

**Approved:**

By the General Meeting of Partners  
Georgian Securities Central Depository on  
October 25, 1999

**Amended:**

By the General Meeting of Shareholders  
Georgian Securities Central Depository on  
May 19, 2006

**CODE OF ETHICS**

Of the

**GEORGIAN SECURITIES CENTRAL DEPOSITORY**

**TBILISI 2006**

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## **I. Introduction:**

### **Article 1. Purpose.**

This Code of Ethics establishes standards of ethical behavior for the Georgian Securities Central Depository JSC (hereinafter referred to as “Depository”), and its Members (Participants), (hereinafter referred to as “Members”), which they are required to observe in their daily activities. The intent of this Code is to ensure fair implementation of rules, procedures and duties with regards to securities transactions.

### **Article 2. Obligations imposed by Ethics Code.**

This Code obligates all Members, in addition to the norms established hereby, to comply with the Law of Georgia on Securities Markets, as well as the rules and regulations of the National Securities Commission of Georgia, regarding the services offered by the Depository. The Depository and of the Stock Exchange, the Members of which they are.

### **Article 3. Responsibility of the Management Body**

3.1. The Management Body of a Member shall have the responsibility to ensure that the Member and its employees comply with this Code.

3.2. Management body of a member appoints minimum one person, responsible for daily cooperation of the member and the depository, including implementation of all rules, procedures and contracts relating to securities transfers to and from securities accounts within the Depository and cash transfers from depository to settlements banks.

3.3. Managing body of the member appoints an officer, responsible for supervision of activities of an officer indicated in article 3.2 and implements supervisory duties imposed by article 16 of this code.

3.4. In order to provide effective and timely cooperation, according to the Rules and Procedures of the GSCD. The governing body assigns several persons as specified in sections 2 and 3 of article 3 of this code based on a scale of a member, which is determined by the member of a clients, average volume of daily transactions and the number of branches.

3.5. Prior to cooperation with Depository the managing body of a member advises the depository (according to the articles 3.2. and 3.3.) the name, address, phone and fax numbers of an appointed officer (officers) in writing. In case of any changes made to this information the member shall notify the depository in writing immediately. The notification on changes will be deemed transferred, if a member notifies the depository within two working days after the previous information becomes incorrect or incomplete.

Article 4. **Failure to Comply with this Code of Ethics.**

It shall be the duty of each Member to comply with all of the Articles of the Depository's Code of Ethics. Failure to comply with any Article of this Code may be considered a breach of these standards and may result in disciplinary action in accordance with the Code of Procedure of the Depository.

Article 5. **Definitions**

- 5.1. **Member** – A legal person who has an Agreement with the Georgian Securities Central Depository Ltd on Membership (Participation) and on related services.
- 5.2. **Managing body of a Member** – Supervisory Council and/or directors of the Member, who have an authority to confirm an existence of an agreement made by a Member and are responsible to comply with legal requirements regarding similar services, adopted by the depository or the commission.
- 5.3. **Complaint** - Any written statement from a physical, or legal person or a person acting on behalf of a physical or legal person, alleging a grievance involving the activities of the Depository or of a Member, or of the Depository's or Member's employee in connection with the execution of a securities transaction, nominee holding, recording or the disposition of securities.
- 5.4. **Bona Fide Customer** - Any person who, in the regular course of the Member's business, has cash or securities in the depository or in any of the settlement banks and his business relationship with the Member is defined by the written agreement.
- 5.5. **Representative of Market Regulator** - An authorized representative of the National Securities Commission of Georgia and an authorized representative of any Self-Regulating Organization to which the Member belongs.

## **II. General Principles**

### **Article 6. High Standards of Commercial Honor and Just and Equitable Principles of Trade**

A Member and an employee of a Member, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade, when act with or without a depository on behalf of the Member or his Bona Fide customer. In such case a member shall observe high standards, secure and transparent principles in order to secure accurate securities transaction by the depository.

### **Article 7. Recommendations and transfer of information to Customers**

7.1. In transferring of information or in recommending to a customer to open or close an account or transfer any client's securities in nominee holding (or from nominee holding) of a Member, according to the rules and procedures and with the form and application made by the depository, a Member shall recommend and/or give an accurate information to meet client's business requirements.

7.2. A member shall secure, that Bona Fide customer has provided the depository with the accurate information regarding opening or closing the account, information on securities transfer and funds transferred to the settlement bank for purchasing securities ordered by the customer. If a member has enough material base to doubt the accuracy of information provided by the client in any form, application or agreement this information has not to be given to the depository until the correct information is presented by the client.

7.3. According to the rules and procedures of the Depository, a client is responsible to provide a member with the accurate and complete information, in order to enable the member, as a client's agent, to execute securities transaction.

7.4. According to the rules and procedures of the Depository, a member is responsible to provide the depository with the accurate and complete information, to execute securities transactions with its own funds.

### **Article 8. Practices Which May Result in Disciplinary Action.**

8.1. All Members, who act through they employees, according to the articles 3.2 and 3.3, are responsible for fair dealing with they clients and other members. Following is the set of events, which might be viewed as illegal and may result in disciplinary action:

8.1.1. failure to meet requirements described in article 7.1 and 7.2; or

- 8.1.2. opening fictitious account for the purpose of executing transactions, which would otherwise be prohibited transactions; or
- 8.1.3. executing unauthorized transactions, including intra account transactions, which are completed by the clients funds or securities; or
- 8.1.4. using false or misleading advertising materials of any sort to attract or retain clients: (a) depository membership; (b) opening or using safekeeping account in the depository; (c) authorization of brokerage company on services, which normally are rendered by the depository; or (d) other aspects of relationship between the member and the depository.
- 8.1.5. forging any kind of form, application, agreement or any document required by the depository; or
- 8.1.6. failure of a member to comply with requirements pertaining to the clearing and settlement of securities transaction, submitted to the depository;
- 8.1.7. insufficient number of employees delaying daily relationship between the member and the depository;
- 8.1.8. failure to pay commissions, charges and fines to the Depository in defined terms;
- 8.1.9. failure to report timely on problems of operational or regulative nature to the depository, which may delay a member to comply with the depository's rules and procedures;
- 8.1.10. failure to provide the depository with the required information by the member, necessary to control the operations or inapt cooperation.
- 8.1.11. failure to respond timely and accurately on customer's complaint;
- 8.1.12. failure to pay fines imposed by the arbitration wholly or partially after the terms of appeal to the arbitration is expired, according to the law of Georgia on Private Arbitration;
- 8.1.13. distributing information damaging image and reputation of any Member, of the Depository, other self-regulatory organization, also distributing false or misleading information;
- 8.1.14. Making offensive statements in relation with the professional activities of a Member.

**Article 9. Fair Prices, Commissions and Charges**

- 9.1. Charges by the Member for services rendered to the Bona Fide customer performed shall be reasonable and fair, taking into consideration all relevant circumstances including commissions of the Depository.
- 9.2. Members must comply with all Regulations issued by the Depository, relating to commissions and transaction charges, which shall be received by a member for services rendered to the customer.

#### **Article 10. Forwarding of Issuer Materials**

A Member holding a customer's securities as a nominee for a customer shall promptly forward all proxy and other issuer related materials received from the depository, issuer or registrar to each beneficial owner of securities that are held by the Member.

#### **Article 11. Fiduciary Duty**

A Member, in the capacity of a nominee holder, who possesses information as to the ownership of securities, shall not use such information for the purpose of soliciting purchases, sales, or exchanges of securities except with the approval of the beneficial owner of the security.

#### **Article 12. Influencing or Rewarding Employees of Other Members**

No Member or its employee shall give or permit to be given anything of value, including gratuities (exceeding 50 GEL), to any employee of another Member, where such payment or gratuity relates to the business of either Member.

#### **Article 13. Brokers-Client Securities Account**

- 13.1. A Member opens broker-client securities account for a Bona Fide customer in the depository, according to the rules and procedures of the depository.
- 13.2. A broker-client securities account is a type of safekeeping account, which might be opened by the member in the depository. This account is used by the customer, who authorizes the member, according to the agreement, to make investment decisions.
- 13.3. Any information related to the broker-client account, which is addressed to the depository shall be confirm in writing by authorized person, according to article 3.3 of this code. This person should, at least once a month, review broker-clients accounts in order to detect and prevent transactions volume and frequency of which exceeds: (a) the volume of client's resources on the account and (b) investment orders, negotiated between the client and a member upon opening the securities account.

- 13.4. A Member upon signing the agreement with the client should provide him with provisions of the Ethics Code.

**Article 14. Customer Funds and Securities**

- 14.1. No Member shall make improper use of or misappropriate a customer's funds or securities.
- 14.2. No Member shall lend, either to itself or to others, securities of the account of any customer, which are eligible to be pledged or loaned, unless the Member has obtained from the customer a prior written authorization permitting the lending of such securities.
- 14.3. No Member shall hold a customer's securities, which are fully paid for, unless the Member has a procedure to ensure such securities are segregated and clearly identified by a method that distinctly indicates the customer's ownership of the securities.

**Article 15. Customer Account Statements**

- 15.1. Each Member shall provide a monthly balance of a client's account containing a description of any securities positions, money balances and account activity to each customer whose account had a security position, money balance, or account activity during the period. If there is no activity in the account, the Member may send the account statement on a quarterly basis.
- 15.2. The term "account activity" shall include purchases, sales, interest credits or debits, charges or credits, dividend payments, transfer activity, security receipts or deliveries, and journal entries relating to securities or funds in the possession or control of the Member.

**Article 16. Supervision**

- 16.1. Each Member shall create and maintain a system, according to article 3.2, to supervise the activities of its employees to secure daily relationship with the depository. The system must be in writing and be reasonably designed to achieve compliance with applicable "Law on Securities Market" and regulations and the rules of this Depository. According to the article 3.3, system's supervision is performed by an authorized person and final responsibility for proper supervision shall rest with the Member.
- 16.2. Among other functions, an authorized person shall secure: (a) sufficient number of employees for caring out daily relationship with the depository; (b) high level of professionalism for employees appropriate to carry out securities operations (including members clients operations) to fitting depository's rules and operations; (c) member's ability to create and maintain records, which provides processing of securities within the depository timely and accurately; (d) elaborate instructions for the

employees mentioned in (a) on amendments in rules and procedures of the depository; inform the depository on any problem, which hampers or impedes implementation of securities processing; (e) to file accurate and full information or documentation to market regulator; and (f) timely and accurately inform depository or other member on problem, which may hamper securities transaction.

16.3. The Member's written supervisory procedures shall set forth its supervisory system, and shall include the job titles, license and certification status and business address of all licensed/certified personnel and phone and fax numbers of authorized persons appointed in accordance with article 3.3. It shall also state the responsibilities of each supervisory person as they relate to each type of business in which the Member is engaged. For the implementation of article 3.3 the Member shall also maintain an internal record, which sets forth the names of all persons who are designated as supervisory personnel, and the date when such designation became effective. The Member shall preserve such record for a period of at least three years in an easily accessible place.

16.4. A copy of the Member's written supervisory procedures shall be kept and maintained in each location where supervisory activities are conducted. Each Member shall amend its written supervisory procedures, within a reasonable period of time, after changes occur in the securities laws and regulations; the Member's supervisory personnel or system. Each Member shall be responsible for communicating amendments throughout its organization.

#### **Article 17. Books and Records**

17.1. Each Member shall create, keep and preserve books, account records, memoranda, order tickets and correspondence in conformity with the Georgia Law on Securities and related regulations, the rules of the Depository and other self regulative organization in which the member is incorporated.

17.2. Each Member shall prepare, update and maintain and update all customer account agreements in conformity with the rules of the National Securities Commission of Georgia; and

17.3. Each Member shall create, keep and preserve, in a separate file, all written customer complaints and the action taken by the Member with respect to the complaint.

#### **Article 18. Disclosure of Financial Condition**

A Member shall make available to inspection, by any bona fide customer, upon request, information relative to the Member's financial condition as disclosed in its most recent balance sheet, in accord with the Georgia Law on

Securities Market, the Commission and the Depository Rules and Regulations.

**Article 19. Transactions with the employees**

- 19.1. No employee of a Member shall open or maintain a securities account with another Member without prior written authorization by his employer, except from the cases, when employer does not open an account, or has substantially high commissions compared to other Members for this kind of services.
- 19.2. A copy of the authorization described in Article 19.1 shall be provided to the Member with whom the employee proposes to open the account, prior to the time the account is opened or any transaction is executed.
- 19.3. If an employee, with written authorization by his employer Member, opens an account with another Member, the executing Member shall transmit to the employer-Member, duplicate copies of all confirmations of transactions and monthly account statements.

**Article 20. Confidential Information**

- 20.1. Every Member shall create, maintain and enforce internal rules relating to the maintenance and safekeeping of confidential information. These rules shall provide that:
  - 20.1.1. all customer information is considered confidential, except the information declared by the customer as a non-confidential;
  - 20.1.2. includes the list of confidential information related to client's activities;
  - 20.1.3. Member's requirement for its employees to comply with these rules and imposes obligation on employees not to disclose confidential information to: (a) other departments of the Member and its employees; (b) employees of other Members; (c) general public.
- 20.2. The circumstances when confidential information may be disclosed are the following:
  - 20.2.1. to representatives of the market regulator, upon appointment of a supervisor in accordance with the article 3.3 of the Code, or upon request of a managing body member of the Member;
  - 20.2.2. to person having a customer's written authorization to obtain information regarding relationships between the Member and the customer;

20.2.3. to an authorized person of other member, appointed according to article 3.2 of this code, or authorized person of the Depository solely with the purpose of fixing the problem or correcting the mistake, which hampers recording transaction presented to the Depository.

20.2.4. Upon presenting the court decision.

20.3. Failure to adopt rules concerning confidential information or their violation shall constitute a breach of this Code.