, sale),
  9. If the transaction requested in the Order is neither purchase, nor sale, nature of the Order (subscription for securities, option, repurchase/reverse repo, etc.),
  10. Number of securities (in case of non-quantity based securities, nominal value),
  11. Price per security (left blank for non-quantity based securities),
  12. Total value,
  13. Total commission or other fees charged. If requested by a non-professional client, breakdown for each fee charged must be provided,
  14. Details, terms, and deadlines for the payment of fee by the client, unless he was notified accordingly beforehand (bank account number, etc.),
  15. If the transaction was not executed on the regulated market that ensures that the transaction parties remain unknown to one another, a note that the

Company, an entity belonging to the group of the Company, or another client was the counterparty of the transaction,

16. Report submission date.
- c) The report defined by point a) of this rule shall be presented in the format approved by the head of the Company's executive body.
- d) If the client's Order is executed in tranches, the Company shall submit to the client reports for each tranche.
- e) The report submitted to the client pursuant to these rules shall bear the signature of the head of the executive body of the Company or a person authorized by the latter, as well as the Company seal, except if it is sent electronically through a reliable communication channel. In the latter case the report may be submitted without a signature or seal.
- f) Reports defined in this rule shall be delivered to the client by hand, or, if delivery through this method is impossible, by sending it to the client via a reliable communication channel.
- g) The client shall notify the Company of any objections to the report submitted under this Rule within five (5) business days upon receipt thereof, otherwise the report and the underlying transaction shall be deemed accepted by the client.

## **Rule 7. Registration of Orders and Transactions**

- a) The Company's records on services rendered and transactions executed shall comprise information on all securities operations, no matter on whose behalf and account they were performed.
- b) Transaction records shall be kept in such a manner that makes it possible to meet the following requirements:
  1. at the Central bank's request they must be made available and accessible to the latter, and it must be possible to review each phase of each transaction executed,
  2. if changes or additions are made to the records, then it must still be possible to see the original records and each of the changes and additions, and
  3. any possibility of any unauthorized use of the records by third parties must be eliminated.
- c) The Company shall keep records of all client Orders.
- d) The Company shall keep records of client Orders according to the procedure defined by its "Regulation on Document Circulation and Information Exchange for Provision of Investment and Non-Core Services."

- e) Records on the transaction executed shall be made immediately and in any case no later than by the end of the business day, on which the Company executed the Order.
- f) Records kept pursuant to point a) of this rule shall include at least the following:
  - 1. Client's name (full name) and/or identification code,
  - 2. Transaction date (yy/mm/dd),
  - 3. Transaction time (hh:mm),
  - 4. Type of transaction (purchase, sale),
  - 5. If the transaction is neither purchase, nor sale—nature of the transaction (subscription for securities, option, repurchase/reverse repo, etc.),
  - 6. Securities identification code, number of the issue (if unavailable, then the issuer's name and type of securities; for derivatives—their description),
  - 7. Number of securities (in case of non-quantity based securities, nominal value),
  - 8. Price per security (left blank for non-quantity based securities),
  - 9. Total value,
  - 10. Counterparty to the transaction,
  - 11. Transaction venue (stating the name of the stock exchange, the name of another regulated market, or "non-regulated market"),
  - 12. Full name of the Stakeholder executing the transaction.
- g) For repo and reverse repo transactions, in addition to the information specified in point f) above, the following details must be included:
  - 1. Transaction completion date,
  - 2. If the conditions of the originally concluded transaction were changed, the date, on which changes were made,
  - 3. Value of the repo transaction,
  - 4. Value of the reverse repo transaction,
  - 5. Annual repo rate,
  - 6. Transaction duration in days.

## **Rule 8. Pricing of Fees for Services Provided As Part of Broker Activity**

- a) When calculating the fees to be charged for services provided as part of Broker activity, the Company shall be governed by the following principles:

1. *Self-financing*: the fee charged for the service must cover the costs incurred with regard to the provision of the service and ensure a reasonable profit for the Company,
  2. *Affordability to the client*: the fee must be acceptable and affordable to the client and must not be significantly detrimental to his financial standing,
  3. *Economic fairness*: the rate of the fee charged for services depends directly on the level of complexity involved in executing the client's Orders, as well as on the profit generated for the client as a result of the transaction.
- b) The fee charged for services rendered as part of Broker activity shall be calculated as follows:

$$F=C_t + M$$

where:

- F* is the fee charged for the service,
- C<sub>t</sub>* are costs associated with the execution of the transaction, which may include charges levied by the operator of the regulated market, the Central Depository of Armenia, other custodian and/or registry keeper, as well as any other costs related to the transaction.
- M* is the markup of the Company, which is negotiated with the client for each transaction based on the principles stated in point a) above.
- c) Fees defined in point b) hereof may be expressed either as percentage or absolute number.
- d) The head of the Company's executive body may approve a scale of fees to be charged for services provided by the Company as part of the Broker activity.

## **Rule 9. Procedure for Issuing Clients with Loans to Perform Securities Transactions**

- a) The Company may issue its clients with loans to perform securities transactions provided that it is party to such transaction.
- b) The Company may issue the following types of loans to its clients:
1. Short sale of securities, where the client sells securities borrowed from the Company.
  2. Buying securities on margin, where the client buys securities by borrowing a part of the required amount from the Company.
- c) The minimum margin for the types of loans listed in point b) hereof shall be 50 (fifty) per cent.
- d) The exact size of the margin shall be defined by the relevant agreement or by the decision of the head of the Company's executive body.



- e) Loans to clients for performing securities transactions shall be issued based on the Agreement, and if the Agreement does not provide for such service, then based on a separate agreement between the Company and the client on issuing a loan to perform securities transactions.

## **Rule 10. Measures to Protect Clients' Funds**

- a) To protect the funds of the clients held with the Company the latter shall arrange for the following:
  - 1. *Segregated accounting*: the Company shall keep separate accounts for each client, as well as for the securities and funds of the Company and those of the clients.
  - 2. *Internal control*: the Company has established an independent internal audit unit, which performs continuous control over the day-to-day operations of the Company bringing the risk of fraud and error to the minimum.
  - 3. Abiding by its *Order execution policy*.
  - 4. Observing the requirements of the *policy for preventing conflict of interest between the Company and its clients and between one client and another*.
  - 5. Participation in various *investor insurance and protection* initiatives or similar arrangements (should there be any).
- b) The Company may use the client's funds for its own benefit if there is an indication to that effect in the agreement between the Company and the client.
- c) If the agreement between the Company and the client stipulates that the Company may use the client's funds for its own benefit, then it shall also specify:
  - 1. limit for such use of funds,
  - 2. time period (if any),
  - 3. rate/amount payable by the Company to the client for using the funds (if agreed upon), procedure for its calculation, as well as frequency of payments.
- d) The Company may collateralize the client's funds on its own behalf—only provided that there is an agreement in writing with the latter to that effect.

## **Rule 11. Order Execution Policy**

- a) The Company's Order execution policy is approved by the head of the executive body of the Company.
- b) The Company's Order execution policy shall comprise information on various transaction execution venues (methods), as well as on the factors that are considered during the venue selection process for each securities class.

- c) The Company shall inform the clients about its Order execution policy and obtain their preliminary consent to the provisions thereof being applied to them.
- d) The Company shall review its order execution policy if any essential changes have occurred that prevent the Company from executing client's Orders on the best possible conditions through the transaction execution venues defined in the policy.

## **Rule 12. Policy for Preventing Conflict of Interest Between the Company and its Clients and Between One Client and Another**

- a) Should, based on reliable facts, the Company come to a conclusion that conflict of interest between itself and its client, or between one client and another may arise while executing the Orders, then immediately, but in any case no later than before executing the client's Order, the Company shall notify the client accordingly, suggesting ways to avoid the conflict of interest.
- b) If the client refuses to follow the steps to avoid conflict of interest suggested by the Company, and the conflict of interest may arise between one client of the Company and another, then the Company shall execute the Orders in the sequence in which they are received, regardless of the fact that one of the clients may be adversely affected. In this case it is assumed that the Company has taken all reasonable steps to ensure that the Order is executed on the best possible conditions for the client.
- c) If the conflict of interest arises between the Company and its client, then the Company shall execute the Order in such a way that the Company, and not the client, is adversely affected.

## **Rule 13. Final Provisions**

- a) The Company and the client may get in contact by telephone, mail, electronic mail, as well as any other reliable communication channel.
- b) Information provided to, and required from, the clients, as well as Orders submitted by, and reports presented to, the clients pursuant to these rules may be compiled in Armenian or—at the client's preference—in other languages (English, Russian).
- c) Unless otherwise stipulated by the Company's Charter, any amendments and addenda hereto shall be approved by the general meeting of shareholders of the Company and shall come into effect once the Company's staff is duly notified thereof, which shall occur within five business days upon approval by the Company's general meeting.
- d) These rules shall come into effect once the Company's staff is duly notified thereof, which shall occur within five business days upon approval by the Company's general meeting.