

Approved:
by the General Meeting of Partners of the
Georgian Securities Central Depository on
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Amended
by the Supervisory Board of the
Georgian Securities Central Depository on:
May 19, 2006

CODE OF PROCEDURES
Of THE
GEORGIAN SECURITIES CENTRAL DEPOSITORY

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Article I: Scope and Purpose of the Code

Section 1. Purpose

This Code of Procedure shall apply to proceedings related to disciplinary actions involving Members of the Depository and to any other proceeding related to

violations of the rules or procedures of the Georgian Securities Central Depository Ltd (hereinafter referred to as "the Depository").

Section 2. Definitions

- 2.1. "Ethics Commission" - the Business Conduct Commission (hereinafter referred to as the "BCC" or the "Commission"), which is authorized to exercise powers assigned to it by the Supervisory Board of the Depository in connection with disciplinary and other matters, in compliance with this code and the Commission's bylaws approved by the Supervisory Board.
- 2.2. "Hearing Committee Judges" – 12 judges elected by the General Meeting of partners, two of whom are assigned to work in the Hearing Committee.
- 2.3 "Hearing Committee" - a temporary committee as a panel of three members, two of whom is elected from the Hearing Committee Judges and one is elected from the Members of the Ethics Commission. The Hearing Committee is established for each disciplinary matter that requires a Hearing. At the completion of the Hearing process, the Hearing Committee is dissolved. The committee acts in accordance with this code.
- 2.4. "NSCG" – National Securities Commission of Georgia.
- 2.5. "Plaintiff" – for the purposes of this code the Depository is regarded as a plaintiff, in case it files a claim.
- 2.6. "Defendant" – a Member of the Depository, which committed disciplinary violation.

Section 3. Interpretation

The provisions of the Code of Procedure will not be construed to limit the By-Laws or Rules of the Depository.

Section 4. Statements of Potential Violations

- 4.1. Any individual or legal person, or any other self regulatory organization or their representative may file a written statement to the Depository alleging potential violations of the Law on Securities Market, current legislation, rules of the Georgian Stock Exchange, the Depository or a Member, from the part of a Member or its Employee. After validating the Claim, the Depository raises the claim against the offender, on behalf of the claimer or a Member. The statement must be in written and specify in details the facts surrounding the allegations. The Claim shall be filed with the General Director of the Depository.

4.2. The General Director, may, in his discretion and due to his knowledge of the surrounding circumstances, dismiss the matter. Alternatively, he may promptly forward the statement to the Surveillance and Disciplinary Department of the Depository for investigation and completion of a preliminary written report. This report shall be completed within ten (10) business days of receipt. The General Director, after review of the report, may:

- (i) dismiss the claim;
- (ii) request the Internal Control Unit to conduct further investigation; or
- (iii) forward the matter to the Chairman of the Business Conduct Commission for its review.

4.3. If the General Director dismisses the claim and closes the matter, he shall promptly forward the investigative report, along with his written decision, to the BCC for its review.

Section 5. Confidentiality

All claims, complaints, investigations and proceedings are considered as a non-public domain. Therefore, the Ethics Commission, Hearing Council and Supervisory Board shall not disclose pertinent materials to any person other than those involved in the disciplinary process. Upon completion of investigative process such documents must be transmitted to Internal Control Unit.

Section 6. Investigative Process

6.1. Upon receipt of the investigative report, in two days period, the Business Conduct Commission shall be convened to review the matter, and, by majority of votes, may:

- (i) dismiss the claim;
- (ii) request the Internal Control Unit to conduct further investigation;
- (iii) recommend that the Internal Control Unit negotiate a Letter of Minor Rule Violation with the member or employee on the issues referred to in the grievance, as described in Section 17 of this Code; or
- (iv) authorize a Formal Complaint to be issued.

6.2. Should the Commission dismiss the claim, a letter noting that decision shall be sent to the plaintiff.

6.3. During the course of the staff investigation, every Member and Employee shall cooperate fully with Depository staff and promptly produce all

requested information. Failure to do so may result in a temporary suspension of activities for the Member or Employee.

Section 7. Conflicts of Interest.

No person on the Ethics Commission, Hearing Council, or Supervisory Board shall be allowed to review any document or participate in any disciplinary matter if:

- (a) he, his Member firm, any employee of his Member firm or any relative (as defined in the Article 29.4 of the Tax Code of Georgia) is a Respondent;
- (b) he has any individual interest in such matter;
- (c) he has a financial interest or benefit from the outcome of the matter; or
- (d) his participation in such matter could be construed as a conflict of interest.

Article II: Disciplinary Actions, Hearings and Decisions

Section 8. Issuance of Complaints by the Business Conduct Commission (BBC).

- 8.1. If the Ethics Commission, after thorough investigation and review of the matter by Internal Control Unit, has reason to believe that a Member or Employee has violated any Depository rule or Legislation of Georgia, the Commission shall issue a complaint as set forth in Section 9 of this Article.
- 8.2. In case the Commission draws a conclusion, that the violation is classified as a criminal act or a civil grievance, or exceeds the competence of the Commission, the latter immediately advises the National Securities Commission of Georgia about such violations. In case, the violation type requires the decision of a court or arbitration board, the Commission advises the plaintiff to apply to a court or arbitration board.

Section 9. Form, Content, Notice and Withdrawal of Complaints

- 9.1. All complaints will be in written, in a format approved by the Supervisory Board, and will specify in reasonable detail the nature of the charges and the rules, regulations or statutory provisions allegedly violated. The party making the complaint (i.e.the Depository) will be termed the "complainant" and the party against whom the complaint is made will be termed the "respondent". If the complaint consists of several allegations, each allegation shall be stated separately. All complaints must be signed by the Chairman of the Commission.
- 9.2. A copy of the Complaint is hand delivered or mailed through the registered mail to the respondent(s) at its(their) legal addresses.
- 9.3. After prior approval by the Commission, a complaint may be withdrawn by the Ethics Commission at any time prior to the issuance of a written decision by a Hearing Committee. Withdrawal of a complaint does not preclude the Ethics Commission from issuing a complaint at a future date involving the same allegations.

Section 10. Answers to Complaints

- 10.1. All answers to Complaints will be in written in a format approved by the Supervisory Board, and shall be transmitted to the Ethics Commission within ten (10) calendar days from the date the Complaint is sent to the respondent. The Ethics Commission has the discretion to extend the period if acceptable rationale is presented. In such cases the Ethics Commission can extend the period for five days.
- 10.2. If a Complaint is amended, the time period for filing an answer or amended answer will be extended for ten (10) calendar days from the date of receipt of the amendment. If an answer has already been filed, a respondent will

have ten (10) calendar days from the date of the amended complaint within which to file an amended answer.

- 10.3. If the Ethics Commission is not able to accomplish personal service of the Complaint, and the Answer is not received by the Commission within the ten (10) days time period, the Commission will serve a Second Notice to the respondent requiring an Answer within five (5) business days from the date of delivery of the Second Notice. The Second Notice will state that respondent's failure to reply within the period specified in the Notice may be treated by Ethics Commission as an admission of the allegations of the complaint.
- 10.4. If the Respondent does not reply to the Second Notice within the time period specified, the Commission shall, upon its own motion, order a Hearing on the matter. At the Hearing, the Hearing Committee shall consider the allegations of the complaint as admitted by the respondent.
- 10.5. In Complaints involving multiple respondents, copies of the Answer submitted by each Respondent will be sent to all other Respondents.

Section 11. Request for Hearing

- 11.1. Upon the filing of an Answer, the Respondent may request a Pre-Trial Hearing. If a request is made, the Pre-Trial Hearing will be appointed on the next business day from filing of such a request. After the Pre-Trial Hearing or in the absence of a request, the Ethics Commission may order the Complaint to be set for the Commission Hearing.
- 11.2. A notice stating the date, time and place of the Hearing shall be mailed to the complainant and to the respondent(s), unless extraordinary circumstances require a shorter notice period. Extraordinary circumstances exist when the BCC deems it necessary to protect and safeguard customer funds and/or securities.
- 11.3. Upon consideration of the length of expected testimony, the volume and complexity of documentary evidence, and other factors it may deem material, Ethics Commission may determine that a complaint will be set for an Extended Hearing. Notice of an Extended Hearing will be served on as described in Section 11.2. of this Article.

Section 12. Burden of Proof.

The Depository, and staff persons representing the Depository, shall have the burden of proving that it is "more likely than not" that the respondent committed the alleged violations. If the Depository meets its burden, then the respondent shall have the opportunity to present all available factual and legal defenses to the allegations, produce explanations and other legal

actions. The proofs obtained along with breaches of the law shall not be deemed as a valid.

Section 13. Hearing Committees

- 13.1. The Secretary of the Depository Hearing Council shall appoint two persons to serve on each Hearing Committee. The Secretary, in considering the appointment of a Hearing Committee member, shall take into account the facts surrounding the case, the committee member's experience in the business areas alleged in the Complaint and the absence of any potential conflict of interest. The third person to serve on the Hearing Committee shall be a member of the Ethics Commission, selected by the Chairman of this Commission. The Chairman may also serve as a Hearing Committee member. The Committee members shall, among themselves, choose a Chairman of the Hearing Committee. Members of the Hearing Committee shall be appointed within the period of three days.
- 13.2. In the event of an Extended Hearing, the Secretary will appoint two persons to the Extended Hearing Committee, using the same criteria as described in Section 13.1. The third Member of the Hearing Committee shall be selected by the Chairman of the Ethics Commission or the Chairman may serve. Members who serve on an Extended Hearing Committee may be compensated at a reasonable rate of compensation.

Section 14.1. Evidence and Procedure of the Hearing Committee.

- 14.1. The Hearing Committee will make available to respondents and their counsel any documentary evidence and the names of any witnesses the staff intends to present at the Hearing, at least five (5) business days prior to the Hearing, from the date indicated in the notice sent to the Respondent – as defined in the article 11.2. From his/her part the Respondents will submit to the Chairman of the Hearing Committee any documentary evidence and the names of any witnesses respondents intend to present at the Hearing.
- 14.3. During a hearing:
- (i) The respondent may be represented by a counsel;
 - (ii) The complainant is obliged, and the respondent is eligible to provide explanations pertaining to the disciplinary violations. New evidence may be presented at Hearing only if the Hearing committee determines it is material and necessary for a complete record;
 - (iii) Both parties shall have the opportunity to cross interrogate the other party's witnesses; and
 - (iv) Secretary of the Hearing Committee will maintain a record of the Hearing.

Section 15. Decision of the Hearing Committee.

- 15.1. At the conclusion of the Hearing, the Hearing Committee shall decide, by a majority vote, whether or not the respondents(s) violated any rules as charged. If the Committee determines that a violation(s) has occurred, it will issue a written Decision, which sets forth:
- a. the act or practice which the respondent has been found to have engaged in or omitted;
 - b. the rule, regulation or statutory provision which such act, practice or omission to act is deemed to have violated;
 - c. the facts and evidence upon which the findings are made; and
 - d. the sanction(s) imposed and the reasons supporting the sanction(s).
- 15.2. The written Decision of the Hearing Committee shall be signed by all three members of the Hearing Committee and shall be hand delivered, and mailed, to the Respondent(s).
- 15.3. The sanctions contained in the Decision shall become effective three (3) days from the date of the Decision. Except from the sanctions, which are within the discretion of the Supervisory Board or the Meeting of the Members of the Depository. The Supervisory Board or the Meeting of the Members on the nearest session with the appropriate decision will impose such sanctions.
- 15.4. If the Committee determines that no violation charged in the complaint has occurred, it may dismiss the complaint and confirm such a decision in written. A copy of the Committee's decision to dismiss shall be promptly sent to the Respondent(s) and the Member with whom he is associated.

Section 16. Right of Appeal.

- 16.1. The Respondent has the right to appeal the Hearing Committee's Decision to the Supervisory Board of the Depository within ten (10) calendar days of receipt of the Decision.
- 16.2. The Supervisory Board shall, within ten (10) business days of receipt of the Respondent's Motion of Appeal, review the Hearing Committee's Decision, along with the written record, evidence and documents.
- 16.3. The Supervisory Board, by majority vote, may:
- (i) dismiss the Hearing Committee's findings, in whole or in part;
 - (ii) mitigate the sanctions imposed by the Decision;
 - (iii) affirm the Decision, in whole or in part; or,
 - (iv) under extraordinary circumstances, recommend that the matter be retried with a new Hearing Committee, selected under the procedures described in Section 13.1. of this Article.

- 16.4. The Supervisory Board shall, within three (3) days of reaching a decision, mail to the Respondent, a written summary of its findings and gives the General Director of the Depository specific recommendations if cases described in sub-paragraphs 16.3. a. b. c. occur.
- 16.5. Once the time period for an Appeal is concluded, and the Supervisory Board has affirmed the Decision of the Hearing Committee, the Depository shall transmit a copy of the Decision to the National Securities Commission if it contains a gross violation of law, as required by Article 41 (10) of the Law on Securities.

Section 17. Minor Rule Violations

- 17.1. Notwithstanding Sections 8 and 9 of Article II of this Code, the Ethics Commission may, subject to the requirements set forth below, impose a fine (not to exceed the GEL 500) and/or a censure on any member or employee to the violation of any Depository rule, regulation, or statutory provision.
- 17.2. If Ethics Commission has reason to believe a violation has occurred, the Commission may recommend the Member to submit a Minor Rule Violation Letter (Letter) specifying in reasonable detail the nature of the violation(s), including the applicable rule, regulation or statutory provision and consenting to the imposition of a specific sanction(s) for the violation(s).
- 17.3. The Letter will be submitted to the Supervisory Board for its review. If the Supervisory Board rejects the Letter, it may then take appropriate disciplinary action with respect to the violation(s). If the Supervisory Board accepts the Letter, it shall become part of the respondent's permanent record at the Depository, according to the section 11 of this Code.
- 17.4. If it becomes necessary for the Ethics Commission to issue a complaint against a Member under Section 9 of this Code, the member or employee will not be prejudiced in any way by the prior submission of a Minor Rule Violation Letter.

Section 18. Settlement Procedure.

- 18.1. A respondent in a proceeding before Ethics Commission may, at any time prior to a Decision of a Hearing Committee, propose an Offer of Settlement of the Complaint to the Commission.
- 18.2. Offers of Settlement must be made in conformity with the provisions of this Section and they should not be made frivolously or propose a sanction inconsistent with the seriousness of the violations.
- 18.3. Every Offer of Settlement will be in written and will contain in reasonable detail:

- (a) the act or practice which the respondent is alleged to have engaged in or omitted;
 - (b) the rule, regulation or statutory provision which the act, practice or omission to act is alleged to have violated;
 - (c) a statement that the respondent consents to findings of fact and alleged violations;
 - (d) a proposed sanction to be imposed; and
 - (e) a waiver of all rights of appeal to the Supervisory Board of the Depository and the courts of Georgia (if the scopes of violation do not go beyond the competence of the Depository), or to otherwise challenge the validity of the Order if the Offer of Settlement is accepted.
- 18.4. If an Offer of Settlement is accepted by Ethics Commission, it will issue an Order of Settlement. This Order will make findings of fact, including a statement of the rule, regulation or statute violated, and impose sanctions consistent with the terms of the Offer of Settlement. A copy of the Order will be transmitted to the Commission upon the Ethics Commission's acceptance, if it contains gross violations of law, as required by Article 41 (10) of the Law on Securities Market.
- 18.5. The Order of Settlement will constitute Ethics Commission's decision and will conclude the proceedings as of the date the Order is issued. The sanctions are executed according to 15.3 section of this Code.
- 18.6. If the Offer of Settlement is rejected by Ethics Commission, the Offer of Settlement will be deemed as canceled.
- 18.7. Where there is more than one respondent in a proceeding and one or more of the respondents submit an Offer of Settlement, the Offer may be accepted or rejected as to any of the respondents submitting the Offer. The proceeding will thereafter be terminated as to those respondents whose Offers of Settlement have been accepted, but their participation as witnesses may be required at any Hearing. Ethics Commission will thereafter proceed pursuant to the regular disciplinary procedures provided by this Code as to those respondents who did not submit Offers of Settlement.
- 18.8. If an Offer of Settlement is not accepted and it becomes necessary for Ethics Commission to follow the regular disciplinary procedures against the respondent, the respondent will not be prejudiced by the prior Offer of Settlement and it will not be given consideration in the determination of the issues involved in the pending proceeding.

Section 19. Complaint Docket.

- 19.1. Ethics Commission will promptly notify the Internal Control Unit of all Complaints issued, and the Department will record all complaints so reported in the Complaint Docket. Ethics Commission will also promptly notify the Department of changes in the status of every Complaint filed

including a respondent's Answer, a respondent's request for a waiver of the Hearing, any accepted Offer of Settlement or any Decision by a Hearing Committee. All such notifications will be entered in the Department's Complaint Docket.

Section 20. Sanctions.

In any proceeding relating to disciplinary action Hearing Committee, - according to Article 15 of this Code, and Ethics Commission – according to Article 17 and 18 of this Code, may impose sanctions, which may include one or a combination of the following:

- a). a censure;
- b). a monetary fine;
- c). a suspension from all Depository privileges or from one discrete activity;
- d). a limitation on an activity;
- e). necessity for re-certification;
- f). compensation to one or several part;
- g). expulsion from membership in the Depository.

Section 21. Costs of Proceedings.

- 21.1. In any disciplinary action, the member or employee may be required to pay the cost of the proceedings as Hearing Committee deems fair and appropriate.