



**MONTENEGRO**

**SECURITIES AND EXCHANGE COMMISSION**

**INTERNAL DEVELOPMENT STRATEGY OF THE  
SECURITIES AND EXCHANGE COMMISSION**

**December, 2011**

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## **SECURITIES AND EXCHANGE COMMISSION**

### **VISION**

**The Securities and Exchange Commission (hereinafter referred to as: the Commission) is a legally established organization established to control and supervise the issuing and trading of securities in accordance with international rules and principles of the International Organization of Securities Commission (IOSCO).**

### **MISSION**

**The development of capital market by encouraging changes in market size, market structure or providing services in the market, with the aim of improving market performance and thus the benefits it has for the society.**

### **OUR BUSINESS PRINCIPLES**

**Approach to achieving our vision will encompass values and beliefs of the Commission:**

- **integrity;**
- **transparency;**
- **ethics;**
- **independence;**
- **citizens' trust;**
- **responsibility;**
- **objectivity;**
- **quality of provision of services and**
- **continuous improvement of capacities.**

## Capital market development

The Commission encourages capital market development.

Development of the capital market is a process in which changes in market size and market structure are done or services in the market are provided, with the aim of improving market performance and thus the benefits it has for the society.

**Market size** depends primarily on the population size in a country and its growth rate, "penetration", i.e. entry of population into the market, and on the fact whether the internationalization of the market is possible by introduction of products that can attract foreign investors.

From the aspect of **market structure**, the development can be encouraged by changing conditions for entry into the market (e.g. elimination of entry barriers) and the corresponding costs (e.g. by lowering taxes and fees in order to operate).

From the point of **the manner of conducting financial services**, market development can result in the following:

- Innovations that improve performance and distribution of services,
- Changes in pricing policy,
- Changes in the manner of doing business, i.e. the manner in which market participants approach the client and carrying out their contractual obligations. This factor is particularly important because it affects the decision of investors to participate in that market.

Improvement of market performances will be seen through the improvement of one or more of the following indicators:

- reduction of operating costs in that market in relation to costs in another market,
- increase in the market quality, reflected for example, in greater price transparency and greater liquidity,
- increase in market efficiency, reflected for example, in a shorter period of time required for clearing and settlement,
- increasing the number of products and their stability, which is reflected in the increase in: the number of instruments traded, the number of collective investment schemes, techniques used to raise capital,
- increase in the volume of activities, reflected for example on a large scale of: a formation of a new capital on the market, sale of investment units in collective investment schemes, and secondary trading.

Improvements of those indicators of market performances will generally be reflected in a reduction of capital costs, opening of new working places, promotion of economic

growth and, on that basis, in increase in personal and public income. From the standpoint of the regulator, these are the dimensions of market development in respect to which he has to run regulatory policy with the aim of market development.

The main incentive for market development has to come from the market itself. The role of the regulator is to channel and shape the initiatives coming from the market. In this context there are several things that the regulator should do.

The regulator should create a regulatory system keeping in mind that the adoption of new rules is expensive, that they should achieve a limited number of objectives and that regulation should only channel the influences coming from the market. The regulatory framework certainly should not be static but must evolve with the problems and challenges the market faces with.

Further, the regulator should establish a legal framework and sustains it in a way that creates confidence in the system stability and market integrity. In other words, the regulator may take steps that will encourage the investor to participate in that market. It is basically a long-term business whose effects on the market will be seen after several years.

Likewise, the regulator can deregulate, i.e. reduce restrictions which prevent market development and which are not necessary for investors' protection. The regulator can also encourage others in the market to eliminate protective barriers that prevent and limit the competition.

Finally, the regulator can improve the decision making process in order to provide fast and flexible service for market participants, as well as help those who want to innovate by his experience.

In this regard, various regulatory activities are carried out in different markets - the stock market, the market for corporate control, debt instruments market, as well as in other areas of importance for the functioning of capital market.

## **Capital market regulation**

The capital market is based on information. In the imagined situation of the ideal functioning of the market, the same information is available to all market participants at the same time and how that information will be used depends only on them. In reality, the situation is different. More or less informed participants with more or less knowledge and skills are present in the market. So we have situations where one party in the transaction is more informed than the other one. Consequences of unequal knowledge and skills of market participants are situations where an activity of typically stronger or superior of the participants (e.g. investment companies) representing own interests, influences the activity of another, typically weaker participant (e.g. individual investor) that has no ability to influence the situation.

The existence of informational inequality and some negative consequence of market participants' activities is the reason for the existence of market regulation. Market regulation should reduce negative effects; however, it should not limit the market mechanism and market competition.

Confidence in the market and its mechanisms is a key success factor of any financial market. Investors benefit from the normal functioning of the market environment, especially from reduction of transaction costs, increase of investment opportunities, research and innovations. It is therefore necessary to maintain a market environment, to support the effectiveness of market mechanisms and the stability of the market system as a whole.

Investors' confidence in capital market cannot be built on the assumption that the regulation may prevent or forestall any losses, i.e. failures or bankruptcy of market participants.

If investors incorrectly concluded that no company can do business successfully or cannot go bankrupt, it would negatively affect the motivation of individuals and companies to assess risk related to their investment decision, which would have, again, as a consequence a decrease of market confidence. Therefore, it is not rational to try to prevent or forestall all market failures - which is impossible. Such an attempt would lead to excessive costs increase and failures in the market would not be eliminated.

## **Objectives of the capital market regulation**

The key objectives of regulation in the area of dealing in securities are as follows:

- A) investors' protection,
- B) providing fair, efficient and transparent securities market, and
- C) reduction of systemic risk.

These three objectives are closely linked. Many of the requirements that help to ensure fairness, efficiency and transparency of the market also ensure investors' protection and help to reduce systemic risk. Similarly, many of measures used for reduction of systemic risk also provide protection to investors.

### **A) Investors' protection**

The principles of regulation regarding investors' protection in capital market imply that investors should be protected from confusing and manipulative procedures and actions, including insider trading, or trading done by an agent before the customer, as well as from misuse of client's assets.

The key component of the regulation that helps investors' protection should be establishment of the practice to publish information about issuers and their securities, accounting standards and auditing standards that are used in the formulation and publication of data. Full disclosure of information of material importance to the decisions of investors is the most important tool for ensuring investors' protection. Investors are therefore better able to assess potential risks and returns of their investments and thus protect their own interests.

Requirements for initial or permanent market participants' capital should be outlined in order to achieve an environment where a business organization dealing in securities can meet the demands of its clients and do not cause losses to them, especially if it stops working. Regulation should set standards for conducting business, which should achieve that market participants treat investors fairly and on equal terms.

Investors in the securities markets are particularly vulnerable to malversations by market intermediaries, but the opportunities for investors to take any actions can be limited. When it comes to violation of law, investors should be protected through a strong implementation of that law and should have access to other safeguard mechanisms, like the court or established arbitration.

## **B) Providing fair, efficient and transparent market**

Setting standards of trading on the stock exchange and standards on methods of performances of capital market participants helps in ensuring fairness of the market. The fairness of the market is closely connected with the protection of investors and, in particular, with the prevention of unfair practices in trading of securities. The market structure should not favor certain participants in that market compared to other ones. Regulation should seek to provide free access of the investor to the market, information or prices.

Likewise, regulations should improve market efficiency, because the timely relevant information distribution on the efficient market affects the pricing processes.

Transparency can be defined as the extent to which information about the trade (including the information before trading, as well as those after trading) become available to the public. Information before trading relate to important events regarding operations or status of the issuer whose securities are traded, while information after trading relate to prices and trading volume of all individual transactions that were actually completed. Therefore, the highest level of transparency, i.e. data availability in the market should be ensured.

## **D) Reduction of systemic risk**

Although the regulatory authority cannot be expected to eliminate the risk of financial failure of market intermediaries, regulation should strive to reduce the risk of the failure. This is primarily achieved by the requirements for establishing an adequate internal control for market intermediaries and the requirements for maintaining an adequate capital structure of market intermediaries.

Decision making and risk taking is essential for an active capital market. Regulation should improve and enable effective risk management. In that sense, an efficient and accurate process of clearing and settlement represents an essential need, in which a safe and efficient arrangement to address situation of default should exist. This matter goes beyond the framework that is established by the laws regulating securities, because it is affected by many other laws (such as Business Organization Law, Law on Business Organization Insolvency, Pledge Law, etc.).

Also the issue of reducing systemic risk is not only related to the domestic legal framework, but it is affected, when operating in international markets, by regulations of other countries.

## **Development strategy of the Commission**

The strategy of the Commission is given in six strategic goals that define its position and impact in the capital market:

1. Encouraging honest, efficient and transparent capital market aimed to protect investors in securities and to reduce systemic risk;
2. Regulating issues of securities and the securities business;
3. Exercise of oversight function over the capital market;
4. Education of capital market participants;
5. Informing the public on trends and development of the capital market;
6. Development of internal strategic capacity and organizational effectiveness to achieve objectives of tasks defined by this strategy.

In each section of the document one strategic objective is presented in a consistent format: a brief introduction is followed by definitions of specific objectives. Strategic objectives of the strategy are concretized in the Work plan of each organizational unit of the Commission, containing results indicators, specific aims, success indicators, main activities and timelines for their realization.

### **Strategic aim 1: ENCOURAGING FAIR, EFFICIENT AND TRANSPARENT CAPITAL MARKET**

#### **Specific objectives**

- a. Ensuring transparency of information;
- b. Improving communication in the capital market aimed to obtain timely high quality data.

In order to raise the level of efficiency of the capital market, the Commission will promote and develop the principles of developed financial systems, through good regulation and internationally recognized regulation, a variety of financial instruments, a good connection among the participants, as well as a greater efficiency in the mobilization and allocation of financial resources. Development of mentioned factors represents an essential prerequisite for the optimal use of financial resources, equitable economic development of the country and realization of essential economic functions of a developed market economy.

The Commission will pay particular attention to the efficient regulation of the financial market in order to maintain competition among the participants and to protect investors from fraud and abuse. Such regulatory function of the Commission will not be directed to create influence on the market mechanism, but rather the aim of regulation will be like in the previous period, to make the financial market more efficient, i.e. to reduce the systemic risk by the consistent regulation.

In the light of integration processes of Montenegro into the European Union, the Commission will, in particular, promote the principles contained in EU Transparency Directive, as well as General Implementing measures to the Transparency Directive, which regulate openness and availability of financial and non-financial information on companies, in order to create conditions for providing a required level of information openness on the capital market.

Through creation of the missing laws and regulations and their harmonization, the Commission has provided conditions for the functioning and development of the capital market in Montenegro. To this end, the Commission will continuously monitor the effects of application of laws and regulations and consider the possibility for their modification if they are not consistent with practice and standards.

## **Strategic aim 2: ISSUANCE SECURITIES REGULATION AND SUCH SECURITIES DEALING**

### **Specific objectives**

- a. Approval, i.e. recording of securities issues;
- b. Activities related to corporate activities;

The Commission, as a regulator on the capital market, is responsible for giving permissions to issuers for public securities issuance, i.e. for verification of the conditions and details of the proposed method of their issuance and registration of issues of securities. The Commission will endeavor to effectively supervise the exercise of public offering of securities in connection to which there are strict requirements regarding the form and content of the prospectus.

The Commission will also regularly keep records on the change of the voting rights status at shareholders meetings. In addition, the Commission shall keep records on the change of number of shares on the basis of distribution of shares aimed to increase or decrease the number of shares in issue, taking into account that this process cannot diminish the rights of shareholders whose shares went through the distribution.

## **Strategic aim 3: PERFORMANCE OF SUPERVISORY FUNCTIONS OVER THE CAPITAL MARKET**

### **Specific objectives**

- a. Monitoring, control and taking measures towards capital market participants;
- b. Cooperation with state authorities;

The Commission will enhance monitoring and control of the issuers and intermediaries in the capital market in Montenegro with the aim to effectively protect investors and take measures

towards all participants for violations of laws and regulations. In this respect, the efforts will be made for investors to be treated by market intermediaries in a fair and equitable manner in accordance with standards, laws and regulations. In this regard and if necessary, the Commission will also provide technical assistance to capital market participants in order to improve the overall investment culture in the market.

The Commission will continue and enhance cooperation with relevant government authorities and international bodies responsible for monitoring dealing in securities through the exchange of information and data.

#### **Strategic aim 4: EDUCATION OF CAPITAL MARKET PARTICIPANTS**

##### **Specific objectives**

- a. Public campaigns to educate the public about the functioning of securities markets;
- b. Organizing courses and seminars on capital markets, and
- c. Training for brokers, dealers and investment managers.

The Commission will endeavor to organize more public campaigns and round tables with the aim to educate the public about the functioning of capital market. All these activities will be aimed at ensuring public confidence in capital market, which has been reduced due to the effects of the global financial crisis.

During the previous period, the Commission organized several schools for the education of brokers, dealers, investment fund managers, as well as pension fund managers, where hundreds of students who were trained to work with financial intermediaries were granted licenses. Montenegro thus created a critical mass of knowledge that is ready to support further capital market development. The Commission will continue its activities by organizing schools, training, seminars and courses, all with the aim to promote knowledge as a key success factor in the capital market.

#### **Strategic aim 5: INFORMING THE PUBLIC ON TRENDS AND CAPITAL MARKET DEVELOPMENT**

##### **Specific objectives**

- a. Cooperation with similar regional organizations and other participants in the securities market;
- b. Promotion of the Commission and other participants' results in the development of capital market.

The Commission will, in its work, promote standards and principles of the International Organization of Securities Commissions (IOSCO), as well as a good practice and experiences of similar regional and international bodies. To this end, efforts shall be made to ensure the

exchange of knowledge and experience through the signing of cooperation agreements with similar organizations.

The development of capital market requires continuous efforts aimed to improve knowledge of the investment public, improve the investment climate and investment culture, as well as respect of clear rules and procedures in the capital market. The Commission will promote the importance of raising awareness about negative consequences of illegal actions or non-transparent actions taken on the capital market and their negative impact on the overall economy in Montenegro.

The Commission will promote the importance of the financial reporting policy which should ensure an equal treatment of all potential users of information. To be successful in this, the Commission will continually inform the public through its website on the results of activities taken in development and improvement of the capital market, but also through other channels of communication.

## **Strategic aim 6: DEVELOPMENT OF INTERNAL STRATEGIC CAPACITIES AND ORGANIZATIONAL EFFICIENCY FOR REALIZATION OF THE OBJECTIVES AND TASKS DEFINED BY THIS STRATEGY**

### **Specific objectives**

- a. Development and application of strategic management process and defining and implementation of key business processes related to the jurisdiction of the Commission;
- b. Development of strategic documents through implementation of developed and documented processes;
- c. Establishment, implementation and development of processes and procedures related to general and common tasks and support functions;

The Commission will, in order to improve the efficiency of its operations, implement improvement of strategic management and organizational effectiveness through defining key business processes, preparation of documents for the strategic management and effective increase of organizational performances. The Commission will formalize the existing and establish new processes and working procedures, and improve the organizational and functional achievement of tasks within its jurisdiction.

So far, formal processes and internal procedures have shown that the employees in the Commission adopted the expert knowledge, and have applied them specifically during performance of their duties, which represents a good basis for future planning of activities and improvement of existing and creation of additional internal procedures and rules. Also, the emphasis will be on establishing evidence of the possible risks involved in business,

accountability, as well as on monitoring of the results achieved. In the process of improving the strategic management, the Commission will endeavor to establish the organizational techniques and practices, which is derived from the manner the management runs a certain activity, program and project and transfer it to an intact management process.

The Commission will insist that all key procedures are documented in order to ensure that all employees who participate in the process are aware of their responsibilities and obligations and instructed how to perform their tasks. Instructions, procedures and guidelines must be clear and accessible to all who request them, and it must be seen from the same to whom they refer. Internal guidelines will be regularly inspected, as well as procedures that can be enhanced or outdated. As a rule, guidelines should include descriptions of who should perform a given task, along with a description of all documents and computer programs used. Each document will be controlled at different levels so that there is an adequate record of procedural changes and actions taken.

**WORK PLAN OF THE SECTOR/DEPARTMENT:**

#	Element	Description
1	<b>Strategic aim 1</b>	<b>ENCOURAGING FAIR, EFFICIENT AND TRANSPARENT CAPITAL MARKET</b>
2	Expected result	Effective and efficient fulfillment of expectations of the participants in the capital market
3	Performances indicators	<ul style="list-style-type: none"><li>• Improving information openness</li><li>• Improving trading efficiency and protection of trade</li><li>• Support to the development of primary market</li><li>• International promotion of the domestic capital market and attraction of foreign investors</li><li>• Partnership with the capital market institutions and listed companies</li></ul>
4	Projected annual objective	-
5	<b>Activity</b>	
6	Time frame	
7	Participants in the activity	
8	Responsible person	
9	Required resources (type/source/amount)	
10	Monitoring and evaluation plan	
11	Note	

## EXAMPLE

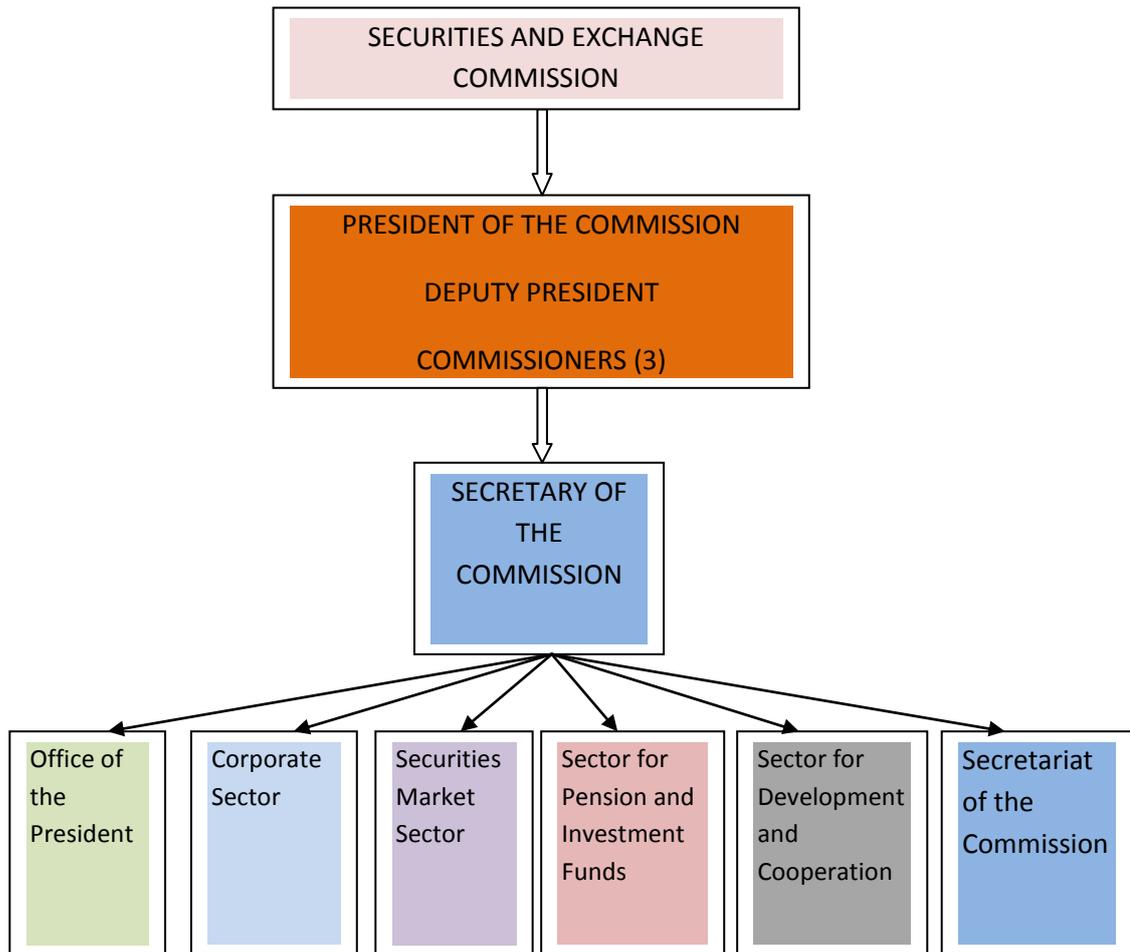
### WORK PLAN OF THE SECRETARIAT OF THE COMMISSION:

#	Element	Description
1	Strategic aims 6/1	<p><b>Development of internal strategic capacities and organizational efficiency for realization of the objectives and tasks defined by this strategy</b></p>
2	Expected result	<p><b>Efficient establishment, implementation and development of financial management and control within the Securities and Exchange Commission:</b></p> <ul style="list-style-type: none"> <li>- establishment of mission (establishment of reasons for the existence of subject and subject activities) and the subject objectives;</li> <li>- adoption of internal written policies and procedures based on laws and other regulations;</li> <li>- assessment of elements of financial management and control;</li> <li>- the adequacy of existing controls, deficiencies and actions to be taken to remedy the identified deficiencies;</li> <li>- a list of significant business processes and activities that are conducted within the subject;</li> <li>- description of the significant business processes and activities, which includes documentation of the financial and other transactions - audit trail (from beginning to end),</li> <li>- the persons responsible for implementation,</li> <li>- a manner and terms of implementation of certain processes and activities;</li> <li>- identification and risk assessment in relation to major business processes and activities;</li> <li>- analysis of the existing and determination of required additional controls.</li> </ul>
3	Performance indicators	<p><b>Promotion and establishment of clear and simple procedures for the following work processes:</b></p> <ul style="list-style-type: none"> <li>- Preparation of general regulations of the Commission;</li> </ul>

		<ul style="list-style-type: none"> <li>- preparation of individual acts on exercising the employees rights under labor relations;</li> <li>- preparation of documents for calculation of payroll, compensations and other employee benefits;</li> <li>- personnel record keeping;</li> <li>- preparation of the financial plan and cost estimate of assets and monitoring of their execution (planning and budget execution);</li> <li>- public procurement (planning and implementation of public procurement procedure),</li> <li>- accounting services;</li> <li>- cashiers operations;</li> <li>- administrative and technical tasks;</li> <li>- keeping a register;</li> <li>- archiving and preservation of archived objects;</li> <li>- handling of seals and stamps and their safe keeping;</li> <li>- photocopying of documents;</li> <li>- office and auxiliary tasks and other activities in accordance with the regulations;</li> <li>- payment of liabilities under the concluded contracts and other liabilities,</li> <li>- property protection from loss, misuse, irregularities and fraud (inventory and property records)</li> </ul>
4	Projected annual objective	<p><b>Effectively established system of financial management and control in the Commission:</b></p> <ul style="list-style-type: none"> <li>- <b>Established and enhanced procedures for recorded work processes;</b></li> <li>- <b>Annual Report on the Commission's operations;</b></li> <li>- <b>coordinating of the activities for the establishment and development of financial management and controls;</b></li> <li>- <b>identification of risk management strategy;</b></li> <li>- <b>preparing and monitoring the implementation of integrity plan;</b></li> </ul>

		- <b>reporting to the management on the status and development of financial management and control</b>
5	<b>Activity</b>	<p>1. Strategic management processes and defining and implementation of key business processes</p> <p>1. a) Planning, preparation and execution of the budget</p> <p>1. b) Development of procurement plan, execution of procurement plan, and creation of public procurement annual report</p> <p>1. c) Implementation of measures for financial operations</p> <p>1. d) Implementation of the Plan and Report on the Implementation of the Commission's integrity plan</p> <p>1. e) Implementation, procedures and measures for efficient office operations</p> <p>2. Preparation of strategic documents by implementation of developed and documented processes</p> <p>2.a) Creation of a new Rulebook on systematization and organization</p> <p>2.b) Creation of Internal Rules for planning and making of budget</p> <p>2.c) Creation of Guidelines for implementation of public procurement and efficient use of the public procurement portal</p> <p>3. Professional training of employees in accordance with identified needs and necessary skills and knowledge for fulfillment of the tasks</p> <p>3. a) Training on financial management and financial controls</p> <p>3. b) Training on office operations</p>
6	Time frame	<p>1. I -IV quarter, 2012</p> <p>2. I -IV quarter, 2012</p> <p>3. I -IV quarter, 2012</p> <p>4. I -IV quarter, 2012</p>
7	Participants in the activities	Employees of the Commission
8	Responsible person	Head of the Sector at the Commission
9	Required resources (type/source/amount)	/
10	Monitoring and evaluation plan	Monthly and annually reporting of the President of the Commission
11	Note	

## ORGANISATIONAL CHART OF THE SECURITIES AND EXCHANGE COMMISSION



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**PRESIDENT OF THE COMMISSION**

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