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Translation as of June 1999.

RESOLUTION

of the Verkhovna Rada of Ukrainian SSR

On Procedure of Enactment of the Law of Ukrainian SSR
“On Securities and Stock Exchange”

The Verkhovna Rada of Ukrainian Soviet Socialist Republic hereby RESOLVES:

1. To bring into effect the Law of Ukrainian SSR “On Securities and Stock Exchange” (1201-12) from January 1, 1992.

2. To establish that from January 1, 1992, issue of shares of working collectives and shares of enterprises (organizations) shall be terminated. All shares of working collectives and shares of enterprises (organizations) issued prior to enactment of this Law can circulate during 5 years commencing on January 1, 1992, pursuant to terms of their issue.

Before the end of the mentioned time period, enterprises (organizations) which issued such shares shall be obliged to purchase them or to replace with other securities envisaged by this Law.

3. The Cabinet of Ministers of Ukrainian SSR shall:

before October 1, 1991, define the procedure of registration of securities issue and information on securities issue and the procedure of promissory notes issue and circulation;

take measures to organize production of securities in the republic; and

organize preparation and training of specialists, including abroad, for work on the stock exchange and with securities.

L. Kravchuk

Chairman of the Verkhovna Rada of Ukrainian SSR

Kyiv, June 18, 1991

1202-XII

LAW OF UKRAINE

ON SECURITIES AND THE STOCK EXCHANGE

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(Put into effect by the Verkhovna Rada Decree No. 1202-12 of 18.06.91, VVR 1991, Issue No. 38, p. 509)

(With changes made in accordance with laws

No. 2680-12 of 14.10.92, VVR 1992, No. 47, p. 645;

No. 82/95-VR of 02.03.95, VVR 1995, Issue No. 14, p. 90;

No. 90/95-VR of 14.03.95, VVR 1995, Issue No. 14, p. 93;

No. 283/96-VR of 09.07.96, VVR 1996, Issue No. 40, p. 185;

No. 523/97-VR of 09.10.97, VVR 1997, Issue No. 45, p.285

No. 622-XIV of 05.05.99, VVR 1999, Issue No. 31, p.252,

No 719-XIV of 03.06.99.)

(In text of the Law the words (“registering financial” in all genders are replaced with the words “registration” in the corresponding genders pursuant to the Law No. 283/96-VR of 07.09.96)

This law defines terms and procedures of issuance of securities and regulates intermediary activities in organizing circulation of securities.

PART I SECURITIES AND PROCEDURES FOR THEIR CIRCULATION

SECTION 1. GENERAL PROVISIONS

Article 1. Notion of Securities

Securities are monetary documents which certify ownership rights or loan relations, define the relationship between the issuer and the owner, and envisage, as a rule, payment of income in the form of dividends or percentage, as well as possibility of transfer of monetary and other rights arising from these documents.

Securities may be registered or payable to bearer. Registered securities, unless the present Law stipulates otherwise, or the securities themselves have a special caution of non-transferability, may be transferred by full endorsement (notation of transfer of rights to securities to another person).

Bearer securities circulate freely.

Securities may be used as a means of settlement or as collateral to ensure payment.

Lost registered securities are renewed by the state bodies, enterprises and organizations that issued them.

Securities are inherited in keeping with the civil legislation of Ukraine.

The notion, specific conditions of issuance, use and circulation of privatization papers is regulated by specific Ukrainian legislation.¹

¹ Article 1 is appended with Part Seven in compliance with Law No. 2680-12 of 14.10.92.

The procedure of circulation of securities issued by the Soviet Union or other Union Republics and placed on the territory of Ukraine is regulated by this law, other legal acts of Ukraine, as well as treaties between Ukraine with the Soviet Union and respective Soviet Republics.

Article 2. Issuer of Securities

The issuer of securities (hereinafter - the Issuer) is a state represented by the authorized organ, a legal entity, and - in cases envisaged by legislation - a physical entity. The issuer issues securities on its own behalf and pledges to keep the obligations arising from the terms of their issuance.

The issuer must execute all and any obligations such as may arise in connection with issuance of securities in time and in keeping with procedures specified by this Law, other legal acts of Ukraine, as well as the decision to issue securities.

The rights and liabilities with respect to securities arise at the moment of their transfer by the issuer or its authorized agent to the recipient (buyer) or its authorized agent.

Article 3. Types of Securities

In keeping with this Law, the following types of securities may be issued in Ukraine:

- shares;
- internal and foreign government debt bonds;
- local debt bonds;
- company bonds;
- treasury bills of the republic;
- savings certificates;
- investment certificates
- promissory notes;
- privatization papers.

SECTION 2. SHARES

Article 4. Distinctive Features of Shares

A share is a security with no fixed term; it certifies equity participation in the authorized fund of a joint stock company. A share is a proof of membership in the joint stock company and of the right to participate in managing such joint stock company. It gives the owner the right to a share of profits in the form of dividends, as well as the right to a portion of assets if the joint stock company is liquidated.

Shares may be registered, payable to bearer, preferred and common. Citizens may own, as a rule, registered shares.

Circulation of registered shares is recorded in the stock registry kept by the company. Said registry shall contain records of each registered share, including information about the shareholder, time of purchase of shares as well as number of such shares owned by each shareholder.

With regard to bearer shares, the registry shall contain a record of the total amount outstanding.

Preferred shares give the holder a preference right to receive dividends as well as a priority right to participate in the division of assets of the joint stock company in the event of its liquidation. Holders of preferred shares have no right to participate in the management of the respective joint stock company unless otherwise provided for by its charter.

Preferred shares may grant an annual dividend as a fixed percentage of their nominal value. The amount of dividends as stated with respect to a preferred share shall be paid regardless of the profit earned by the company in a given year. Should this profit be insufficient, dividends are paid at the expense of the reserve fund.

If the dividends paid to holders of common shares are greater than the amount of dividends paid to holders of preferred shares, preferred shareholders may be paid the difference.

The total amount of preferred shares issued may not exceed 10 per cent of the authorized fund of a joint stock company.

The procedure for exercising priority rights to dividends shall be defined in the charter of a joint stock company.

Shareholders may be issued a certificate for the total nominal value of shares in their possession.

Any share should by regulation have the following requisite elements: registered name and location of the joint stock company, designation of the security, i.e. "share," its serial number, date of issue, type and nominal value, name of holder (of a registered share), amount of the authorized fund as of the date of issue as well as number of shares issued, time limits for payment of dividends, signature of the chairman of the board or person authorized to execute the signature, and the corporate seal.

A share may be appended with a sheet of coupons that entitle the owner to dividends.

A coupon shall contain the following principal data: serial number of coupon, serial number of the share on which the dividends are paid, title of the joint stock company and year of payment of dividends.

Article 5. The Rights of a Shareholder

A shareholder is entitled to a share of the profit of the joint stock company (dividends), to participate in the management of the joint stock company (with the exception of holders of preferred shares) as well as to other rights stipulated in this Law, other legal acts of Ukraine and the charter of the joint stock company.

A share is indivisible. In the event that one and the same share is owned by several persons, all of them are considered one shareholder and may exercise their rights through one of them or through a common representative.

Article 6. Decision to Issue Shares

A decision to issue shares is made by the founders of a joint stock company or by the annual meeting of shareholders.

Such decision shall be registered in the form of a protocol.

The protocol must include the following: corporate title and legal address of the issuer; the amount of authorized fund or the value of fixed and working assets of the issuer; subject and goals of its activity; names of the issuer's executives; name of the supervisory body (auditing firm); information on distribution of securities issued earlier; the objective of the issuance; specification of the types of shares; number of nominal and bearer shares; number of preferred shares; total amount of emission and number of shares; nominal value of the shares; number of those who participated in the voting and its procedure; procedure of dividend payment; deadlines and procedure for subscribing for shares and procedure for purchase; deadlines of reimbursement in the event of cancellation of the issuance; priority (if different issuances are planned); procedure of announcement about the issuance and procedure of distribution; the rights of holders of preferred shares; priority right to acquire shares during the next issuance.

In addition, the protocol may contain other information about the issuance of shares.

Article 7. Share Issuance

A joint stock company may issue shares in the amount of its authorized fund or to the extent of the total value of fixed assets of a state enterprise (in the event of its corporatization). Additional shares may be issued after previous issues of shares were registered and all previously issued shares have been paid for in full at a rate not lower than their face value.

The issuance of shares to cover losses resulting from economic activities of a joint stock company shall be prohibited.

Article 8. Purchase of Shares

Shares are to be purchased for Hryvnyas and, if so provided by the charter of a joint stock company, for foreign currency or by means of transfer of property. Regardless of the form of contribution, the value of a share is expressed in Hryvnyas.

Enterprises, organizations and institutions may purchase shares using funds which they have at their disposal after payments of appropriate taxes and current service on loans.

Shares may be handed over to the recipient (buyer) only after their value has been paid in full.

A joint stock company may repurchase shares from a shareholder with the purpose of reselling them, distributing them among its employees or annulling them. Such shares must be disposed of or annulled within one year. During this year, profit is distributed, and the voting procedure and quorum at the annual meeting are determined without taking into account the shares acquired by the joint stock company.

Article 9. Dividend Payments

Dividends on shares are paid on the basis of the balance once a year according to the

results of the calendar year, in keeping with the procedure specified by the charter of the joint stock company, and at the expense of profit net of relevant taxes, other deductions to the budget and interest payments for current service on loans.

SECTION 3. BONDS

Article 10. Distinctive Features of Bonds

A bond is a type of a security which certifies the owner's monetary contribution and confirms an obligation to reimburse him for the nominal value of such security on the specified expiration date with the concurrent payment of a fixed interest rate (unless otherwise stipulated in the terms of issuance). Bonds of all types are distributed among enterprises and individuals on a voluntary basis.

The following types of bonds may be issued:

- a) internal government and local debt bonds;
- b) company bonds.

Company bonds are issued by enterprises of all legal forms of ownership, associations of enterprises, joint-stock companies and other companies. They give owners of bonds no right to participate in management.

The terms of issuance and distribution of company bonds are regulated by the present Law, other legal acts of Ukraine, as well as by the statutory documents of the issuer.

Bonds may be registered, payable to bearer, interest bearing and non-interest bearing (purpose-oriented), with free or limited circulation.

Internal government bonds and local debt bonds are payable to bearer.

For purpose-oriented bonds, it is mandatory to have a requisite element specifying the product (service) that covers the issuance.

Company bonds must have the following requisite elements: designation of the type of a security, i. e. "bond," registered name and legal address of the issuer; registered name or personal name of buyer (for registered bonds); nominal value; maturity date, amount of interest and terms of payment (for interest-rate bonds); date and place of issuance as well as serial number of bond; signature of the issuer's warranted executive or other authorized person; and the issuer's corporate seal.

In addition, a bond may have an attached sheet of coupons that entitles the owner to interest payments.

Such coupons must include the following information: serial number of the coupon, serial number of the bond, name of the issuer and the year of interest payment.

Bonds that are to be sold openly with subsequent unlimited circulation (with the exception of purpose-oriented bonds) shall have a sheet of coupons attached.

Article 11. The Decision to Issue Bonds

A decision to issue bonds of internal government and local debt is made by the Cabinet of Ministers of Ukraine, and the local councils, respectively.

Such a decision must specify the issuer, terms of issuance and procedure of the bonds distribution.

A decision to issue company bonds is made by the issuer and is registered in the form of a protocol.

Such a protocol must contain the following data: registered title and legal address of the issuer; information about the authorized fund, economic activities and names of the issuer's executives; name of the supervisory body (auditing firm); information about distribution of securities issued earlier; purpose of the issuance and type of bonds (registered or bearer); total amount of emission, number and nominal value of the bonds; number of those who participated in the voting; terms of bonds issuance and payment of income; deadlines of reimbursement in the event of cancellation of issuance; time limits for providing specified goods or services that are covered by purpose-oriented bonds; procedure of announcement of the issuance and its distribution; terms of payment for the bonds.

In addition, the protocol may contain other information about the issuance of bonds.

A stock company may issue bonds for not more than 25 per cent of its authorized fund and only after all issued shares have been paid for in full.

The issuance of bonds in order to establish and replenish the issuer's authorized fund, as well as to cover losses arising from its business activities shall be prohibited.

Article 12. Purchase of Bonds

Bonds of all types are to be purchased by individuals with their own funds.

Enterprises may purchase bonds using funds which they have at their disposal after payment of appropriate taxes and current service on loans.

Bonds of all types are to be paid for in Hryvnyas and, if so provided by the terms of issuance, in foreign currency. The value of a bond is expressed in Hryvnyas regardless of the currency of payment.

Article 13. Payment of Earnings

Bonds of all types earn income in accordance with the terms of issuance.

Purpose-oriented (non-interest bearing) bonds earn no income; the holder of such bonds is entitled to purchase specific products or services that are covered by the relevant bonds.

Should the price of a product be higher than the bond value at the time of receipt of such product, the bondholder will receive the product at the price specified in the bond, while he/she will be paid the difference between the bond value and the price of product if this is lower than the value of the bond.

Income earned on company bonds is paid from the funds that remain with the company after payments to the budget and other mandatory deductions have been made.

In the event of an issuer's default on, or delayed execution of, obligations to pay income earned on interest bearing bonds, to grant entitlement to purchase certain goods or services envisaged by purpose-oriented (non-interest bearing) bonds, or to redeem bonds in good time, appropriate sums are recovered on a compulsory basis by a ruling of either a general court or a court of arbitration.

The procedure for redemption of bonds of all types, with the exception of purpose-oriented bonds, is defined at the time of issuance.

Article 14. Distribution of Bond Proceeds

Funds raised from the sale of bonds of internal government and local funded loans are assigned to the state and local budgets, respectively, and to extra-budgetary funds of local councils of people's deputies.

Proceeds from company bonds shall be used in compliance with the objectives set forth while issuing these bonds.

SECTION 3-1

FOREIGN GOVERNMENT DEBT BONDS OF UKRAINE

Article 14-1. Principal features of foreign government debt bonds of Ukraine

Foreign government debt bonds of Ukraine are securities placed on international and foreign stock market, certifying Ukraine's liabilities to reimburse to bearers of these bonds their nominal value with payment of yield as per the terms of the bonds' issue.

Foreign government debt bonds may be denominated in convertible foreign currency.

Foreign government debt bonds of Ukraine are issued in a form of interest or discount bonds, may be registered or bearer, free or restricted.

Foreign government bonds of Ukraine will be paid for only in convertible state currency as per the terms of their issue.

The issuer of the foreign government debt bonds of Ukraine is the state represented by the Ministry of Finance of Ukraine. The terms set forth by Articles 24 and 25 of this Law will not apply to the Ministry of Finance of Ukraine.

Proceeds resulting from placement of foreign government debt bonds of Ukraine will be directed exclusively towards the State budget of Ukraine.

Article 14-2. Decision on issue of foreign government debt bonds of Ukraine

The decision on issue of foreign government debt bonds of Ukraine within the limits set forth by the Law on State budget of Ukraine for the respective year will be made per every issue by the Cabinet of Ministers of Ukraine.

The decision on issue of foreign government debt bonds of Ukraine will be made through the resolution of the Cabinet of Ministers of Ukraine, that affirms the terms of the issue. The terms of issue of foreign government debt bonds sets forth the total scope of issue, nominal value of one bond, denomination of a bond, term of payment and scope of yield, term of redemption, etc.

The decision on issue of foreign government debt bonds of Ukraine which exceeds the limits of external source of financing the deficit of the State Budget of Ukraine, envisaged by the Law on State Budget of Ukraine for the respective year, has to determine the purpose of the issue, the source of redemption, is subject to approval by the Verkhovna Rada of Ukraine and will become effective upon such approval.

Primary placement, servicing and redemption of foreign government debt bonds will be carried out by the Ministry of Finance of Ukraine. With this purpose the Ministry of Finance of Ukraine may attract banks, investment companies, etc. Relations between the Ministry of Finance of Ukraine and such organizations will be regulated by the respective agreements as per Ukrainian legislation.

Article 14-3. Cost of preparation of the issue, the issue, redemption of foreign government debt bonds of Ukraine and payment of dividends

Cost of preparation of the issue, the issue, redemption of foreign government debt bonds of Ukraine and payment of dividends and other ongoing expenditures will be covered as per the terms of issue of bonds by the respective allocations from the State Budget of Ukraine.

Payment of dividends and redemption of foreign government debt bonds of Ukraine will be carried out by means of funds or the other government bonds upon the mutual agreement by the parties.

SECTION 4. TREASURY BONDS

Article 15. Distinctive Features of Treasury Bonds

Treasury bonds of Ukraine (hereinafter referred to as “treasury bonds”) are a type of security payable to bearer that are distributed among the population on a voluntary basis. Treasury bonds certify a monetary contribution made by the holder of the bond to the budget which entitles the holder to cash income.

There are three types of treasury bonds:

- a) long-term treasury bonds - 5 to 10 years;
- b) medium-term treasury bonds - 1 to 5 years;
- c) short-term treasury bonds - up to 1 year.

Article 16. Procedure of Issuance

A decision to issue long-term and medium-term treasury bonds is made by the Cabinet of Ministers of Ukraine.

A decision to issue short-term treasury bonds is made by the Ministry of Finance of Ukraine.

A decision to issue any type of treasury bonds shall define the terms of issuance.

The Ministry of Finance of Ukraine shall determine a procedure for setting the sale price of treasury bonds basing on the time of the bonds' purchase.

Treasury bond proceeds shall be used to cover current expenditures of the state budget.

Article 17. Payment of Income

The payment of income earned by treasury bonds and their redemption is executed in keeping with the terms of their issuance endorsed by the Cabinet of Ministers of Ukraine - in the case of long-term and medium-term treasury bonds, and the Ministry of Finance of Ukraine - in the case of short-term treasury bonds.

SECTION 5. SAVINGS CERTIFICATES

Article 18. Distinctive Features of Savings Certificates

A savings certificate is a written statement issued by a bank to certify that certain funds have been deposited and that the depositor is entitled to receive the deposit and the accrued interest after a certain term.

Savings certificates are issued in the form of fixed-term certificates (fixed interest after a certain term), certificates redeemable at any time, registered certificates and bearer certificates.

Registered certificates are not eligible for circulation, and their sale (alienation) to other persons shall be ineffective.

Savings certificates shall have the following requisite elements: designation of the type, i.e. "savings certificate," name and location of the issuer bank, serial number and date of issuance, the sum of deposit, term of withdrawal (for fixed-term certificates), title or full name of holder (for registered certificates), signature of the bank's manager and the bank's seal.

Article 19. Purchase of Savings Certificates

Legal entities and individuals purchase savings certificates using funds defined in Article 12 above.

Article 20. Payment of Income

Income on savings certificates shall be paid at sight at the bank of issue.

Should a holder of a fixed-term certificate demand withdrawal before the specified term, he shall be paid interest at a lower rate as is agreed upon at the time of deposit.

SECTION 6. BILLS OF EXCHANGE

Article 21. Distinctive Features of Bills of Exchange

A bill of exchange is a type of security which confirms the unconditional obligation of its drawer to pay a determined sum of money to the owner (holder) of the bill after a certain term.

Two types of bills of exchange are issued: promissory notes and drafts.

A promissory note should bear the following requisite elements:

- a) designation ("promissory note");
- b) plain and unconditional promise to pay the determined sum of money;
- c) term of payment;
- d) place of payment;
- e) name of the party to receive or by whose order payment will be made;
- f) place and date of drawing the bill;
- g) signature of the drawer.

A draft should bear, in addition to those envisaged by items a), c) through g) of the third paragraph of this Article, the following requisite elements:

plain and unconditional promise to pay a certain sum of money;
name of the payer.

A document with any of the requisite elements listed in the third and fourth paragraphs of this Article missing does not have the effect of a promissory note or draft except in the following cases:

- a) a bill on which payment term is not stated shall be regarded as one payable upon presentation;
- b) if not stated otherwise, the place stated next to the payer's name (the place the bill was drawn in the case of the promissory note) shall be regarded as the place of payment and, at the same time, the payer's (the drawer's, in the case of the promissory note) place of residence;
- c) a bill on which the place of its drawing is not stated is considered signed at the place stated next to the drawer's name.

The procedure of issuance and circulation of bills of exchange is determined by the Cabinet of Ministers of Ukraine.

SECTION 7. REGISTRATION AND CIRCULATION OF SECURITIES

Article 22. Registration of Issuance of Securities

An issuer has the right to issue shares or company bonds as of the moment that issuance is registered with the Securities and Stock Market State Commission.²

² Article 22, Part One is appended with changes made in compliance with Law No. 283/96-VR of 09.07.96.

If the shares or company bonds submitted for registration are offered for open sale, i.e. are designed for distribution among legal entities and physical persons not identified in advance, the issuer is obliged to submit information on the issuance of said securities to the registration authority.³

The issuer shall be obliged to file with the body which registers securities issue or information on securities issue the balance sheet and the statement of financial position certified by the auditor (auditing firm).⁴

The procedure for registering an issuance of shares or company bonds as well as informing relevant authorities about the issuance is determined by the Securities and Stock Market State Commission.⁵

Issuance of any securities shall be registered not later than 30 days from the moment the relevant application and supporting documents were submitted.

The authority that registers an issuance of securities or information about it must check whether the documents submitted by the issuer meet the requirements of Ukrainian law.⁶

Registration may only be refused if established procedure has been violated or submitted documents do not meet legal requirements.

Should registration of an issuance of securities be refused, or not made for reasons which the issuer finds ungrounded, the issuer may go to court.

Registration by the Securities and Stock Market State Commission of an issuance of securities or information about it may not be regarded as a guarantee of their value.⁷

The Securities and Stock Market State Commission keeps a general registry of issuance of securities.⁸

Article 23. Information on Issuance of Shares and Company Bonds Offered for Open Sale

In addition to registration, information on issuance of shares and company bonds to be offered for open sale, is subject to mandatory publication in the press of the Supreme Council of Ukraine and the Cabinet of Ministers of Ukraine, as well as in the official publication of the stock exchange not less than ten days prior to the beginning of subscription for said securities.

Shares and company bonds offered for open sale are accepted for distribution not earlier than 30 days after the publication of an announcement on their issuance.

Should there be any changes in information about an issuance of shares and company

³ Article 22, Part Two is appended with changes made in compliance with Law No. 283/96-VR of 09.07.96.

⁴ Part Three is added to Article 22 pursuant to the Law No. 90/95-VR of 03.14.95.

⁵ Part Four of Article 22 in the version of the Law No. 283/96-VR of 09.07.96.

⁶ Article 22, Part Six is appended with changes made in compliance with Law No. 283/96-VR of 09.07.96.

⁷ Article 22, Part Nine is appended with changes made in compliance with Law No. 283/96-VR of 09.07.96.

⁸ Article 22, Part Ten is revised by Law No. 283/96-VR of 09.07.96.

bonds offered for open sale, the issuer of securities shall publish an announcement about such changes within 30 days from the day the previous information was published.

Should incorrect or inadequate information be found in the announcement about an issuance of shares or company bonds, the registration authority has the right to suspend their distribution until the issuer makes the necessary amendments in the announcement.

Article 24. Regular Information About the Issuer

The issuer shall inform the general public about its economic and financial position and the results of its activity at least once a year (hereinafter referred to as the "annual report").

The annual report shall be published not later than nine months following the reporting year and sent to holders of registered shares and the registering authority.⁹

An annual report shall contain the following information on the issuer:

- a) information about the results of economic activity for the previous year;
- b) information about financial position (confirmed by an auditor) and a balance sheet for the year then ended;¹⁰
- c) basic information about additionally issued securities;
- d) reasons for changes in executive personnel.

Article 25. Special Information About the Issuer

The issuer shall, within two days, inform the stock exchange and the registering authority, as well as publish in the official publication of the stock exchange, about changes in its economic activity that affect the value of its securities or the rate of income on its securities. Such changes include:

- a) changes in the rights to securities;
- b) changes in executive personnel;
- c) seizing of the issuer's bank account;
- d) initiation of reorganization (measures to improve the issuer's financial position);
- e) reorganization, suspension or termination of the issuer's activities;
- f) destruction of at least 10 percent of the issuer's property as the result of force majeure;
- g) action against the issuer within the limits exceeding 10 percent of either the authorized fund or the fixed and working assets combined;
- h) receiving a credit, or issuing securities worth more than either 50 percent of the authorized fund or the fixed and working assets combined.

Should inadequate information that could affect the value of securities or the rate of income on securities be published by the issuer, it shall take action to correct that information within two working days.

Article 26. Activity Related to Issuance and Circulation of Securities

⁹ Article 24, Part Two is appended with changes made in compliance with Law No. 90/95-VR of 14.03.95.

¹⁰ Article 24, Part Three, Paragraph "b" is revised by the Law No. 90/95-VR of 14.03.95.

As provided by this Law, activity related to the issuance and circulation of securities is regarded as an intermediary activity related to the issuance and circulation of securities conducted by banks, as well as joint stock companies with an authorized fund formed using registered shares only, and other companies for which operations with securities are their only function (hereinafter referred to as traders in securities).

Traders in securities have the right to conduct the following operations related to the issuance and circulation of securities:

- a) activity related to the issuance of securities;
- b) commission activity related to securities;
- c) commercial activity related to securities.

Activity related to the issuance of securities is defined as the fulfillment by a trader in securities of an obligation to organize a subscription to securities, or their realization in some other form, which it does on behalf of and at the expense of the issuer. A securities trader may, upon agreement with the issuer, pledge to buy securities not subscribed to from the issuer if the securities have not been fully subscribed.

For the purposes of this Law, commission activity is defined as the sale and purchase of securities by a securities trader in its own name for a commission from, and at the expense of, another party.

For the purposes of this Law, commercial activity is defined as the sale and purchase of securities by a securities trader in its own name and at its own expense.

Article 27. Permission to Engage in Activity Related to the Issuance and Circulation of Securities

Activity related to the issuance and circulation of securities as a sole line of business is allowed on the basis of a permit granted by the Securities and Stock Market State Commission. A list of documents required to obtain such a permit, and the documentation a securities trader must submit while it is in force are determined by the Ministry of Finance of Ukraine.¹¹

A permit to engage in all or certain types of activities (except commission activity) may be granted to securities traders that have a fully paid-in authorized fund of at least 1, 000 untaxed minimum incomes, while a permit to engage in commission activity may be granted to traders with at least 200 untaxed minimum incomes.¹²

When activity related to the issuance and circulation of securities is the only line of business, a securities trader may engage in a number of ancillary services, primarily providing consultations to securities holders.

Article 28. Conditions That Prohibit Activity Related to the Issuance and Circulation of Securities

A permit to engage in any activity connected with the issuance and circulation of

¹¹ Article 27, Part One is appended with changes made in compliance with Law No. 283/96-VR of 09.07.96.

¹² Article 27, Part Two is revised by Law No. 283/96-VR of 09.07.96.

securities may not be given to a trader in securities who directly or indirectly owns another such trader's property in an amount more than 10 percent of the authorized fund, of which amount over 5 percent it owns directly.

A trader in securities which has a permit to engage in any activity related to the issuance or circulation of securities may not indirectly or directly own another such trader's property in an amount more than 10 percent of the authorized fund, of which amount over 5 percent it owns directly.

If a legal person that does not have a permit to engage in activities related to the issuance and circulation of securities or a physical person has a share in the authorized fund of several traders in securities exceeding 5 percent per each trader, such traders may not trade in securities among themselves.

A trader in securities may not trade in:

- a) securities of its own issuance;
- b) shares of an issuer whose property he owns directly or indirectly in an amount of over 5 percent of the authorized fund.

For the purposes of this Article, direct ownership of property is defined as ownership of a share in the authorized fund of any company, and indirect ownership as ownership of property in the authorized fund of a company that is a participant in another company.

Article 29. Entering Into Securities Agreements

A trader in securities shall inform the party, at whose expense he operates while accepting the buy-or-sell order, about the market price of securities.

A trader in securities shall inform the stock exchange about all agreements he has entered into on securities within the time limits and according to the procedure determined by the stock exchange rules.

Specifics of book-keeping while purchasing or selling securities are determined by the Securities and Stock Market State Commission upon the consent of the Ministry of Finance of Ukraine and the National Bank of Ukraine.¹³

Article 30. Requirements For the Liquidity of Traders in Securities

The value of agreements entered into by a trader in securities with other such traders but not fulfilled to date (open positions) may not be more than five times the size of that trader's own authorized fund.

In conducting activity related to the issuance of securities concurrently with commercial or commission activity, the value of contracts made by a trader in securities with other such traders but not fulfilled to date (open positions) may not be more than ten times the size of that trader's authorized fund.

The selling or nominal cost of securities owned by a securities trader engaged in activity related to the issuance of securities or in commercial activity, as well as the value of all open

¹³ Article 29, Part Three is revised by Law No. 283/96-VR of 09.07.96.

positions taken together, may not at any given moment be more than fifteen times the size of that trader's own authorized fund. Calculations should be made on the basis of the highest selling price or the nominal price.

Article 31. Taxation of Income on Securities

Income on securities is taxed in compliance with the Ukrainian legislation.

PART II STOCK EXCHANGE

SECTION 8. GENERAL PROVISIONS

Article 32. Definition of the Stock Exchange

A stock exchange is an organized and continuously operating market in securities.

Article 33. Legal Status of the Stock Exchange

A stock exchange is a joint stock company which brings together demand for and supply of securities, promotes price formation and conducts its activity in compliance with this Law, other legal acts of Ukraine, and the rules and regulations of the stock exchange.

A stock exchange may be established by at least 20 founders - securities traders licensed to engage in commercial and commission activities on the condition that they contribute not less than 10, 000 minimum untaxed incomes to the authorized fund.¹⁴

A stock exchange acquires the rights of a legal entity the moment it is registered by the Securities and Stock Market State Commission.¹⁵

A stock exchange is a non-profit organization engaged solely in signing agreements to buy or sell securities and their derivatives. It cannot trade in securities on its own behalf or upon orders from its clients, or act as a depository.

(Part Four is added to Article 33 in compliance with the Law No. 523/97-VR of 09.10.97).

Article 34. Charter and Rules of a Stock Exchange

The Charter and rules of a stock exchange shall be approved by its highest body.

The charter of a stock exchange shall specify:

- a) name and address of the stock exchange;
- b) names and addresses of the founders;
- c) size of the authorized fund;
- d) terms and procedure of admitting a member and canceling membership;
- e) rights and duties of members;
- f) organizational structure of the stock exchange;
- g) competence and procedure of setting up control bodies of the stock exchange;
- h) procedure and terms of visiting the stock exchange;
- i) procedure and terms of applying sanctions established by the stock exchange;
- j) procedure of terminating the stock exchange's activity.

The charter of a stock exchange may contain other provisions pertaining to its founding

¹⁴ Article 30, Part Two is appended with changes made in compliance with Law 283/96-VR of 09.07.96.

¹⁵ Article 30, Part Three is appended with changes made in compliance with Law 283/96-VR of 09.07.96.

and activity.

The rules of a stock exchange shall specify:

- a) types of agreements made at the stock exchange;
- b) procedure of trading operations at the stock exchange;
- c) terms of acceptance of securities;
- d) terms and order of subscription for securities quoted at the stock exchange;
- e) order of forming stock prices and rates and making them public;
- f) list of securities quoted at the stock exchange;
- g) member's duties as to accounting and information; house rules of stock exchange committees and their work procedures;
- h) information support system of the stock exchange;
- i) types of services rendered by the stock exchange and amount of payments for them;
- j) procedure for settlements at the stock exchange;
- k) other provisions pertaining to operations of the stock exchange.

Article 35. The Use of the Name "Stock Exchange"

The words "stock exchange" or any other corporate name containing such words may be used in their names or advertising only by organizations established in compliance with the procedure provided by Article 34 of this Law.

Article 36. Special Terms of Terminating a Stock Exchange's Activity

The activity of a stock exchange is terminated when the number of its members becomes less than 10. If there are only 10 members of the stock exchange and new members are not admitted within six months, the activity of the stock exchange is terminated.

The activity of a stock exchange is terminated in compliance with the laws of Ukraine on joint stock companies and other types of business associations.

SECTION 9. PROTECTION OF INVESTORS' PROPERTY RIGHTS

Article 37. Termination of Contracts to Subscribe to or Purchase Securities

If a party has subscribed to or purchased securities prior to the publishing of information on changes in the issuer's economic activity that affect the value of securities or the income from them, that party may unilaterally terminate the contract within 15 days from the day such information was published.

If a contract is terminated, the issuer shall reimburse said party for expenses and possible losses owing to subscription or purchase of securities.

If the terms of subscription to securities are not fulfilled, the issuer shall reimburse the subscribers in full (upon their request) along with interest for the whole term said securities were held by subscribers.

The issuer shall be responsible for compensating losses caused by inadequate information on securities.

SECTION 10. STATE CONTROL OF THE ISSUANCE

AND CIRCULATION OF SECURITIES

Article 38. Bodies of State Control of the Issuance and Circulation of Securities

The Securities and Stock Market State Commission and its regional offices exercise control over the issuance and circulation of securities except for privatization securities. Control of the circulation of privatization securities is exercised by the State Property Fund of Ukraine.¹⁶

The Securities and Stock Market State Commission appoints state representatives to stock exchanges. They are authorized to supervise fulfillment of the charter and rules of the stock exchange and have the right to take part in management of stock exchanges.¹⁷

The Antimonopoly Committee of Ukraine exercises control over compliance with provisions of antimonopoly laws in circulation of securities.¹⁸

Article 39. Sanctions Imposed by the Securities and Stock Market State Commission and its Regional Offices¹⁹

In the case of violation of the terms specified in permits for activity related to the issuance and circulation of securities, as well as in the charter and rules of the stock exchange, the Securities and Stock Market State Commission may impose the following sanctions:

- a) a warning;
- b) a suspension of subscription to and sales of securities for a term of up to one year;
- c) a suspension of signing contracts involving certain types of activity related to the issuance and circulation of securities for a certain term;
- d) an annulment of the permit for activity related to the issuance and circulation of securities after the of repeated imposition of sanctions envisaged by items a) through c) of this Article.²⁰

The Securities and Stock Market State Commission may demand strict compliance with the charter and rules of the stock exchange and suspend a stock exchange's activity due to noncompliance with its rules.²¹

Article 40. Appeals Against Actions of State Bodies Related to Their Control of the Issuance and Circulation of Securities

Appeals against actions of the Securities and Stock Market State Commission regional offices arising from their control of the issuance and circulation of securities shall be reviewed by the Securities and Stock Market State Commission.

¹⁶ Article 38, Part One is revised by Law No. 283/96-VR of 09.07.96.

¹⁷ Article 38, Part Two is revised by Law No. 283/96-VR of 09.07.96.

¹⁸ Article 38 is appended with Part Three according to Law No. 82/95-VR of 02.03.95.

¹⁹ Title of the article is appended with changes made in compliance with Law No. 283/96-VR of 09.07.96.

²⁰ Article 39, Part One is appended with changes made in compliance with Law No. 283/96-VR of 09.07.96.

²¹ Article 39, Part Two is appended with changes made in compliance with Law No. 283/96-VR of 09.07.96.

Decisions passed by the Securities and Stock Market State Commission may be appealed to a general court or an arbitration court.²²

Article 41. International Treaties

Should an international treaty of Ukraine establish rules other than those specified by the laws of Ukraine on securities and the stock exchange, the rules of the international treaty shall prevail.

FINAL PROVISIONS

1. This Law becomes effective upon the day of its promulgation.

2. The Cabinet of Ministers of Ukraine, together with the Securities and stock market state commission shall within two months develop the following regulations: on record-keeping the right of ownership to foreign government debt bonds of Ukraine; on mechanisms of redemptions and settlements on foreign government debt securities of Ukraine; on the procedure for circulation in the secondary market for foreign government debt securities of Ukraine.

L. Kuchma, City of Kiev,
President of Ukraine

June 3, 1999
No. 719-XIV

²² Article 40 is revised by Law No. 283/96-VR of 09.07.96.