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President on December 24, 1998

## **LAW OF GEORGIA ON SECURITIES MARKET**

### **C O N T E N T S**

#### **Chapter One. General Provisions**

- |            |                      |
|------------|----------------------|
| Article 1. | Scope of Application |
| Article 2. | Definitions of Terms |

#### **Chapter Two. Public Offering of Securities**

- |            |   |
|------------|---|
| Article 3. | Concept of Public Offering of Securities  |
| Article 4. | Requirements of a Prospectus  |
| Article 5. | Offering Procedures   |
| Article 6. | Publicity of a Public Offering Prior to Commission Approval of the Prospectus   |
| Article 7. | Suspension and Revocation of Approved Prospectus                                |
| Article 8. | Report on Securities Issuance and other Reports Required to be Filed by Issuers |

#### **Chapter Three. Reporting Companies**

- |             |   |
|-------------|---|
| Article 9.  | Scope of Regulation   |
| Article 10. | Publicly Held Securities  |
| Article 11. | Periodic Reporting Requirements   |
| Article 12. | Disclosure of Securities Ownership by Members of the Managing Body of a Reporting Company |
| Article 13. | Confidential Information Concerning Reporting Companies                                   |
| Article 14. | Disclosure of Substantial Acquisition of Reporting Company's Securities                   |

The final version signed by the  
President on December 24, 1998

Article 15.	Tender Offers
Article 16.	Responsibilities of Members of a Reporting Company's Managing Body to Securities Holders
Article 17.	Proxy Solicitation

**Chapter Four. Public Trading in Securities**

Article 18.	Transactions on Stock Exchange
Article 19.	Transactions in Publicly Held Securities

**Chapter Five. Licensing**

Article 20.	Licensing Required
Article 21.	False or Misleading Statements in License Application
Article 22.	Licensing Procedures Generally
Article 23.	Activities of a Brokerage Company
Article 24.	Licensing of Brokerage Companies
Article 25.	Licensing of Brokers
Article 26.	Amendment of a Brokerage Company or Broker's License
Article 27.	Licensing of a Stock Exchange
Article 28.	Licensing of [a] Central Securities Depository
Article 29.	Licensing of Securities Registrars
Article 30.	Suspension and Revocation of Licenses of Brokerage Companies and Brokers
Article 31.	Revocation of Licenses of Stock Exchanges, a Central Depository and Securities Registrars

**Chapter Six. Regulated Securities Market Participants**

The final version signed by the  
President on December 24, 1998

Article 32.	Accounts and Records, Reports and Examinations
Article 33.	Duties of Brokerage Companies and Brokers
Article 34.	Owner-Members of a Stock Exchange
Article 35.	Managing body of a Stock Exchange
Article 36.	Regulation of Trading on a Stock Exchange
Article 37.	Reorganization and Liquidation of a Stock Exchange
Article 38.	Obligations of a Central Depository
Article 39.	Securities Accounts in a Central Depository
Article 40.	Obligations of a Securities Registrar
Article 41	Designation of SROs
Article 42.	Rules of a Designated SRO
Article 43.	Additional Powers of the Commission over SROs

**Chapter Seven. Prohibitions against Fraud and Manipulation in Securities Transactions**

Article 44.	Fraud and Manipulation
Article 45.	Inside Information and Its Unfair Using

**Chapter Eight. Supervision of the Securities Market**

Article 46.	Establishment of the Securities Commission
Article 47.	Funding
Article 48.	Members
Article 49.	Functions of the Commission
Article 50.	Organization of the Work of the Commission
Article 51.	Duties of Members and Employees of the Commission
Article 52.	Inspections

The final version signed by the  
President on December 24, 1998

Article 53.	Delegation of Powers
Article 54.	Maintenance of Public Records and Publication of Commission Actions
<b>Chapter Nine.</b>	<b>Sanctions Imposed for the Violations of the Legislation on Securities</b>
Article 55.	Administrative Sanctions Imposed for the Violations of the Legislation on Securities
<b>Chapter Ten.</b>	<b>Transitional Provisions</b>
Article 56.	Succession. The Rules of Activities of the Commission and Securities Market Participants in Transitional Period
<b>Chapter Eleven.</b>	<b>Final Provisions</b>
Article 57.	Final Provisions

The final version signed by the President on December 24, 1998

The purpose of the present Law is to develop securities market in Georgia, to protect the investors' interests on securities market, to ensure the transparency of issuers information during the securities offering and public trading in securities as well as to establish fair and transparent public trading in securities and free competition.

## **Chapter I. General Provisions**

### **Article 1. Scope of Application**

1. Transactions connected with securities are regulated by the present Law, Georgia's Civil Code and other legislation acts of Georgia.
2. The regulations for issuance or public offering of government securities on behalf of the Government of Georgia, as well as the public trading of government securities off an Exchange by banks shall be defined separately.
3. Disposal of government property is regulated by the Law on Privatization of State Owned Property;
4. The present Law regulates transactions connected with the securities' public offering and circulation, defines the rules of activities and responsibilities of Stock Exchanges, Central Depository, other Self-Regulated Organizations, Securities Registrars, Brokerage Companies, brokers on the securities market, as well as additional requirements regarding rules of activities and responsibilities of those enterprises, whose securities are publicly offered and sold;
5. This Law establishes the rules for formation of the Securities Commission and its responsibilities.

### **Article 2. Definitions of Terms**

Wherever used in this Law, the following terms shall have the following meanings:

**Advertisement** means advertising done in any publication by way of display of notices, signs, labels or business cards; by means of circulars, catalogues, price lists or other documents; by an exhibition of pictures or photographic or cinematography films; by way of sound broadcasting or television or computer; by the distribution of recordings; or in any other similar manner.

**Auditor** means an independent auditor regulated under the Law on Audit Activity. The auditor and any audit company with which he is affiliated shall be independent within the meaning of Article 21 of that law.

**Bank** means a banking enterprise organized under the Law of Georgia on Entrepreneurs and licensed under the Law of Georgia on the Activities of Commercial Banks.

**Beneficial owner** means any person who satisfies one of the following requirements:

- is the registered owner of securities;

The final version signed by the  
President on December 24, 1998

- has authorized, pursuant to a written agreement, a nominee holder, to act on his behalf;
- receives a monetary benefit from ownership of a security;
- has the power to direct the voting rights of a security;
- has the right to acquire beneficial ownership of a particular security;

but shall not include a nominee holder or a fiduciary/trustee who has entered into a written agreement with a registered owner of the securities.

**Brokerage Company** means a person, other than an investment fund regulated under the legislation on securities of Georgia, engaged in one or more of the activities involving the public trading of securities set forth in Article 23 of this Law, except a persons exempted under 23.5, a bank or a licensed Central Depository doing the activity set forth in 23.1.f.

**Broker** means a natural person who, on behalf of his Brokerage Company employer, executes transactions in securities and/or provides other related services.

**Central Depository (Depository)** means a person that provides for the central clearance and settlement of securities pursuant to instructions of nominee holders, or performs other services defined by the Commission's regulations.

**Commission** means the Securities Commission of Georgia.

**Control** means the situation, in which one person, or a group of related persons, holds more than 5% of voting rights in a company, unless the context indicates otherwise.

**Fiscal year** means continuous period beginning January 1 and ending December 31.

**General license** means a license granted to a Brokerage Company or Broker to engage in all permitted activities involving the public trading of securities set forth in Articles 23 or 25 of this Law.

**Government security** means any security issued by the Government of Georgia.

**Gross violation** means a violation which is not of a technical nature and involves deliberate disregard of a requirement under the legislation on securities or SRO rules.

**Issuer** means any legal person, subject to public or private Law, that issues securities.

**Legislation on securities** means this Law, other laws and regulations administered and supervised by the Commission in terms of its competence.

**Managing body** means the Directors and/or the Supervisory Council, elected or appointed under the established rules.

**Material (fact or event) means** a fact or event that a reasonable investor or potential investor would consider important in a decision to buy or sell securities.

The final version signed by the  
President on December 24, 1998

**Newspaper** means any newspaper, which is recognized by the Commission to be applicable for the purposes of this Law.

**Nominee holder** means a legal person, which is a Securities Market Intermediary, bank or a Central Depository, authorized under a written agreement by the beneficial owner of securities to register securities in the nominee's name and engage in other transactions in connection with securities (e.g. disseminating information to beneficial owners) on behalf of the beneficial owner or other nominee holder.

**Offer** means any attempt to sell or dispose of for value any security interest in a security that has been issued or is to be issued, but shall not include an invitation by or to any Brokerage Company to enter into a securities offering contract with respect to such security or interest therein.

**Offering Application** means the application required to be filed with the Commission under Article 4.2 of this Law and includes any amendment thereto and any prospectus, report, or document filed as part of such application or incorporated therein by reference.

**Person** means a legal or natural person.

**Prospectus** means any written communication, or communication by way of electronic or print medium, the purpose of which is to offer for sale any security.

**Preliminary Prospectus** means a prospectus, which has been filed with the Commission but has not yet been approved.

**Approved Prospectus** means a prospectus which has been approved by the Commission.

**Final Prospectus** means a prospectus which has been approved by the Commission and which contains the exact number of securities to be offered, the exact price at which they will be offered and, where a Brokerage Company/ies have agreed to sell securities on behalf of the issuer and/or its securities holders, information about securities offering contracts.

**Records** means accounts, correspondence, tapes, computer discs and other documents or transcribed information of any type, whether expressed in ordinary or machine-readable form.

**Registered holder** means an owner or nominee holder of securities registered in a Securities Register.

**Related person** means a person who meets the definition set forth in Article 24 of the Tax Code except as otherwise provided in Commission regulations.

The final version signed by the  
President on December 24, 1998

**Reporting company** means a company which is regulated under Chapter III of this Law.

**Sale** means a contract for sale or any other type of disposition of a security.

**Secondary public trading** means buying or selling of a security that is a) not selling conducted on behalf of an issuer or as part of a public offering pursuant to articles 3-8 and b) open to participation, directly or through a representative, to more than 100 persons or to an unspecified numbers of persons

**Security (securities)** means a transferable financial instruments and rights that may be offered to the public in the form of equity securities, debt securities, any security which can be convertible into a security, or which carries the right to subscribe for or purchase such security, investment contracts, and other instruments and rights connected with securities, provided however, that the following instruments shall not be treated as securities under this Law and shall not be regulated under it:

- obligations of banks which are connected with the reception of deposits or other fixed-term financing if they arise when services are provided to clients directly, without any intermediary, and are not the subject of public circulation;
- insurance policy or annuity contracts issued by a legal person operating according to the Law on Insurance;
- checks regulated under the Law of Georgia on Checks;
- contracts or financial instruments exempted by Commission regulation based upon adequate regulation under this or other laws.

**Debt security** means any security evidencing a right to receive payment of a stated principle amount with or without interest but, unless otherwise provided herein, shall not include government securities.

**Equity security** means a security evidencing an ownership interest in a company.

**Investment contract** means a contract under which the investor grants funds or other property rights to another person for investment in economic activity with the goal to get the possible income.

**Publicly Held Security** means a security, which is either admitted for trading on a Stock Exchange and/or held of record by more than 100 security holders under Article 9.2 of this Law.

**Class of security** means all securities of an issuer, which have identical rights and obligations, subject to Commission regulations.

**Issue of securities** means the procedure by which an issuer distributes its securities.

The final version signed by the  
President on December 24, 1998

**Dematerialized security** means a security that does not exist in paper form but as a book entry in a Securities Register or a Central Depository, whether in the name of the beneficial owner of securities or the name of the nominee holder.

**Securities Market Intermediary** means a Brokerage Company, Broker, or other intermediary whose activities are supervised by the Commission under the established rule.

**Securities Market Participant** means an investor, issuer, Regulated Securities Market Participant and auditor.

**Regulated Securities Market Participant** means a Stock Exchange, the Central Depository and other SROs, Securities Registrars, and Securities Market Intermediaries.

**Securities Offering Contract** means a contract between an issuer making an offering of securities and one or more Brokerage Companies pursuant to which the Brokerage Company/ies agrees to distribute the securities being offered on a guaranteed or non-guaranteed basis, which complies with Commission regulations.

**Guaranteed basis**, in connection with a securities offering contract, means the purchase of an entire issue of securities by a Brokerage Company/ies with a commitment to resell or retain ownership of the total offering.

**Non-guaranteed basis**, in connection with securities offering contract, means the conditional purchase from an issuer of the securities issue by a Brokerage Company/ies without any commitment to resell or retain ownership of the total offering.

**Securities Register** means the register, maintained by the Issuer or Securities Registrar, which identifies the registered holders of the securities and the number and class of securities owned and contains other related information.

**Securities Registrar** means a person which maintains a Securities Register for an issuer and performs such other functions as are specified in the agreement between the issuer and the Securities Registrar. This definition shall not include persons in their capacity as employees of an issuer or of an entity licensed under Article 29 of this Law.

**Self-Regulatory Organization or SRO** means a Stock Exchange, a Central Depository and any other organizations which make and enforce rules approved by the Commission relating to its members or participants under Article 41 of this Law.

**Sophisticated Investor-** means person sophisticated in the theory and practice of investing except as otherwise provided in Commission Regulations.

**Special License** means a license granted to a Brokerage Company or a Broker, which limits the permitted activities, such licensed person may engage in.

The final version signed by the  
President on December 24, 1998

**Stock Exchange** means an organized securities market which provides facilities enabling the collection of offers to buy and sell securities, executes trades pursuant to rules or procedures, and disseminates information on completed transactions and other price information.

**Written** shall include printed, lithographed or any means of graphic communication.

## **Chapter II. Public Offering of Securities**

### **Article 3. Concept of Public Offering of Securities**

1. The public offering of securities is an offer to sell securities directly or indirectly on behalf of the issuer to at least 100 persons or to unspecified numbers of persons (herein “public offer or offering”). Similar offerings on behalf of persons other than the issuer shall be considered public offers when made with respect to securities of a non-reporting company. Public offering of a non-issuer shall be prohibited except as provided in this Law or under regulations prescribed by the Commission.
2. An issuer may enter into securities offering contract/s with a Brokerage Company to distribute the securities being offered.
3. Security holders of an issuer making a public offering under Article 5 may request such issuer to include such holders’ securities in the public offer, pursuant to established rules.
4. Public offering of securities by non-government issuers, including local appointed and elected organs shall be subject to this Law.
5. The public offer and disposal of investment fund securities shall be subject to this Law, unless otherwise regulated under the Georgia’s legislation on securities.
6. The offer and sale of securities only to sophisticated investors, as defined and regulated under regulations adopted by the Commission, shall not be considered a public offering under this Chapter.

### **Article 4. Requirements of a Prospectus**

1. Public offering of securities shall be made by any person either contemporaneously or after the publication of an Approved Prospectus, prepared by the issuer, that fulfils all the requirements of this Law and regulations adopted by the Commission. If a Preliminary Prospectus, which differs materially from the Approved Prospectus, has been disseminated to investors under Article 6 of this law, the issuer shall disseminate the Approved Prospectus in the same manner as the Preliminary Prospectus or as otherwise provided for in regulations adopted by the Commission.
2. An issuer shall apply for approval of a prospectus for the securities which it will publicly offer for sale by filing the following documents, which shall constitute the Offering Application, with the Commission;

The final version signed by the  
President on December 24, 1998

- a. an application in the form prescribed by Commission regulations;
- b. three copies of a Preliminary Prospectus signed by the Chairman and a majority of the issuer's Supervisory Council, by CEO, where the issuer is a company, and with respect to other issuers, signed by persons recognized under the legislation as responsible for management of the issuer (responsible persons), containing information set forth in Commission regulations, including:

background information about the issuer including, but not limited to, its name, registered address and the location of its principal office; date and manner of establishment; object of corporate activity; number and kinds of securities outstanding and the rights they provide; securities owned by the issuer; name of each security holder who controls the issuer; the names of the members of the supervisory council, the principal officers of the company and, where applicable, the name of the Securities Registrar appointed by the issuer, any potential conflicts of interests of the foregoing persons, and other background information set forth in Article 10.5 of this Law which has not otherwise been disclosed;

description of the commercial activity of the issuer for the preceding two years and the main risks involved in that activity;

forward looking statements, including reasonable projections regarding expected earnings, revenues and other financial items may be made provided that they are based on relevant facts which are clearly set forth. Statements may be made as to management's plans and objectives as to future operations, financing or acquisitions by the issuer;

financial statements, as specified in Commission regulations, for the last two fiscal years certified by an auditor, and similar data about any legal person in which the issuer owns more than 50%. A letter shall be obtained from the auditor that he has certified the accounts of the issuer and consented to the use of the reports prepared by him within the prospectus;

information about the securities, including:

kind of securities being issued and their rights in comparison to other securities of the issuer;

aggregate total offering price of the securities (such aggregate total offering price shall include an indicative or approximate number of securities to be issued, and an indicative or approximate offering price for the securities to be issued);

details about the subscription procedures, or if a Brokerage Company has entered into a securities offering contract under which it has agreed to

The final version signed by the  
President on December 24, 1998

purchase all or part of the entire issue of securities, approximate details about such arrangement;

whether any securities are being offered on behalf of security holders; and if so, their names and the number of securities being offered for each named person;

for debt securities, the amount of interest and methods of calculation if the securities are interest bearing, maturity date and terms of any redemption allowed;

the proposed use of proceeds from the offering.

- c. For an issuer's first public offering, copies of founding documents certified by a notary and registered in the Georgia Enterprise Registry or, where the issuer has already issued a Final Prospectus under this Article, copies of amendments to founding documents introduced over the period since the last Final Prospectus, certified by a notary and registered in the Georgia Enterprise Registry;
  - d. Copies of decisions authorizing the issuance of securities on behalf of the issuer and/or the filing of the Offering Application and, where the offer is being made on behalf of security holders of the issuer, copies of the decision authorizing the inclusion of such securities in the public offering;
  - e. Reorganization documents if the securities are being offered by reason of the issuer's reorganization;
  - f. Signed copies of conclusions by experts that have provided or verified information that is presented in the prospectus.
3. Banks making a public offering of securities shall submit to the Commission an Offering Application under this Article only after receiving an expert valuation report from the National Bank of Georgia. A summary of this report shall be included in this prospectus. A copy of the valuation report shall be filed as part of the Offering Application.
  4. The Commission may, under regulations approved in advance, set different requirements for furnishing information, depending up the type of already issued or planned to be issued securities, the type of issuer (e.g non-resident issuer, investment fund (company) issuer, non-company issuers), and where applicable, the maturity of a debt security.
  5. The Commission may, by regulation, prescribe the form and content of financial statements filed under this Article and the accounting principles and standards used in their preparation.

The final version signed by the  
President on December 24, 1998

6. If the issuer is a reporting company, and has filed all required reports for the preceding two years, the Commission may, under regulations approved in advance, permit a partial or full waiver of the obligation to prepare a full prospectus.
7. If any information required in a prospectus has already been filed with the Commission, such information may be incorporated by reference pursuant to Article 11.8 of this Law.
8. Within thirty days of the date that an Offering Application is filed with the Commission, the Commission shall review the Offering Application and:
  - a. where it finds that the Preliminary Prospectus included therein does not comply with this Law and Commission regulations, and/or is not textually clear and consistent, provide a written response to the issuer requesting additional information necessary to explain or revise the furnished data, and/or submission of evidence in support of the authenticity of information included therein. Upon correcting the specified deficiencies, the issuer may file amendments to the Offering Application which shall be reviewed anew;
  - b. where requested in writing by the issuer, agree in writing to approve the prospectus within the thirty day period; or
  - c. where the Commission finds that data provided by the issuer is not in conformity with this Law or regulations issued by the Commission, or if the issuer refuses to present documents, data or explanations requested under this Article, the Commission may refuse in writing to approve the prospectus, provided the Commission justifies its decision;
  - d. unless the issuer is otherwise notified in writing under paragraphs a, b or c of this Article, the prospectus shall be deemed approved (effective) after expiry of the thirty day period.
9. Current financial information contained in the Final Prospectus shall not be more than nine months old. Textual descriptions should contain information as of the latest practical date.
10. Within five days or such longer period as the Commission may by rule prescribe, after the prospectus has been deemed approved by the Commission, the issuer shall file with the Commission three copies of the Final Prospectus setting forth on the first page thereof precise information concerning the exact number of securities to be offered, the exact price at which they will be offered and, where Brokerage Companies will be selling securities on behalf of the issuer and/or its securities holders, the terms of the securities offering contract/s. Subject to Article 4.13 below, the Final Prospectus shall be used in sales of the securities pursuant to the public offering.

The final version signed by the  
President on December 24, 1998

11. The filing of the Final Prospectus with the Commission shall not be treated under Article 4.8.a as an amendment, provided however, if the aggregate offering price or price per security varies by more than 20% from the indicative price contained in the Approved Prospectus, the Final Prospectus shall be treated as an amendment to the Approved Prospectus and filed pursuant to the procedures set forth in Article 4.8a.
12. Commission approval of the prospectus confirms that the information furnished by the issuer is in formal compliance with this Law and regulations adopted hereunder. Commission approval does not confirm the truthfulness of disclosed information, neither may the Commission approval be considered as a recommendation of the Commission. Each Preliminary, Approved and Final Prospectus shall prominently display the following words on its front page: **“Commission approval of the prospectus relates to its form and is not a finding as to the accuracy of its contents or the value of the investment described therein”**.
13. Except as provided in Article 4.14 below, sanctions may be imposed on the following persons under Article 55 of this Law and Administrative Code, for any untrue statement of material fact in the Final Prospectus and for failure to disclose a material fact required to be stated therein, or necessary to make the statements therein not misleading:
  - a. the issuer, CEO, chairman and each member of its Supervisory Council which has signed the prospectus jointly and severally;
  - b. every Brokerage Company, and Broker, which acts on behalf of the issuer under a securities offering contract;
  - c. every auditor and other expert who has consented to being named as having prepared part of the prospectus, with respect to material misstatements or omissions in the portion of the prospectus which such expert has prepared.
14. No person other than the issuer shall be liable under Article 4.13 if they can show:
  - a. that before the Final Prospectus becomes effective, he resigned or ceased to act in the capacity or relationship in which he was described in the Final Prospectus as acting or agreeing to act and has provided prior written notification to the Commission and issuer that he has undertaken such act and shall not be part of the Final Prospectus; or
  - b. that if such part of the Final Prospectus became effective without his knowledge, upon becoming aware of such fact he immediately acts and advises the Commission in accordance with Article 4.14.a above and provides written notification in a newspaper that such part of the Final Prospectus became effective without his knowledge; or

The final version signed by the  
President on December 24, 1998

- c. as regards any part of the Final Prospectus, he had, after reasonable investigation, reasonable ground to believe and did believe, at the time such Final Prospectus became effective that the statements contained therein were true and not misleading, or such part of the Final Prospectus did not fairly represent a statement made by such person or was not a fair copy of or extract from a report prepared by such person.
- 15. Subject to Article 3.3, an agreement, which limits the liability of the persons named herein for the losses, caused to security holders by submission or publication in the prospectus of material misstatements or omissions shall be considered invalid. The issuer shall, subject to the limits of Article 5.2-3, be liable to persons purchasing the securities sold in the public offering for losses arising from the purchase and attributable to material misstatements or omissions in the Final or Approved Prospectus. The other persons listed in article 4.13(a)-(c) shall similarly be liable to such purchasers for such losses if sanctioned under article 4.13. Sales of securities offered in violation of the requirements of Article 4.1 or 5.1 are subject to rescission at the demand of the purchaser, subject to such time and procedural limitations as the Commission regulations may prescribe.
- 16. Upon approval of the prospectus, a national identification number shall be assigned by the Commission to an issue of securities pursuant to procedures established by Commission regulation.

## **Article 5. Offering Procedures**

- 1. The Final Prospectus shall be delivered to investors prior to or contemporaneous to any sale of securities which are the subjects of a public offering.
- 2. If during a public offering of securities it is necessary to change material terms within the prospectus, including but not limited to the number of securities offered, the price thereof, closing date(s) for the offering, an issuer shall commence the following procedures:
  - a. file an amendment to the prospectus with the Commission pursuant to Article 4.8a explaining all changes being made to the prospectus;
  - b. publish a notice in a newspaper, and/or by such other means as the Commission may by rule prescribe, that the offering in its current form has been cancelled and offer to rescind all transactions that have been completed for sale of securities to date, without making any deductions, pursuant to Article 5.3 of this Law;
  - c. and wait thirty days for purchasers to respond to the rescission offer before initiation of the modified offering. In the event the issuer is a bank, the filing of amendments to the prospectus shall be carried out in agreement with the National Bank of Georgia.
- 3. Where amendments concerning material events have been made to the prospectus pursuant to Article 5.2 above, subscribers shall have the right to renounce their

The final version signed by the  
President on December 24, 1998

purchase of such securities, whereas the issuer shall, within ten days, return the contributions paid by them without making any deductions. Subscribers who decide not to renounce their purchase of securities shall be subject to terms of the modified offering.

4. If after commencement of a public offering the Commission becomes aware that the prospectus contains a material misstatement of fact or there is a material omission, the Commission may require the issuer to comply with the procedures set forth in Articles 5.2 and 5.3 of this Law.
5. If during a public offering, other information in the prospectus changes, the issuer shall file a copy of a document containing such new information/changes with the Commission, prior to making such changes in the prospectus pursuant to procedures set forth in Commission regulations.

#### **Article 6. Publicity of a Public Offering Prior to Commission Approval of the Prospectus**

1. Prior to approval of a prospectus that has been filed with the Commission, the Preliminary Prospectus may be disseminated as follows:
  - a. by the issuer and Brokerage Companies acting on behalf of the issuer to generate public interest in the issuer and its securities that are going to be issued upon approval of the prospectus by the Commission;
  - b. to potential investors, as long as no offers to sell and no acceptances of offers to buy any securities are made prior to Commission approval of the Prospectus, and provided that only information contained in the Preliminary Prospectus is provided to such investors.
2. Prior to the filing of a Preliminary Prospectus, attempts by the participants therein to generate public interest in an offering shall be deemed violations of this law;
3. Prior to the approval of a Preliminary Prospectus, an offer by the issuer or Brokerage Companies acting on behalf of the issuer to sell or any acceptance by such persons of an offer from any person to buy a security that is the subject of such prospectus, shall constitute a violation of this Law.
4. A Preliminary Prospectus that is disseminated under this Article shall contain the following statement prominently displayed on the cover page, in bold type face:

**No securities are being offered by this Preliminary Prospectus. A Prospectus regarding these securities has been filed with the Securities Commission of Georgia for approval and will be published after such approval has been given. Prior to such approval, no offers or sales of any securities mentioned herein may be made – any such offers and sales shall be penalized under the law.**

The final version signed by the  
President on December 24, 1998

## **Article 7. Suspension and Revocation of Approved Prospectus**

1. If the issuer or a Brokerage Company which acts on the behalf of the issuer, does not comply with Articles 4-6 of this Law, or if the prospectus contains material misstatements or omissions, the Commission may suspend approval of the prospectus and set a time limit for elimination of such violations. If the violations are not eliminated within the set period, the Commission shall revoke its approval of the prospectus
2. Securities may not be publicly offered if the Commission suspends or cancels approval of the prospectus, and purchasers may rescind their purchases in accordance with Article 4.15.

## **Article 8. Report on Securities Issuance and other Reports Required to be Filed by Issuers**

1. Within one month after completing public securities offering the issuer shall submit a report on the results of issue and distribution of the securities with the Commission.
  - a. Issuers which are banks/credit institutions shall submit their reports to the Commission and the National Bank of Georgia.
  - b. The list of documents to be submitted for approval of the report and the procedure for their formation shall be established by the Commission pursuant to regulations.
  - c. The review of the report shall be carried out by the Commission within fourteen calendar days from receipt of such report. The Commission may request explanations and/or changes to the information submitted which shall be provided and made by the issuer.
  - d. In case of an incomplete distribution, the issuer shall submit a report on the actual distribution of securities and the documents for approval of the actually distributed issuance.
2. Issuers which are not companies which have more than 100 security holders of record of a particular class, as defined by the Commission under Article 9.2, shall prepare and submit to the Commission and publish or distribute to securities holders for each fiscal year that such securities are outstanding, beginning the first fiscal year after the issuer publicly offers securities, a report containing such financial and other information that the Commission may require pursuant to regulations.

## **Chapter III. Reporting Companies**

### **Article 9. Scope of Regulation**

The final version signed by the  
President on December 24, 1998

1. Except as provided in Article 9.3 of this Law, a company which has a class of Publicly Held Securities shall be deemed to be a reporting company.
2. The Commission may, for purposes this Article, define by regulation the term "held of record" to prevent circumvention of Article 9.
3. A Stock Exchange, Central Depository and Securities Registrar, which are regulated by the Commission under this Law, shall be exempt from the definition of reporting company.
4. The Commission may under regulations exempt reporting companies from execution of requirements set forth in Articles 11.1, 14, 15 and 17 of this Law based upon the company's own capital (as defined in regulations) and number of securities holders and a determination that the cost to such companies of providing such reports outweighs the public interest.

#### **Article 10. Publicly Held Securities**

1. Publicly Held Securities shall be dematerialized. This requirement shall not be mandatory for securities issued prior to the enactment of this law until the transfer of such securities has been recorded in a Securities Register.
2. Within 60 days from the date a company is deemed to be a reporting company, a reporting company shall appoint a licensed Securities Registrar to maintain the registered holder records of all Publicly Held Securities.
3. Proof of ownership of Publicly Held Securities shall be corresponding records of a Securities Registrar or, where securities are held by a nominee holder, the records of such nominee holder.
4. In appointing a Securities Registrar, the reporting company and the Securities Registrar shall conclude a written agreement in the form approved by the Commission under regulations. Within 15 days after execution of such agreement, the reporting company shall provide the Securities Registrar with all documents and information required for maintaining the Securities Register under Commission regulations. The reporting company shall terminate the contract if notified by the Commission or the Securities Registrar that the Securities Registrar's license has been terminated.
5. A reporting company shall notify the Commission in writing immediately upon the appointment of a Securities Registrar. Such notification shall include the following information:
  - a. Name, address and telephone number of the reporting company;
  - b. Name, address and telephone number of Securities Registrar;

The final version signed by the  
President on December 24, 1998

- c. Date of appointment of Securities Registrar;
  - d. Registration number of the reporting company and date and place of registration;
  - e. Chartered capital, par value, type and number of securities of the reporting company;
  - f. Name of reporting company's representative who is responsible for dealing with the Securities Registrar.
6. A reporting company shall inform the Commission and its Securities Registrar of all changes submitted in the notification filed under this Article within 7 days of making these changes.
  7. The obligations of a licensed Securities Registrar are set forth in Article 40 of this Law.

## **Article 11. Periodic Reporting Requirements**

1. All reporting companies shall prepare and submit to the Commission and publish or distribute to registered owners:
  - (a) annual reports;
  - (b) semi-annual reports; and
  - (c) current reports.
2. The annual report shall be prepared for each fiscal year of the company and contain data about the issuer, its activities, members of its managing body, persons who hold or control more than 5% of the votes in the general meeting, financial statements that are certified by an auditor, and other information and in such form, as may be specified by the Commission in regulations. The obligation to file such reports shall begin with the first fiscal year that the company becomes a reporting company. The first such report shall be filed within 90 days after the end of the fiscal year during which the company becomes a reporting company. Thereafter the report shall be filed within 90 days after the end of the fiscal year.
3. Semi-annual reports shall be prepared for the first six months of the fiscal year. If the company becomes a reporting company during the first six months of the fiscal year, then a semi-annual report covering that six-month period shall be filed within 45 days after the end of that period. Thereafter, the company's semi-annual report shall be filed within 45 days after the end of the six-month period. Semi-annual reports shall contain financial statements of the reporting company, information about material events which occurred during the accounting period,

The final version signed by the  
President on December 24, 1998

- and such other information and in such form, as may be specified by the Commission in regulations.
4. A current report shall be filed with respect to any material event, as defined in Commission regulations which occurs after a company becomes a reporting company. The Current Report shall be filed within 15 days of the event that is the subject of the report and shall be on such form and contain such information, as may be specified by the Commission in regulations.
  5. The Commission may, by regulation, prescribe the form and contents of financial statements filed under this Article and the accounting principles and standards used in their preparation.
  6. Where the Publicly Held securities are traded on a Stock Exchange the company shall submit reports specified in this Article to such Stock Exchange at the same time such reports are submitted to the Commission.
  7. At any time, the Commission may request supplemental information regarding a company or any report required to be filed pursuant to this Article. Such information may be requested in order to verify disclosures made in a report, to clarify certain items or to provide further relevant information. The Commission may request an amendment to a filed document to reflect information contained in additional documents submitted to the Commission.
  8. Information required by this Article may be incorporated by reference from any document that has been filed with the Commission, except as otherwise provided in Commission regulations. The document from which the information is being incorporated, the page number, paragraph or other specification shall be clearly described in the reference. If the information is not readily accessible, it shall be filed [directly](#).
  9. Any report filed pursuant to this Article shall be signed by the chief executive officer of the company, the chief financial officer and at least a majority of the Supervisory Council (or directors if there is none), all on behalf of the company.
  10. Subject to Article 16.3 of this law, every person who signs a report filed under this Article, shall be liable for material misstatements or omissions contained therein.

#### **Article 12. Disclosure of Securities Ownership by Members of the Managing Body of a Reporting Company**

1. Every person who is a member of a managing body of a reporting company shall file with the Commission a report regarding the percentage of this company's securities of which he is the beneficial owner.
2. If the securities of such company are traded on a Stock Exchange, the report shall also be filed with the Stock Exchange.

The final version signed by the  
President on December 24, 1998

3. Any changes in information filed under Article 12.1 shall also be filed with the Commission (Stock Exchange).
4. The form and content of the report will be determined by Commission regulations.
5. The report shall be filed within 10 days after:
  - a) such company becomes a reporting company; or
  - b) such person becomes a member of the managing body.

### **Article 13. Confidential Information Concerning Reporting Companies**

1. Where a reporting company deems information to be confidential, it may, pursuant to Article 13.2, remove such information from the report that is filed with the Commission. Under this Law and Commission regulations the Commission may require disclosure of information that a reporting company deems to be confidential. Confidential information shall include, but is not limited to, such matters as trade secrets, commercial or financial information that has been prepared by analysts within or outside the company for strategic purposes.
2. The company shall separately file with the Commission a report, which is labeled confidential and which in addition to the main report, contains the confidential information. The Commission shall maintain the confidentiality of the information contained in these filings, pending a determination by the Commission as to the validity of a request for confidential treatment. Within one week from receipt of the special report the Commission shall make such determination pursuant to regulations setting forth factors that should be considered.
  - a. If pursuant to regulations, the Commission makes a determination that the information has been improperly removed from a filing, the reporting company may request in writing that the Commission reconsider its determination based on additional factors. Upon receipt of such written request, the Commission shall, within 15 business days reconsider its last determination. The Commission may only reconsider its determination once.
  - b. If the Commission makes a final determination that information was improperly removed from a filing, the reporting company that submitted the request/s shall make an amended filing with the Commission containing the information.

### **Article 14. Disclosure of Substantial Acquisition of Reporting Company's Securities**

The final version signed by the  
President on December 24, 1998

1. A person, acting independently or together with other persons (a “group”), shall inform the Commission about the substantial acquisition of securities in the manner prescribed in regulations adopted by the Commission, the issuer whose securities are being acquired, and any Stock Exchange where the securities are traded.
2. Substantial acquisition of securities means beneficial ownership of securities, which provide 5% or more of the voting rights in a reporting company and also when level of beneficial ownership changes by more than five percent from that originally reported.
3. Notification about substantial acquisition of securities shall be submitted to the Commission, within 15 days, or such shorter time period as may be prescribed in Commission regulations, from the date the level of beneficial ownership is exceeded.
4. Persons shall be deemed to be acting in a group when they have agreed:
  - a. to pursue a common policy regarding acquiring, holding or disposing of Publicly Held Securities of a reporting company, or
  - b. to exercise any rights or ownership, including voting, regarding such securities.
5. Such agreement shall be presumed, without the need for written confirmation, between members of the managing bodies of a reporting company.
6. Persons acting in group shall be responsible before the Commission for the fulfillment of obligations established in this Law and Commission regulations.
7. A person who fails to inform the Commission, the issuer or relevant Exchange about substantial acquisition of securities, shall, upon discovery of such failure by the Commission or Exchange, lose at the next general meeting of security holders all voting rights attached to such securities.

## **Article 15. Tender Offers**

1. A person who intend to acquire such a part of securities of a reporting company which may lead to control of that company may do so by means of a tender offer. Tender offer means the statement that a person is willing to make rapid acquisition of the securities of a company for the purposes of acquiring control, if otherwise is not provided by the Commission regulations.
2. It shall be unlawful for any person (an “offeror”) to make a tender offer for any class of Publicly Held Securities, if after consummation thereof, such person

The final version signed by the  
President on December 24, 1998

would be the beneficial owner of more than 10% of the securities of such class, unless:

- a. at the time copies of the offer or request are first published or sent to security holders, such person has filed a report with the Commission on the form and containing such information that the Commission may by regulation prescribe, and
  - b. such person has published in a newspaper information about the offering in compliance with Commission regulations.
3. Any solicitation or recommendation to security holders to accept or reject a tender offer or to request for invitation to tender shall be made in accordance with Commission regulations.
  4. Conditions of the tender offer and information presented by the offeror shall be the same for all owners of the respective securities.
  5. A security holder who has accepted the terms of the offer during the stated offering period may revoke his acceptance at any time after the offer is first published and/or amended, except as otherwise provided in Commission regulations.
  6. In the event that within the term of the tender offer, the offeror has received acceptances to sell a number of securities which exceeds the number indicated in the tender offer, the offeror shall purchase securities on a pro rata basis. This requirement shall also apply to acceptances received after notice of an increase in consideration offered to security holders is first published under Article 15.7 of this Law.
  7. Where any person varies the terms of a tender offer before the expiration thereof by increasing the consideration offered to security holders, such person shall pay the increased consideration to each security holder who has accepted the terms of the offer whether or not such acceptance was received before the variation of the tender offer was published.
  8. During the tender offer, the offeror and related persons shall not:
    - a. by any means differing from the tender offer, purchase or negotiate the purchase of securities subject to the tender offer, or securities which can be converted into such securities;
    - b. sell any securities of the issuer specified in the tender offer.
  9. The Commission may impose other requirements in regulations governing the preparation and execution of tender offers and the conduct of offerors, including requirements governing release by a Securities Registrar of the names of the security holders of the target company to the offeror.

The final version signed by the  
President on December 24, 1998

#### **Article 16. Responsibilities of Members of Reporting Company's Managing Body to Securities Holders**

1. Members of the managing body of a reporting company shall exercise their rights and perform their duties: a) in good faith, b) with the care that an ordinary prudent person in a similar position would exercise under similar circumstances, and c) in a manner that they believe to be in the best interest of the company and its security holders. The Commission shall adopt regulations clarifying the rights of security holders and duties to security holders under this Article.
2. Except as provided in Articles 4.14 and 16.3 of this Law, and other laws, Members of the managing body of a reporting company who voted in favor of a decision which resulted in a breach of any duty under this Article shall be jointly and severally liable for losses caused to the company.
3. In discharging his duties, a member of the managing body may rely on information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by:
  - a. one of more officers or employees of the company whom such member reasonably believes to be reliable and competent in the matters presented; or
  - b. legal counsel, auditors or other persons as to matters such member reasonably believes are within the person's professional or expert competence,provided however, that a member shall not be acting in good faith if he has knowledge concerning the matter in question that makes reliance on experts or others unwarranted.
4. Upon a finding by the Commission that a member of the managing body has engaged in conduct prohibited under Commission regulations and from which he gained a benefit at the expense of the reporting company's security holders, the Commission may:
  - a) prohibit such person from being a member of the managing body of a reporting company or being a Regulated Securities Market Participant for a stated period of time;
  - b) petition the court to invalidate any related transaction/s;
  - c) where such conduct has resulted in monetary damages to the company or its security holders, require such person to compensate the company and its security holders for such losses.
5. A security holder of a reporting company has the right to file suit against the member of a managing body for violations of the duties specified in this Article.

The final version signed by the  
President on December 24, 1998

### **Article 17. Proxy Solicitation**

1. A person who solicits or permits the use of his name to solicit proxies (voting right, consent, or authorizations) in respect of any Publicly Held Security from a security holder of a reporting company shall comply with Commission regulations. Registrars and nominee holders of securities shall make available necessary shareholder information in accordance with Commission regulations.
2. If a person who wishes to solicit proxies does not have access to a current list of security holders, he may request such information in writing from the reporting company's Securities Registrar. The Securities Registrar shall either furnish a current list of security holders to such person in accordance with Commission regulations or agree to promptly mail the soliciting materials to security holders at the expense of the person making the solicitation.

## **Chapter Four. Public Trading in Securities**

### **Article 18. Transactions on Stock Exchange**

1. A Stock Exchange shall be the exclusive organizer of secondary public trading in securities, subject to such exceptions as the Commission may by regulation determine, having due regard to the desirability of transparent, liquid and competitive markets; prices accurately reflecting supply and demand; and safe and accurate settlement of transactions in accordance with their agreed terms.
2. The following items may be traded on a Stock Exchange:
  - a. Securities of Georgian and foreign issuers the circulation of which is allowed in Georgia in accordance with procedures established by the Commission;
  - b. Securities which evidence the debt of the state and/or are issued by the National Bank of Georgia, including short term government securities as defined in the State Debt Law, provided that trading does not contravene the legislation regulating the issue and trading in these securities.
3. Public trading of securities on a Stock Exchange shall be carried out in accordance with this Law, Commission regulations, and the rules of the Stock Exchange.
4. A Brokerage Company intending to consummate a transaction on a Stock Exchange shall submit an order in its name and guarantee payment for securities or delivery thereof to the other party at the date agreed for settlement of the transaction.

### **Article 19. Transactions in Publicly Held Securities**

The final version signed by the  
President on December 24, 1998

1. Unless otherwise regulated under the legislation on securities and/or permitted under Commission regulation, all purchases and sales of Publicly Held Securities shall be concluded through a licensed Brokerage Company.
2. Unless permitted under Commission regulations (e.g. tender offers, gifts, inheritance, block sales), trading in Publicly Held Securities which are traded on a Stock Exchange is not permitted outside the Stock Exchange where the securities are traded; provided however, that they may be admitted for trading on more than one Stock Exchange.
3. Unless otherwise regulated under legislation, a binding contract to purchase or sell publicly held securities shall be deemed to be created if such transaction is being executed on a Stock Exchange. Ownership shall be deemed to be transferred at the time such transfer is recorded in the name of the purchaser according to Article 10.3.

## **Chapter Five. Licensing**

### **Article 20. Licensing Required**

Any person who is carrying on, or intends to carry on, or holds himself out as engaging in the business of operating a:

- a. Brokerage Company;
- b. Broker;
- c. Stock Exchange;
- d. Securities Registrar; or
- e. Central Depository

shall obtain a license from the Commission under Articles 24, 25, 27, 28 or 29 of this Law.

### **Article 21. False or Misleading Statements in License Application**

A person shall not, in connection with an application for licensing, willfully make a untrue statement of a material fact or fail to disclose a material fact required to be stated therein or necessary to make the statements therein not misleading.

### **Article 22. Licensing Procedures Generally**

1. Applicants for a license shall file the information required under Articles 24, 25, 27, 28 or 29 of this law with the Commission pursuant to procedures, and on forms prescribed, in Commission regulations.

The final version signed by the  
President on December 24, 1998

2. Subject to Articles 22.3 and 22.4 below, upon receipt of an application for a license as a Brokerage Company, Broker or Securities Registrar, the Commission shall, within 30 days, issue a license, request in writing revisions or explanations, or present to the applicant substantiated written refusal. In the case of a Stock Exchange or the Central Depository, the Commission shall, within 60 days, issue a license, request in writing revisions or explanations, or present to the applicant justified written refusal. If, within the above stated time period, the Commission does not reply to the application in writing, the applicant shall be considered licensed.
3. Where the Commission requests revisions or explanations to the application, the counting of the relevant review period shall commence anew from receipt of the amended filing.
4. If the Commission refuses to license the applicant based upon deficiencies in the application, including documents submitted, the Commission shall notify the applicant in writing and set a period of time during which the discrepancies shall be rectified, which period shall not be less than 30 days. In the event applicant fails to rectify the discrepancies within this period, the Commission shall reject the license application with justified decision.
5. The Commission shall refuse to issue the license if:
  - a. the data in the application is incomplete or untrue;
  - b. any submitted document is not in compliance with this Law, legislation of Georgia, or Commission regulations;
  - c. the requirements under Articles 24, 25, 27, 28 or 29 have not been complied with.
6. The Commission may by regulation require updating of information in a licensing application after the license has been granted.

### **Article 23. Activities of a Brokerage Company**

1. Subject to compliance with initial capital requirements and other terms and conditions of licensing set forth in Article 24 of this law, a Brokerage Company may be licensed to engage in one or more of the following activities permitted in accordance with this Law and Commission regulations:
  - a) providing direct consultations to investors on investments to clients, including issues concerning the price of securities, investment in securities, buying and selling of securities, as well as related foreign exchange transactions;
  - b) consulting on securities issuance and money arising services;

The final version signed by the  
President on December 24, 1998

- c) arranging and carrying out the distribution of the issuer's securities on a non-guaranteed basis;
  - d) receiving and transmitting clients orders in connection with securities, effecting transactions in securities for clients' accounts, with clients' funds;
  - e) managing clients' investment portfolios and funds allocated for operations in securities;
  - f) holding clients' investment funds and/or securities, providing safekeeping, custody and nominee services for securities;
  - g) effecting transactions in securities for their own account with their own funds(proprietary trading);
  - h) arranging and carrying out the distribution of the issuer's securities on a guaranteed basis;
  - i) loaning securities to and borrowing securities from clients as well as using their own funds for the acquisition of securities for clients, engaging in short selling as defined in Commission regulations.
2. A person may be the owner or employee of only one Brokerage Company, provided that this prohibition on ownership does not apply to a Brokerage Company that is or becomes a reporting company. If a person becomes a partner in a several Brokerage Companies other than Brokerage Companies that are reporting companies, as a result of reorganization or some other reason, he shall immediately inform the Commission in writing thereof and take measures to rectify the situation. Until the situation is rectified, such person may not participate in the management and activities of more than one Brokerage Company.
3. This law permits the participation of banks in the securities markets only through a subsidiary (Brokerage Company) as provided in Article 10.2 of the Law of Georgia on the Activities of Commercial Banks which shall not restrict bank activity within the scope of Article 1.2 hereof.
4. Non-bank entities shall not be excluded from regulation hereunder on the ground that their activity, otherwise within the scope of Article 23.1, relates solely to government securities.
5. The Commission may by regulation determine activities specified in Article 23.1 which shall not result in an entity becoming a brokerage company or requiring a license as such, based upon the entity's subjection to regulation by appropriate legislation.

The final version signed by the  
President on December 24, 1998

6. Brokerage Companies may not engage in activities which are not set forth in this Article, provided however, that Brokerage Companies may engage in the above-referenced activities with respect government securities.

#### **Article 24. Licensing of Brokerage Companies**

1. Applicant for a license as a Brokerage Company shall satisfy the following conditions:
  - a. shall be registered as a limited liability company or joint stock company;
  - b. shall be a conditional Member of a Stock Exchange or designated SRO;
  - c. initial capital and borrowing complies with requirements set forth in Commission regulations;
  - d. at least one Director of the company is licensed as a broker under Article 25 of this Law;
  - e. none of the members of its managing body have: been deprived of the right under law to be a member of the managing body; during the past 10 years been convicted for crimes involving property, business conduct or finance; or during the past five years been subject to administrative sanction/s for a gross violation/s;
  - f. all employees who with respect to the activities in Article 23.1 will be dealing with clients and prospective clients on behalf of the applicant are licensed brokers.
2. An application for the license of a Brokerage Company shall be made in writing to the Commission in such form as shall be prescribed by regulation of the Commission and be accompanied by the following information:
  - a. name and legal address of the Brokerage Company;
  - b. full name of persons who own more than 5% of the stock of the Brokerage Company, their addresses, share of capital and votes, and information concerning their participation in the activities and control of other enterprises;
  - c. activities for which the applicant wishes to obtain a license;
  - d. amount of its initial capital and borrowed capital which is planned to be used for the organization of the activities referred to in the license, as well as sources of borrowing;
  - e. the charter, registered in the court, and notarized constitutive documents;

The final version signed by the  
President on December 24, 1998

- f. balance sheet from the last year, or semi-annual balance sheet, whichever is later, prepared by an auditor;
  - g. a model client agreement prepared in accordance with Commission regulations;
  - h. and such other information and documents as the Commission may require for the protection of investors in accordance with its regulations.
3. The Commission may establish requirements for the initial capital based upon the types of permitted activities the Brokerage Company is licensed to engage in and risk considerations and the maximum amount of borrowing provided for in Article 24.2.d.
  4. Based on initial capital requirements set forth in Commission regulations, the Commission may issue a General License, entitling the Brokerage Company to engage in all permitted activities, or a Special Licenses entitling Brokerage Companies to carry out only some of the permitted activities, specified in Article 23.1 of this Law, including the right to accept money for acquiring securities, to open cash accounts for clients, and to trade on their own account. Special Licenses may be also be issued at the request of the Brokerage Company itself.
  5. Where a Special License is granted to a Brokerage Company, such company, in its literature, contracts with clients, and advertising materials shall prominently disclose the activities for which it is licensed. The license certificate which will be issued by the Commission shall also prominently state the activities for which the Brokerage Company is licensed.
  6. Persons which do not have a license to operate as a Brokerage Company shall not promote themselves with, nor do business under a name that includes the words "Securities Brokerage Company" or any other words or their combination designating or suggesting such activity.

## **Article 25. Licensing of Brokers**

1. A natural person may be licensed by the Commission to be a broker. The Commission may issue a General License entitling a person, on behalf of his Brokerage Company employer, to buy and sell securities, consult on issues of trading in securities, and manage investment portfolios, or a Special License entitling him/her to perform only one or more of these permitted activities, depending on his skills and qualifications.
2. An applicant for a license as a broker shall meet the following conditions:
  - a. shall not have been convicted during the past 10 years for crimes involving property, business conduct or finance, or during the past 5 years

The final version signed by the  
President on December 24, 1998

- been subject to administrative sanctions for gross violations of the legislation on securities or SRO rules;
- b. shall have passed the required examination organized by the Commission or another qualification examination recognized by the Commission, within 30 days from the date the application was submitted.
  3. An applicant for a broker's license shall file with the Commission an application containing the following information and documents:
    - a. name and address of the applicant;
    - b. activities for which the applicant wishes to obtain the license;
    - c. such other information that the Commission may require pursuant to regulations;
    - d. documentation that the applicant has passed the Commission examination or such other recognized examination and the date thereof.
  4. Where a Special License is granted to a broker, the license certificate, which will be issued by the Commission shall also prominently state the activities for which the broker has received a license.
  5. The Commission shall refuse to issue the license if the conditions set forth in this Article are not met or the application does not meet the requirements set forth in this Article.
  6. A licensed broker may only engage in brokerage activities on behalf of the Brokerage Company where he is employed.
  7. The Commission may re-evaluate the broker's qualifications on the basis of clients' justified complaints, as well as reports, findings, and other documents of a Stock Exchange or other SRO which may evidence the broker's inadequate qualifications. According to the qualification re-evaluation results and examination the number of activities the broker is licensed to engage in may be reduced and, if it is established that the broker is no longer qualified, his license may be revoked under Article 30 of this Law.
  8. Persons who do not have a license to operate as a broker and/or are not currently employed as a broker by a licensed Brokerage Company shall not promote themselves with, nor do business under a name that includes the words "Securities Broker" or any other words or their combination suggesting such activities.

#### **Article 26. Amendment of a Brokerage Company or Broker's License**

1. Licensed Brokerage Companies and licensed brokers may at any time apply to the Commission to amend their license to decrease or increase the activities in which

The final version signed by the  
President on December 24, 1998

- they are permitted to engage in by using the forms prescribed by the Commission pursuant to regulations.
2. Upon receipt of such application, the Commission shall review the application, request additional information or clarification where needed, and inform the applicant of its decision no later than 30 days from receipt of the application or any amendment thereto.
  3. The Commission, based on a licensed Brokerage Company's inability to comply with capital or other requirements set forth in Commission regulations, may amend the Brokerage Company's license pursuant to this Article in order to limit the types of permitted activities.
  4. The Commission, based upon customer complaints or failure of a broker to pass subsequent qualification examinations, may amend a broker's license and limit the types of permitted activities.
  5. Once amendments to the license are approved by the Commission, a new license certificate shall be issued by the Commission indicating the activities for which the Brokerage Company or broker has been licensed, provided that Brokerage Companies whose license has been amended shall be subject to the requirements regarding advertising and displaying a list of their permitted activities set forth in Article 24.5 of this Law.
- Article 27. Licensing of a Stock Exchange**
1. An applicant for a license to operate a Stock Exchange shall satisfy the following conditions:
    - a. the Stock Exchange shall be registered as a limited liability company or joint stock company;
    - b. all partners (shareholders) shall be at least conditional owner-members of the Stock Exchange according to 34.3;
    - c. it shall be managed and liquidated in the manner established under the Law on Entrepreneurs and the rules provided in Article 37 of this Law;
    - d. none of the members of its managing body have: been deprived of the right under law to be a member of the managing body; during the past 10 years been convicted for crimes involving property, business conduct or finance; or during the past 5 years been subject to administrative sanctions for gross violations of the legislation on securities or SRO rules;
    - e. the owner-members have adopted rules regulating the procedure and conditions for admitting securities for trading, Trading Rules, and other rules in conformance with this Article;

The final version signed by the  
President on December 24, 1998

- f. the applicant is engaged solely in the business of operating a Stock Exchange;
  - g. its Charter/inner regulations and rules:
    - only permits partners (shareholders) to become members and incorporates the restrictions on owner-members of a Stock Exchange set forth in Article 34 of this Law;
    - sets forth the purposes and objects of a Stock Exchange under this Law;
    - do not permit the distribution of profits to owner-members;
    - require fair, reasonable and non-discriminatory treatment of all owner-members and applicants for owner-membership;
    - set forth the structure of Exchange management in compliance with Article 35 of this Law; and
    - the conditions and procedures of its liquidation comply with Article 37 of this Law.
  - h. its capital shall not be less than the amount determined by commission regulations.
  - i. its rules, technical and organizational facilities and staff are adequate in accordance with Commission regulations to not impair the development of liquid, competitive and transparent securities markets in Georgia or the settlement of transactions on those markets.
2. The application shall contain the following information and documents:
- a. the name of the Exchange and its legal address;
  - b. names of conditional owner-members;
  - c. types of activities which the Exchange plans to engage in;
  - d. the charter and inner regulations and rules of the Exchange adopted by owner-members;
  - e. financial statements specified in Commission regulations;
  - f. names and addresses of the persons who will serve as officers of the Exchange and will represent it, and their relevant experience;
  - g. information about facilities of the Exchange and their ownership;

The final version signed by the  
President on December 24, 1998

- h. the names of no less than 10 Brokerage Companies which are committed to become owner-members of the Stock Exchange which is being established;
  - i. copies of all Exchange Rules regarding owner-members of the Exchange, trading, admission for trading, dispute resolution, and other rules necessary for compliance with this Law and Commission regulations; and
  - j. such other information that the Commission may, pursuant to regulations, require.
3. The Stock Exchange Trading Rules shall establish:
- a. the methods and procedure of settling disputes arising because of the Exchange transactions;
  - b. the procedures of trading in securities on the Exchange and provide the terms and procedures for halting temporarily or permanently the trading in such securities in accordance with Article 36 of this Law;
  - c. the days and hours of organizing trading sessions of the Exchange;
  - d. the rights and duties of persons participating in trading on the Exchange and the penalties for violating such requirements;
  - e. the procedure for determining and announcing quotations and the form and content of quotations and related market data arising from trading in securities. Such rules shall be designed to produce fair and informative quotations, prevent fictitious or misleading quotations, and promote orderly procedures for collecting and disseminating quotations.
  - f. the information facilities of the Exchange;
  - g. the procedures of accounting for Exchange transactions that are necessary to produce a record of completed trades between owner-members for subsequent settlement processing;
  - h. the procedures for admitting brokers to trade on the Exchange, including qualification/testing requirements, supervision of their activities and the temporary or permanent removal of trading privileges;
  - i. also the rules shall be designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, and foster cooperation and coordination with persons engaging in regulating, clearing, settling and processing information with respect to, and facilitating transactions in securities; and

The final version signed by the  
President on December 24, 1998

- j. prohibit unfair discrimination between customers, issuers, Brokerage Companies and brokers.
4. Other rules of the Exchange shall establish:
  - a. the kinds of services offered by the Exchange and their prices;
  - b. the procedures for resolving complaints of customers of owners-members regarding matters subject to the Exchange Rules;
  - c. sanctions applied to the owner-members of the Stock Exchange and their brokers for violations of this Law, rules and relevant regulations, or the rules of the Exchange by expulsion, suspension, limitation of activities, functions, and operations, fines, censure and other appropriate sanctions;
  - d. high ethical standards for owner-members and their employees in conducting their business and provide guidance as to what these standards are.
5. persons who do not have a license to operate as a Stock Exchange shall not promote themselves with, nor do business under a name that includes the words “Stock Exchange” or any other word or their combination designating or suggesting such activity.

### **Article 28. Licensing of [a] Central Securities Depository**

1. A Central Depository may also be licensed as a Securities Registrar under Article 29 of this Law, pursuant to regulations governing dual licensing adopted by the Commission.
2. An applicant seeking a license as a Central Depository shall satisfy the following conditions:
  - a. shall be registered as a limited liability company or joint stock company under the Law on Entrepreneurs;
  - b. none of the members of its managing body have: been deprived of the right under law to be a member of the managing body; during the past 10 years been convicted for crimes involving property, business conduct or finance; or during the past 5 years been subject to administrative sanctions for gross violations of the legislation on securities or SRO rules;
  - c. it has prepared rules in accordance with Articles 28.3, 38 and 39, and Commission regulations;

The final version signed by the  
President on December 24, 1998

- d. its charter/inner regulations and rules:
  - prohibit the Central Depository from carrying on any other activity except to act as the Central Depository and an Securities Registrar under this Law and to carry on activities incidental thereto as set forth in Commission regulations;
  - do not permit the distribution of profits to owners;
  - only permit a licensed Stock Exchange, Securities Registrar and persons eligible to become participants under Article 28.3, to become owners, provided however that each such participant and their related persons may not own more than 10% of the Central Depository;
  - specify the rights and duties of participants;
  - require fair, reasonable and non-discriminatory treatment of participants and applicants for participation;
  - require the name of the Central Depository to contain the words “Central Securities Depository,” unless otherwise determined by the Commission.
- e. The application shall contain the following documents and information on the form prescribed in Commission regulations:
  - Name of the Central Depository and its legal address;
  - Names of its owners;
  - Names and addresses of persons who will serve as officers and their relevant experience;
  - Information about the Depository’s technical capabilities;
  - Copy of its charter, inner regulations and rules;
  - Names of employees responsible for overseeing compliance with this Law, Commission regulations, and rules adopted by the Central Depository; and
  - Such other information that the Commission may require pursuant to its regulations.
- f. its capital shall not be less than the amount determined by Commission regulations.

The final version signed by the  
President on December 24, 1998

- g. it shall have adequate technical means, organization and personnel, in accordance with Commission regulations for assuring the prompt, efficient and reliable settlement of securities transactions.
3. The rules of a Depository shall provide:
- a. that Stock Exchanges, banks, insurance companies, issuers, investment companies/funds, pension funds, and Brokerage Companies may become participants pursuant to procedures set forth in rules adopted by the Depository;
  - b. the fair representation of its owners in the selection of its management and administration of its affairs;
  - c. for the equitable imposition of reasonable dues and other charges among its participants;
  - d. the prompt and accurate clearance and settlement of securities transactions;
  - e. that its participants shall be appropriately disciplined for violation of any rules of the Depository by expulsion, suspension, limitation of activities, functions and operations, fine, censure or other sanction;
  - f. high ethical standards for employees in conducting their business and provide guidance as to what these standards are.
4. Supervisory council of the Central Depository may include representatives of any Securities Market Participant.
5. Persons who do not have a license to operate a Central Depository shall not promote themselves with, nor do business under a name that includes the words "Central Securities Depository", or any other word or their combination designating or suggesting such activity.

## **Article 29. Licensing of Securities Registrars**

1. An applicant seeking a license as a Securities Registrar shall satisfy the following conditions:
- a. shall be registered as a limited liability company or joint stock company under the Law on Entrepreneurs;
  - b. it shall have adequate technical means, organization and personnel, in accordance with Commission regulations, for conducting securities registers that assure the clear, prompt and reliable recording of securities ownership and the changes therein;

The final version signed by the  
President on December 24, 1998

- c. none of the members of its managing body have: been deprived of the right under law to be a member of the managing body; during the past 10 years been convicted for crimes involving property, business conduct or finance; or during the past 5 years been subject to administrative sanctions for gross violations of the legislation on securities or SRO rules;
  - d. it has prepared rules in accordance with this Article and in compliance with Commission regulations;
  - e. neither the Securities Registrar nor members of its managing body are beneficial owners of an issuer for which the Registrar acts as a Securities Registrar; provided that securities held by the Registrar in the execution of its duties as a central depository shall not disqualify it under this paragraph and that as to members of the managing body of the Registrar, the Commission may by regulation allow for limited holdings subject to procedures to insure the integrity of the register;
  - f. its charter, inner regulations and rules shall:
    - prohibit the Securities Registrar, unless licensed as a Central Depository under Article 28, from carrying on any other activity except acting as a Securities Registrar, pursuant to which it shall only act as an agent for issuers;
    - prohibit an issuer for whom a Securities Register is being kept, Regulated Securities Market Participants (other than Licensed Stock Exchanges, a Central Depository or a Securities Registrar which is also licensed as a Central Depository), and their related persons, from owning more than 10% of the Securities Registrar or otherwise dominating the economic activity of such Registrar as defined in Commission regulations;
    - Prohibit any governmental body from owning more than 10% individually or collectively of a Securities Registrar.
  - g. its capital shall not be less than the amount determined by commission regulations.
2. The application shall be in the form prescribed by Commission regulation and contain the following information:
- a. Name of the Securities Registrar and its legal address;
  - b. Names of partners (shareholders) and the number of securities held by each; current occupations (name of employer, title, etc.) and former occupations for the last 5 years, and any security holdings in reporting companies;

The final version signed by the  
President on December 24, 1998

- c. Names and addresses of persons who will serve as officers and their relevant experience;
  - d. Information about its charter capital deposited and its structure;
  - e. Information about its premises and technical facilities;
  - f. Copy of a sample contract between the Securities Registrar and an issuer prepared in accordance with Commission regulations;
  - g. Copy of its rules;
  - h. Name of an employee responsible for overseeing compliance with this Law, relevant regulations, and rules adopted by the Securities Registrar;
  - i. Such other information as the Commission may require pursuant to its regulations.
3. Securities Registrar rules shall:
- a. specify the information to be included in the Securities Register for each issuer whose securities are registered in compliance with Commission regulations;
  - b. set forth procedures for validating and entering transactions into the Securities Register, information required therein, and the timing of such entry, in compliance with Commission regulations;
  - c. set forth the information to be specified in every securities account opened in the name of a security holder or nominee holder and require such account holders to notify the Securities Registrar promptly in writing of any changes in information previously provided, in compliance with Commission regulations;
  - d. require employees to adhere to standards of conduct in compliance with Commission regulations.
4. Employees and members of the managing body of a Securities Registrar shall be prohibited from disclosing, other than to the Commission, non-public confidential information received while working at the Securities Registrar or trading on such information.
5. Person who do not have a license to operate a Securities Registrar shall not promote themselves with, nor do business under a name that includes the words "Securities Registrar or Registrar or any other word or their combination designating or suggesting such activity.

The final version signed by the  
President on December 24, 1998

### **Article 30. Suspension and Revocation of Licenses of Brokerage Companies and Brokers**

1. The Commission may suspend the license of a broker where the broker has not been employed by a Brokerage Company for more than 6 months. If the broker is not employed by another Brokerage Company within an additional 6 month period, the Commission may extend such suspension or revoke the license pursuant to Article 30.4. If the broker is employed within the suspension period and so notifies the Commission in writing of information regarding such employment (date of hire, name of Brokerage Company employer), the Commission shall revoke such suspension.
2. The Commission may suspend the license of a Brokerage Company for up to three months and/or its broker if its broker or other employee/s are sanctioned for a gross violation, or in case of other violations may direct such licensed Brokerage Company or broker to take whatever action the Commission may consider appropriate to rectify the condition resulting from such contravention under Article 55 of this Law, including compliance with this Law or Commission regulations or desisting from continuing such violation.
3. During the suspension of a Brokerage Company license, the Commission shall decide whether to renew or revoke the license. The accounts of the Brokerage Company may be frozen during such suspension and an administrator may be appointed under Article 30.8 of this Law.
4. The Commission may suspend or revoke a license issued to a Brokerage Company or a broker if the holder of the license:
  - a. applies in writing for the revocation of its license on the form and pursuant to procedures prescribed in Commission regulations;
  - b. fails to commence licensed activities within 12 months or stops such activities for more than 12 months;
  - c. has obtained the license by presenting false information or by other illegal means;
  - d. no longer meets the requirements on the basis of which the license was issued;
  - e. is a Brokerage Company that does not meet capital requirements or is unable to fulfill its obligations to creditors, particularly if this poses a threat to the security of the property entrusted to it;
  - f. if the license has been suspended under Article 30.2 and the conditions for lifting such suspension have not been met within 3 months;

The final version signed by the  
President on December 24, 1998

- g. does not comply with this Law or Commission regulations.
- 5. The giving of a direction by the Commission under Article 30.2 shall not prejudice the prosecution against such licensed Brokerage Company or broker for a violation of this Law.
- 6. Before passing a decision to revoke or suspend the license, the Commission shall notify the Brokerage Company or the broker and provide them, or their representative, with an opportunity to provide an explanation.
- 7. Upon suspension or revocation of a license, the broker shall lose the right to continue professional activities, irrespective of whether it is disputable. The suspension or revocation of the broker's license shall cause the suspension or revocation of the Brokerage Company's license where the broker is employed only if the company no longer qualifies for the license that it has been issued.
- 8. The Commission may appoint an administrator for the period of suspension of a Brokerage Company's license for supervision of the company's activities. After the appointment of the Administrator, managers and brokers of the company must obtain the Administrator's approval for all the decisions relative to the activities of the company. The Commission shall define in regulations other rights and duties of the Administrator.
- 9. The revocation of Brokerage Company license shall become effective from the moment such decision is passed, irrespective of whether it is disputable.
- 10. Upon the revocation of its license, a Brokerage Company shall be liquidated or reorganized in accordance with the Law on Entrepreneurs and regulations adopted by the Commission concerning management of securities and money accounts.

### **Article 31. Revocation of Licenses of Stock Exchanges, a Central Depository and Securities Registrars**

- 1. Subject to Article 31.2, the Commission may revoke a license issued to a Stock Exchange, the Central Depository or a Securities Registrar (hereinafter referred to as "Licensee") if:
  - a. false information has been provided which served as grounds for issuing the license or the licensee no longer meets the requirements on the basis of which the license was issued;
  - b. the requirements of this Law have not been complied with or repeat violations of these requirements have been committed;
  - c. the Commission finds under Article 41.11 of this Law that the Exchange or Central Depository is not adequately supervising compliance with this Law, Commission regulations, or Exchange or Central Depository rules, respectively;

The final version signed by the  
President on December 24, 1998

- d. the Commission determines that the management and operational control of a Securities Registrar has been compromised.
- 2. In the event that violations of the requirements specified in Article 31.1 are found the Commission shall notify the Licensee and set a period of time in which the discrepancies should be rectified, which period shall not be less than 30 days.
- 3. In the event that the Licensee fails to rectify the discrepancies within the period of time under Article 31.2 of this Law, the Commission may revoke the license based upon justified decision and appoint an administrator.
- 4. As of the time of entry into force of the decision to revoke the license of a Stock Exchange, no new transactions may be made, except as necessary for the protection of investors;
- 5. An administrator appointed under Article 31.3 shall exercise the powers of management and take all measures necessary for the protection of investors.

## **Chapter Six. Regulated Securities Market Participants**

### **Article 32. Accounts and Records, Reports and Examinations**

- 1. Every licensed Stock Exchange, Brokerage Company, and Securities Registrar, shall make and keep for such periods, such records, and furnish copies thereof and make and disseminate such reports, as the Commission by regulation may prescribe.
- 2. The licensed Central Depository shall make and keep for such periods, such records, furnish such copies thereof, and make and disseminate such reports, as the Commission may by regulation prescribe as necessary or appropriate for the safeguarding of securities and funds in the custody or control of such Central Depository.
- 3. The Commission shall prescribe regulations regarding records, reports and procedures for nominee holders of securities. Enforcement of these regulations for banks that are not licensed by the Commission shall be the responsibility of the National Bank of Georgia.
- 4. In accordance with Article 52 of this Law, all records of persons listed in this Article are subject according to Commission regulations at any time to such reasonable, periodic, special or other examination by authorized employees of the Commission as the Commission deems necessary or appropriate in furtherance of compliance with this Law.
- 5. The Commission may, by regulation, prescribe the form and content of financial statements filed under this Article and the accounting principles and standards used in their preparation.

The final version signed by the  
President on December 24, 1998

### **Article 33. Duties of Brokerage Companies and Brokers**

1. In buying or selling securities, consulting on issues of trading in securities and in providing portfolio management services, a Brokerage Company shall be represented by licensed brokers.
2. A Brokerage Company shall maintain separate accounts that segregate its own assets from the securities and cash funds of its clients. The Commission shall adopt regulations governing such accounts.
3. All contracts between a Brokerage Company and its clients shall be executed in writing in compliance with Commission regulations.
4. Brokerage Companies and brokers shall assure the execution and priority of their clients' orders under the best terms existing in the market – they shall not to compete against or manipulate the execution of clients orders or determine the execution of such orders under price and cost terms less advantageous for the clients than for the Securities Market Intermediary involved, subject to regulation of the Commission. If several clients offer the same price, priority shall be given to the orders capable of execution which have been sent first unless the trading rules of the Exchange to which the order is sent provide otherwise.
5. A broker, on behalf of a Brokerage Company, shall be prohibited from giving knowingly misleading recommendations and information to clients. A brokerage company shall provide such information as the Commission may by regulation prescribe regarding the suitability of investments, potential conflicts of interest for a brokerage firm or the broker, and the financial condition of the brokerage company.
6. Brokerage Companies shall comply with the capital requirements set forth in Commission regulations, maintain accounting and other documents required under Article 32 of this Law and Commission regulations, present to their clients documents verifying securities transactions, statements of account, and reports on their financial position, and prepare annual and periodical reports on their activities and financial position pursuant to Commission regulations.
7. Pursuant to Commission regulations, a Brokerage Company shall record transactions in securities in the order in which they were conducted by the end of every business day. For each transaction the name of the parties to the transaction shall be listed as well as the time of the transaction and other terms required in Commission regulations.
8. Brokerage Companies licensed to perform activities specified in Articles 23.1.e and 23.1.i of this Law shall comply with Commission regulations.

The final version signed by the  
President on December 24, 1998

9. In addition to its obligations under Article 32, a Brokerage Company shall notify the Commission in writing, within 7 days of the relevant decision or event, whichever is earlier, of:
  - a. the opening and closing of branch offices;
  - b. insofar as reasonably available to it the name, passport/registration number, and other particulars of a person who has acquired directly or through related persons over 5% of the voting stock of the Brokerage Company, or some other business participation that would permit it to control the Brokerage Company as well as subsequent acquisitions by such person;
  - c. changes in the individuals who manage the Brokerage Company, as well as the names of brokers who work for the Brokerage Company and the reasons for dismissal of any broker;
  - d. amendments to the documents that served as grounds for issuing the license to the Brokerage Company;
  - e. a change in the name entered in the license.
10. A Brokerage Company shall obtain prior Commission consent to change its form of business (a “reorganization”). The Commission may refuse to give its consent to reorganization of the Brokerage Company if, after reorganization, the company would not meet capital requirements imposed by this Law and Commission regulations, or the reorganization threatens the security of client’s money and/or securities entrusted to the Brokerage Company.
11. Brokerage Companies shall establish, maintain and enforce written policies reasonably designed, taking into consideration the nature of such Brokerage Company’s business, to prevent violations of this Law, relevant regulations and the rules of any SRO of which the Brokerage Company is a member. The Commission may, in furtherance of this Law, adopt regulations to require specific policies and procedures reasonably designed to prevent violations of this Law.

#### **Article 34. Owner-Members of a Stock Exchange**

1. Only licensed Brokerage Companies may be owner-members of a Stock Exchange.
2. A Brokerage Company may be an owner-member of more than one Stock Exchange. No owner-member may own directly, or through related persons, more than 10 % of the voting rights of a Stock Exchange.

The final version signed by the  
President on December 24, 1998

If owners of more than 50 % of a charter capital of Brokerage Companies, i.e. owner-members of a Stock Exchange are licensed for special activities by the same authority other than the Commission, then these brokerage companies, in the aggregate, shall not own more than half of the total voting rights in the Stock Exchange.

3. An Exchange shall deny owner-membership in a Stock Exchange to any person which is not licensed as a Brokerage Company. If such person has applied for such licensing, owner-membership in a Stock Exchange may be conditional upon licensing.
4. An Exchange shall deny or condition owner-membership in a Stock Exchange on compliance with capital adequacy requirements imposed by the Commission pursuant to regulations, or where brokers who will be trading on the Exchange on behalf of the applicant do not meet such standards of training, experience or competence as are prescribed in Exchange rules. An Exchange shall bar a Brokerage Company from becoming an owner-member of the that Stock Exchange if such company does not agree in writing to permit the examination of its books and records to verify the accuracy of any information so supplied.
5. A Brokerage Company which has been refused owner-membership in a Stock Exchange may appeal such decision to the Commission.
6. A Stock Exchange shall terminate the owner-membership of a Brokerage Company in a Stock Exchange under Articles 34.10 and 34.11 of this Law if its Brokerage Company license is revoked by the Commission.
7. Owner-members of a Stock Exchange shall comply with this Law and the rules of the Exchange.
8. Where an owner-member of a Stock Exchange violates the rules regulating the activities of the Exchange, the Stock Exchange shall have the right to suspend for up to 3 months the owner-member's right to take part in the trading on the Exchange. The list of such violations shall be contained in the Trading Rules of the Exchange. If an owner-member who has violated a rule regarding the activities of the Exchange participates in the management of the Exchange (either directly or through his representative), the Exchange may suspend the owner-member's powers for the above-specified period or remove the owner-member from Exchange management.
9. If an owner-member of a Stock Exchange repeatedly commits violations specified in this Law, the Exchange may propose to the general meeting of owner-members to expel such owner-member from the Exchange, suspending until the meeting the owner-member's rights to participate in the trading on the Exchange.
10. If a Brokerage Company is expelled from the Exchange, the Brokerage Company's owner-membership shall be sold to another Brokerage Company and monies received shall returned to such owner-member less monies paid to settle

The final version signed by the  
President on December 24, 1998

- the owner-member's outstanding claims and liabilities to customers and the Exchange.
11. An owner-member of a Stock Exchange, upon terminating its activities as a Brokerage Company, shall within 30 days sell its owner-membership to another person entitled to be an owner-member of the Stock Exchange. If the Brokerage Company fails to dispose the owner-membership right within the specified period, the owner-member shall address the Stock Exchange which shall mediate in selling the owner-membership at the market price ruling at that time.
  12. An owner-member of a Stock Exchange may appeal to court against the decisions of the Board of the Exchange and the general meeting concerning the suspension or termination of its owner-membership.

### **Article 35. Managing Body of a Stock Exchange**

1. Supervisory Council of a Stock Exchange may include representatives of any Securities Market Participant.
2. The management of a Stock Exchange shall:
  - a. adopt, amend and repeal Stock Exchange Rules in compliance with Article 42 of this Law;
  - b. issue orders and make decisions it deems appropriate;
  - c. ensure the observance of this Law, its inner regulations, Charter and Stock Exchange Rules and, in furtherance thereof, examine the business conduct and financial condition of owner-members of the Exchange;
  - d. delegate such of its powers to such officers, employees and committees as it may authorize, provided however that a party affected by such decision may require review of such decision with the managing body of the Exchange;
  - e. interpret the rules of the Exchange. Any such interpretation shall be final and conclusive;
  - f. approve securities for trading and suspend or stop trading in certain securities pursuant to Stock Exchange Rules;
  - g. admit owner-members to the Stock Exchange pursuant to Exchange Rules and Article 34 of this Law and remove their brokers temporarily or permanently from the floor under the provisions of Stock Exchange Rules;
  - h. ensure legal and accurate business and publication of quotations, prices, and related market information;

The final version signed by the  
President on December 24, 1998

- i. organize and provide, on a daily basis, a list of matched trades to its owner-members or to an entity designated by its owner-members;
- k. impose sanctions on its owner-members for violation of this Law, Commission regulations, its charter, inner regulations and Stock Exchange rules;
- l. exercise any other rights bestowed on it under this Law, its charter, inner regulations and Stock Exchange Rules;
- m. elect a Chief Executive Officer of the Exchange who shall: be solely responsible and accountable to other members of the managing body for administration and operation of their decisions; be the official representative of the Exchange in all public matters; appoint employees of the Exchange and expert advisers, and fix their duties, responsibilities, terms and conditions of employment and termination of employment.

### **Article 36. Regulation of Trading on a Stock Exchange**

- 1. A Stock Exchange may suspend trading in securities admitted for trading on that Exchange if:
  - a. trading in these securities on the Exchange has not been conducted for more than 6 months;
  - b. the issuer of the securities no longer meets the Exchange's admission for trading requirements, provided that at least 60 days prior notice of such deficiencies have been provided in writing by the Exchange and have not been rectified;
  - c. the Exchange or the Commission finds that the suspension of trading is necessary for the protection of investors.
- 2. Upon suspension of trading in a security, the Exchange shall on the same day notify the Commission and the issuer of those securities. The suspension shall be lifted upon demonstration to the Exchange that the reasons for suspension have been eliminated. In the event that the reasons underlying the above decision are not eliminated within three months of the suspension of trading, the Exchange may remove trading privileges for the securities.
- 3. An Exchange shall provide written notice to the Commission of its decision under this Article to lift a suspension and/or to remove trading privileges.
- 4. An Exchange shall publicly announce each trading day the total daily trade turnover, price, and related market information regarding traded securities.

### **Article 37. Reorganization and Liquidation of a Stock Exchange**

The final version signed by the  
President on December 24, 1998

1. A licensed Stock Exchange may not be reorganized or liquidated without the prior consent of the Commission.
2. An Exchange shall be reorganized or liquidated in accordance with the procedure established by the Law on Entrepreneurs, this Law, Commission regulations, and its charter/inner regulations and rules.
3. An Exchange shall be liquidated when the Commission revokes the license to engage in the activities of an Exchange under Article 31 of this Law.
4. An Exchange which decides to liquidate itself or suspend its activity shall immediately notify the Commission in writing thereof.
5. At least one liquidator of the Exchange shall be appointed by the Commission.

#### **Article 38 . Obligations of a Central Depository**

1. A licensed Central Depository shall perform the following functions:
  - a. open, operate and close securities accounts of participants in accordance with its rules;
  - b. prepare and implement measures which ensure the integrity and security of the system of securities accounting set forth in the rules of the Depository adopted in accordance with Article 39 of this Law;
  - c. verify whether participants comply with the rules and instructions of securities accounting;
  - d. provide other services related to the servicing of securities accounts by participants;
  - e. issue a statement of securities account to participants in accordance with its rules;
  - f. facilitate the settlement of securities transactions without physical delivery of securities certificates and, in furtherance thereof, provide facilities for comparison of data respecting the terms of settlement of securities transactions.
2. In accordance with rules approved by the Commission, a licensed Central Depository may summarily suspend or close the accounts of a participant who:
  - a. is suspended from any SRO;
  - b. is in default of any delivery of funds or securities;
  - c. is in such financial or operating difficulty that the Central Depository determines and so notifies the Commission that such suspension and closing of accounts are necessary for the protection of the Depository, its participants, creditors or investors.

The final version signed by the  
President on December 24, 1998

### **Article 39. Securities Accounts in a Central Depository**

Participants in a Central Depository open, manage and close securities accounts pursuant to rules adopted by the Central Depository.

### **Article 40. Obligations of a Securities Registrar**

1. A Securities Registrar shall ensure that it shall abide by its rules and regulations adopted by the Commission.
2. A Securities Registrar shall not refuse to perform required activities if the presented documentation meets the provisions established in the issuer's charter and inner regulations, this Law, Commission regulations, and rules of the Securities Registrar. Any such refusal may be appealed to the Commission.
3. A Securities Registrar shall have an agency relationship to an issuer based upon the terms and conditions of a written agreement between the two that conforms to the regulations of the Commission. At a minimum, such agreement shall require the Securities Registrar to provide the issuer with an accurate, current list of registered owners for each issue in a timely manner for purposes of holding annual and special meetings, issuing dividends, paying interest, redeeming principal amounts on debt, also for purposes of Articles 15 and 17 of this Law and for other authorized corporate actions. Fees for such services shall be fair, reasonable and non-discriminatory and shall comply with regulations adopted by the Commission.
4. If so requested in writing by a registered owner of securities, the Securities Registrar shall provide such registered owner with a copy of an extract of his account.
5. The extract provided by a Securities Registrar shall:
  - a. prominently state that such extract is not a security, it need not be presented to the Registrar, and only records that the person mentioned in the extract is the registered owner of the securities as of the date mentioned in the Extract;
  - b. include the following information: full name of the account holder/s; date and time of issue of the extract; name of the issuer of the securities, legal address of the issuer, identification number of the class; number of securities in the account; any relevant obligations or restrictions on the securities; and any other information required by the rules of the Registrar or pursuant to Commission regulations.
6. A Securities Registrar may require the payment of certain compensation from account holders for providing additional copies of the extract. Such tariffs established by the Registrar shall be fair, reasonable, non-discriminatory, reflecting real costs and disclosed to the Commission in advance.

### **Article 41. Designation of SROs**

The final version signed by the  
President on December 24, 1998

1. Licensed Stock Exchanges and a Licensed Central Depository shall be designated SROs under this law.
2. Any group of Securities Market Participants organized as a legal person under the Law on Entrepreneurs or Civil Code may apply to become a designated SRO under Article 41.4 of this Law.
3. The main objective of such an organization, as an SRO, shall be to:
  - a. prepare rules for its members and supervise compliance with such rules;
  - b. apply sanctions provided for in its inner regulations and rules or charter against members for non-compliance with its rules.
4. Applicants for designation as an SRO shall satisfy the following conditions:
  - a. none of the members of its managing body have: been deprived of the right under law to be a member of the managing body; during the past 10 years been convicted for crimes involving property, business conduct or finance; during the past 5 years been subject to administrative sanctions for gross violations of the legislation on securities or SRO rules;
  - b. its owners have adopted rules:
    - governing dispute resolution;
    - providing discipline of members for violation of the legislation on securities and SRO rules by expulsion, suspension, limitation of activities, functions and operations, fines, censures and other appropriate sanctions;
    - requiring members to adhere to high ethical standards in conducting their business and providing guidance as to what these standards are.
  - c. its charter/inner regulations and rules:
    - sets forth the purposes and objectives of the SRO;
    - do not permit the distribution of profits to owners; and
    - require fair, reasonable and non-discriminatory treatment of all members.
5. To become a designated SRO, the organization shall file an application on the form prescribed by the Commission, containing the following information:
  - a. Its name and registered address;

The final version signed by the  
President on December 24, 1998

- b. The name of its members;
  - c. A copy of its charter/inner regulations and rules;
  - d. And such other information that the Commission may require pursuant to regulations.
6. An organization shall not be designated as an SRO unless the Commission determines that:
  - a. by reason of the number and geographical distribution of its members and the scope of their transactions, such organization will be able to carry out its functions;
  - b. such organization is organized and has the ability to carry its functions under this Law and enforce compliance with its rules and the legislation on securities by its members;
  - c. there are no other designated SROs which perform the same role and there is economic justification for such organization.
7. The procedures set forth in Article 22 shall apply to review of an application for designation under this Article.
8. The procedures and conditions for membership in the organization shall be set forth in its charter. The organization's charter and any amendments thereto shall require Commission approval prior to designation.
9. The organization may pass a decision to recognize and comply with the rules of an existing SRO.
10. An SRO may impose money penalties and other sanctions for violation of its rules and shall notify the Commission of any gross violations and penalties imposed. The Commission by regulation may require more detailed reports and provide procedures for appeal of sanctions to the Commission.
11. The Commission may suspend or revoke the designation granted to an SRO, including a Stock Exchange or the Central Depository, if it finds that such SRO:
  - a. is violating Article 42 of this Law; or
  - b. is not adequately supervising compliance with this Law, Commission regulations and its own SRO rules.

#### **Article 42. Rules of a Designated SRO**

The final version signed by the  
President on December 24, 1998

1. The rules, charter and inner regulations (collectively “rules”) of a designated SRO, which have been approved by the Commission, shall not be amended, varied or rescinded without the prior approval of the Commission.
2. A designated SRO shall not adopt a new rule without the prior approval of the Commission. The Commission may deem to be a new rule any interpretation of a rule which substantially departs from the grounds for the Commission’s initial approval.
3. Where a designated SRO decides to adopt or amend a rule, it shall forward, by written notice to the Commission, the proposed rule or amendment, whether by adoption, recession, or amendment.
4. The Commission shall, within 30 days of receipt of a notice under Article 42.3 either provide written notice to the SRO that such rule or amendment are disallowed, including justified reasons for such disallowance, or approve such rule or amendment. If in the above referenced time period, the Commission does not disallow such rule or amendment, they shall be considered as approved.
5. Unless the SRO receives written notice under Article 42.4, after the expiry of such 30 day period the SRO shall give immediate effect to such rules/amendments.
6. Notwithstanding Articles 42.1 above, amendments to rules of an SRO, of such categories as may be specified by the Commission in regulations, shall take effect immediately upon forwarding of a written notice referred to in Article 42.3 above, subject to the condition that the Commission may, within 30 days of such amendment taking effect, disallow such amendment under Article 42.4 of this law.
7. For violation of Commission rulemaking procedures, the Commission may, invalidate the rule or amendment thereto and any transaction in reliance thereon where the public interest so required.

#### **Article 43. Additional Powers of the Commission over SROs**

1. In an emergency the Commission may take such action to alter, supplement, suspend or impose requirements or restrictions with respect to any matter or action subject to regulation by the Commission or an SRO under this Law, as the Commission determines is necessary in furtherance of this Law in order to:
  - a. maintain or restore a fair and orderly public securities market;
  - b. ensure prompt, accurate and safe clearance and settlement of transactions in securities.
2. An order issued under this Article shall continue in effect for the period specified by the Commission and may be extended, except in no event shall the Commission’s action continue in effect for more than 30 days or such shorter period as the President of Georgia may direct.

The final version signed by the  
President on December 24, 1998

## Chapter Seven

### Prohibitions against Fraud and Manipulation in Securities Transactions

#### Article 44. Fraud and Manipulation

1. It shall be unlawful for any person, for the purpose of creating a false or misleading appearance of active trading in any Publicly Held Security, or a false or misleading appearance with respect to the organized market for such security, to:
  - a. effect any transaction in such security which involves no change in the beneficial ownership thereof;
  - b. enter any order(s) for the purchase or sale of such security with the knowledge that a corresponding opposite order(s) has been or will be entered by or for the same or different parties.
2. It shall be unlawful for any person to use or employ, in connection with the purchase or sale of a security, including the purchase or sale through a Securities Market Intermediary of government securities, any manipulative or deceptive device in contravention of such regulations as the Commission may prescribe for the protection of investors. The Commission may indicate in any such regulation whether and under what circumstances it shall give rise to liability to persons damaged by its violation, beyond such remedies as are otherwise provided by law.

#### Article 45. Inside Information and Its Unfair Using

1. Inside information means non-public material information relating to one or more reporting companies or any of their Publicly Held Securities.
2. Insider means any person who, by virtue of his membership in the managing body of a reporting company, his holdings in the capital of such company, or based upon his access to such information by virtue of the exercise of his employment, profession or duties, possesses inside information. Other persons obtaining inside information that evidently originated with an insider shall be likewise considered insiders.
3. It shall be unlawful for any insider, and any person who knowingly receives inside information from an insider, to:
  - a. acquire or dispose of, for his own account, or the account of a third party, either directly or indirectly, Publicly Held Securities of the reporting company or companies to which that inside information relates;

The final version signed by the  
President on December 24, 1998

- b. disclose inside information to any third party unless such disclosure is made in the normal course of the exercise of his employment, profession or duties;
- c. recommend to or procure a third party, on the basis of inside information, to acquire or dispose of Publicly Held Securities.

## **Chapter VIII** **Supervision of the Securities Market**

### **Article 46. Establishment of the Securities Commission**

- 1. The Georgian Securities Market is regulated by the Securities Commission of Georgia. The Commission is a legal person subject to the public law and is not subordinated in any way in its activity to any other State agency or institution and acts pursuant to the Constitution of Georgia, this Law and other legal acts. The Commission may be empowered to be an investigation body on the basis of the Criminal Procedure Legislation.
- 2. The Commission uses the Georgian state symbols, has its own seal, bank account, emblem and forms.
- 3. The Commission shall be located in Tbilisi.

### **Article 47. Funding**

The Commission shall be financed from the State Budget.

### **Article 48. Members**

- 1. The Commission shall be comprised of a Chairman and four members. The Chairman and the members shall have experience or expertise in governmental, legal, financial or business matters. They shall be appointed or removed by the President and approved by the Parliament.
- 2. The Chairman and the members shall be appointed for a term of 5 years. Members may be reappointed once after their initial term. If a member is appointed for a partial term, he/she may be appointed for a 5 year term only once after the expiration of the partial term.
- 3. Subject to Article 51.6, during their term of office the Chairman and other members of the Commission may be removed from their posts according to this Article only at their own written request, upon the coming into effect of a court sentence convicting them of commission of a crime or upon their gross violation of the Rules on the Conduct of Members and Employees of the Commission (Ethics Rules) provided in Article 51 of this Law, or where they are incapacitated to discharge their duties for more than six months.
- 4. If the chairman or a Commission member resigns prior to the expiry of their term of office on the basis provided in Article 48.3 of this Law, the President shall appoint another person, upon the approval of Parliament, to fill the vacancy for the remaining term of office.

The final version signed by the  
President on December 24, 1998

5. A member of the Commission may not hold any other post, or be employed in any business, with the exception of educational or creative work. Neither may he receive remuneration other than the salary of a Commission member and payment for educational or creative activities.
6. A member of the Commission shall not participate, directly or indirectly in any securities market operations or transactions of a character subject to regulation by the Commission under this Law.
7. A member of the Commission who is directly or indirectly interested in any decision that is to be taken on any matter by the Commission shall disclose the nature of such interest at a meeting of the Commission where such decision is being taken. The disclosure shall be recorded in the minutes of the meeting and such member shall not take part in any deliberation or decision of the Commission with regard to that matter, and shall withdraw from such meeting while such deliberation is in progress or such decision is being made.

#### **Article 49. Functions of the Commission**

1. In furtherance of the objectives of this Law, the Commission shall perform the following functions:
  - a. prepare, approve, amend or repeal Commission regulations as provided under this Law, and provide guidance on and supervise compliance with such regulations;
  - b. approve prospectuses for public offerings of securities and ensure compliance by issuers with the terms and obligations stipulated therein;
  - c. present official explanations and recommendations on issues concerning the securities market, advise the President, the Parliament, the National Bank of Georgia and other State bodies and institutions regarding all aspects of the securities market and propose legislation and amendments thereto that will further the development of the securities market;
  - d. issue, amend, suspend or revoke licenses of Regulated Securities Market Participants;
  - e. monitor, inspect, investigate and supervise the activities of Regulated Securities Market Participants for compliance with the legislation on securities;
  - f. within its jurisdiction, provide for the security of Commission activities and protection of its employees in the execution of official duties;
  - g. designate legal persons as Self Regulatory Organizations and revoke such designations;
  - h. recommend and establish accounting standards that may be required for the securities market in consultation with any other institutions set up for the purpose of establishing such standards;
  - i. approve and repeal rules and amendments thereto adopted by Self Regulatory Organizations;
  - j. impose sanctions under the established rules for the violations of legislation on securities, and publish findings of such violations and sanctions;
  - k. organize training courses, publish or take part in the publishing of publications of general character and special publications concerning the functioning and regulation of the securities market;

The final version signed by the  
President on December 24, 1998

1. organize examinations and qualification tests with the purpose of evaluating the knowledge and competence of brokers;
  - m. assist in the creation of a data base on reporting companies, on Securities Market Intermediaries and on the functioning of the securities market;
  - n. promote the establishment and development of a special compensation scheme to protect investors in the event a Regulated Securities Market Participant is unable to meet its obligations to investor clients;
  - o. exercise powers provided in the Law on Non-State Pension Coverage or in other laws concerning investments, securities or the rights of securities holders;
  - p. issue a regular bulletin;
  - q. develop relationships with foreign securities market regulatory bodies under Memorandum of Understandings and agreements for information sharing purposes;
  - r. identify, avoid and eliminate any violations with regards to issuance and circulation of securities and any other violations for this purpose; conduct inspections in compliance with Commission regulations; and
  - s. participate in the development and incorporation into Georgian law of international standards of securities regulation.
2. The Commission shall prepare and present to the President, the Parliament and the public an annual report on the securities market and principal events which took place during each fiscal year.

## **Article 50. Organization of the Work of the Commission**

1. The work of the Commission shall be managed by the chairman and, in his absence, by the deputy chairman.
2. The chairman of the Commission shall:
  - a. ensure that meetings of the Commission are called regularly, determine issues to be considered at every meeting, submit reports on the activities of the Commission and, in the period between meetings, give instructions to members and control their implementation;
  - b. organize and manage the administration of the Commission, including development of the structure of the Commission, appoint and dismiss the employees of the Commission.
  - c. confirm by signing the decisions of the Commission;
  - d. serve as a representative of the Commission in relations with other persons;
  - e. control the implementation of the decisions of the Commission.
3. Meetings of the Commission are held according to corresponding regulations. The Commission shall organize open and closed meetings. Closed meetings are open only to Commission members, and employees and other persons where their presence is requested by a Commission member. Issues concerning violations of this Law and Commission regulations and redetermination of decisions regarding confidential

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President on December 24, 1998

treatment of information concerning a reporting company shall be considered at closed meetings. Other issues concerning the interest of only a single participant in the market shall be considered at closed meetings where at least two thirds of the members present at a meeting so decide. Other decisions shall be discussed at open meetings.

4. A meeting of the Commission may take place if attended by at least three members of the Commission. Decisions shall be taken by a simple majority of votes of those attending the meeting, except in cases where Commission regulations are adopted, amended or recognized as invalid. In such cases, a decision shall be deemed passed if voted in favor of by at least three members of the Commission. Commission members shall have equal voting rights. In the event of a tie vote, the chairman of the Commission has the casting vote. The decisions of Commission meetings shall be adopted by open ballot voting if requested by at least one Commission member. Decisions made by the Commission shall be signed by the Chairman and, in his absence, by the Deputy Chairman. Members of the Commission have the right to have their individual opinions included in the minutes of the meeting.
5. According to Commission rules, Commission shall publish regularly its final decisions.

## **Article 51. Duties of Members and Employees of Commission**

1. In order to avoid conflicts of interest, the Commission shall prepare Rules on the Conduct of Members and Employees of the Commission, which shall regulate the activities of present and former members and employees of the Commission in the areas regulated by the legislation on securities. These Rules shall take effect upon adoption by the Commission.
2. Present and former members and employees shall have no right to use for their own benefit or to disseminate confidential information disclosed to them in the course of their work at the Commission.
3. Persons set forth in Article 51.1 shall be prohibited from divulging confidential information received while working at the Commission to other persons. Such information, according to regulations, may be disclosed only to:
  - a. Employees and members of the Commission for the purpose of carrying out their official duties;
  - b. SRO officials in connection with enforcement of the legislation on securities;
  - c. Law enforcement bodies to prosecute persons for law violations;
  - d. Courts;
  - e. securities regulatory bodies in foreign countries in accordance with Memorandum of Understandings or international agreements.
4. Any person who, in cases provided by this Law, has the right to receive any confidential information from members or employees of the Commission shall comply with Articles 51.1, 51.2 and 51.3 of this Law.
5. Present members and employees shall disclose to the Commission information regarding their ownership of securities to avoid any perceived conflict of interest on the forms specified by the Commission.

The final version signed by the  
President on December 24, 1998

6. For failure to execute or improper execution of official duties, an employee or member of the Commission shall incur responsibility envisaged by the legislation of Georgia.
7. The damage caused to a Securities Market Participant through the illegal action of an employee or member of the Commission shall be compensated from the State Budget on the basis of court's decision.

### **Article 52. Inspections**

1. The Commission may carry out inspections of the activities of Securities Market Participants to determine whether they are operating in conformance with the requirements of legislation on securities.
2. In carrying out an inspection, pursuant to procedures adopted by the Commission and other laws of Georgia, and upon producing an official certificate, an employee of the Commission may visit the premises of a Regulated Securities Market Participant, review all books and records relating to its business, make copies thereof, request the participant to request from any bank where records are maintained, copies of such records, and receive from officials and other employees of such participant information and oral and written explanations on questions arising in respect to such information.
3. If during an inspection, the Commission finds any violation of the legislation on securities, it may:
  - a. require the Regulated Securities Market Participants to eliminate such violation and, in furtherance thereof, give special orders and directives and oversee their compliance;
  - b. prepare a protocol on the facts of the violation and impose administrative sanctions, including penalties under the legislation on securities, on those persons who violate legislation on securities;
  - c. conduct an investigation under the established rules in the cases specified by the Law.
4. Failure of a Regulated Securities Market Participant to comply with a request by the Commission during an inspection shall be grounds for suspension or revocation of its license.
5. If during an inspection of the activities of Regulated Securities Market Participant the Commission finds the facts of violation, the Commission shall send the materials of inspection to the investigation or preliminary criminal examination bodies.
6. The Commission may transmit the inspection materials to other appropriate authorized State bodies.

### **Article 53. Delegation of Powers**

1. The Commission may adopt a decision to authorize a member or employee of the Commission to perform any of its functions, except the adoption, amendment, suspension or cancellation of its rules, reconsideration of its determination that certain information filed by reporting companies should not be treated as

The final version signed by the  
President on December 24, 1998

- confidential, authorization of investigations, and the imposition of sanctions provided by this Law.
2. The Commission shall retain a discretionary right to review and remedy any action delegated. The vote of one member of the Commission shall be sufficient to bring any such action before the Commission for review. If the right to exercise such review is declined, or if no such review is sought within the time stated by regulations adopted by the Commission, then the action of such person to whom authority was delegated shall be deemed to be the action of the Commission.

**Article 54. Maintenance of Public Records and Publication of Commission Actions**

1. The Commission shall maintain the following records:
  - a. All documents filed by reporting companies which have issued an approved prospectus or have publicly circulated securities
  - b. All documents filed by reporting companies with respect to disclosure obligations, including but not limited to, prospectuses, material disseminated to security holders in connection with meetings (proxy materials), and periodic financial reports. Also the documents submitted according to Articles 12, 14 and 15.
  - c. All documents filed by Stock Market Participants regarding their qualification to obtain licenses and their compliance with Commission regulations.
2. The records shall be made available to any member of the public for inspection and copying at the offices of the Commission during regular business hours.
3. The Commission shall publish a list of all sanctions issued under Chapter nine of this Law on a regular basis pursuant to procedures set forth in Commission regulations.

**Chapter IX**  
**Sanctions Imposed for the Violations of the Legislation on Securities**

**Article 55. Administrative Sanctions Imposed for the Violations of the Legislation on Securities**

1. The types of violations of legislation on securities of Georgia, penalties and rules for imposition of administrative sanctions shall be determined by the Administrative Code of Georgia.
2. Where it is established that persons have violated the requirements of this Law, Commission regulations or legislation on securities, or are about to do so such that the interests of investors is at risk, the Commission based on its order may:
  - a. put such person under an obligation to undertake specific measures needed to comply with the applicable law or regulation within the time period specified by the Commission;

The final version signed by the  
President on December 24, 1998

- b. notify the public of the violation and any sanction imposed;
- c. discontinue for a period of up to 6 months or permanently the sale or deals in certain securities which violate this Law;
- d. fail to approve the prospectus for a new issue of securities, or suspend or revoke such approval;
- e. require a Regulated Securities Market Participants to discharge temporarily or permanently from their office persons authorized to manage and represent such Participants;
- f. amend a license issued to a Brokerage Company or a Broker by the Commission;
- g. suspend or revoke in whole or in part a license issued by the Commission;
- h. suspend a participation in the securities market for a stated time period; or
- i. revoke an SRO designation given to an SRO under this Law.
- j. impose other sanctions as provided in the Administrative Code.

## **Chapter X. Transitional Provisions**

### **Article 56. Succession. The Rules of Activities of the Commission and Securities Market Participants in Transitional Period**

- 1. The Securities Commission of Georgia shall be created on the basis and shall be the successor of the Securities Inspection Board within the Ministry of Finance of Georgia.
- 2. The Securities Inspection Board within the Ministry of Finance of Georgia shall continue its activities in accordance with the statute approved by the Minister of Finance of Georgia until the Securities Commission is created pursuant to Articles 46 and 48 of this Law.
- 3. During the formation of the first Commission, powers shall be granted to the Chairman of the Commission for the period of 5 years. Other members of the Commission shall be appointed for the period of 4, 3, 2 or 1 year. The chairman of the Commission shall designate one member of the Commission as his deputy.
- 4. Issuers making a public offering of securities shall, within 6 months from the entry into effect of this Law, comply with Articles 3 through 8 of this Law, provided that the requirement to provide certified financial statements for the last two years shall not become effective until 18 months from the entry into effect of this Law.

The final version signed by the  
President on December 24, 1998

5. Persons shall, within 6 months from the entry into effect of this Law, comply with Articles 10, 11.2.a, 11.3 and 16 of the Law; within 3 months from the entry into effect of the Law comply with Articles 11.4, 12, 13, 14 and 15 of the Law; and within 1 year after entry into effect of this Law, comply with Article 17 of this Law.
6. Any Stock Exchanges, Brokerage Companies, or Brokers licensed prior to the entry into force of this Law shall, within one year, obtain a new license under this Law, provided however, that a bank which has been licensed as an Institutional Participant of the Securities Market before this Law was enacted, may continue its licensed activities within the jurisdiction of the Securities Commission during the time period specified in the license.
7. Any Securities Registrar shall, within 6 months from the entry into effect of the Law, obtain a new license under this Law.
8. Any owners of a Stock Exchange licensed prior to the entry into effect of this Law, that do not meet the provisions of Article 27, shall, if the exchange chooses to remain licensed, within 1 year, either obtain a license as a brokerage company under the Law or dispose of their ownership interest; however, they may only transfer said interest to persons that qualify under Article 27.

## **Chapter XI. Final Provisions**

### **Article 57. Final Provisions**

1. This Law shall become effective after 15 days from its publishing.
2. Upon the entry into force of this Law, the following legislation becomes invalid: On Some Organizational Measures about Formation of Share Registrars System approved by the #412 decree of the President of Georgia on 9 August 1997.
3. Upon the approval of the regulations on maintenance of securities registers by the Securities Commission of Georgia the Temporary Regulations on Maintenance of Securities Registers and the #375 decree of the President of Georgia on June 18, 1998 on the Approval of the Temporary Regulations On Maintenance of Securities Registers become invalid.

President of Georgia

Eduard Shevardnadze

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