

Chapter 5

SUPERVISION OF THE SECURITIES MARKET IN THE REPUBLIC OF KAZAKHSTAN

by
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1. Creation of the unified supervisory body over the activities of participants of the financial market

Since year 2001, the new system of state regulation of activities of financial institutions in Kazakhstan has started to develop. This system envisages unification of all supervisory and regulatory bodies in the financial market into one specialized agency.

The development and approval of legislative environment for the functioning of such state agency of consolidated supervision on the financial market is now almost completed. On 4th July 2003, the Law of the Republic of Kazakhstan “On State Regulation and Supervision of Financial Market and Financial Organizations” was adopted. This Law establishes that regulation and supervision of the financial market and financial organizations will be exercised by a single authorized agency to be nominated by the President of the Republic of Kazakhstan. The law enters in force on 1st January 2004.

The main purpose of reforming the system of state regulation of the financial market is the creation of an independent and effective system of consolidated supervision and regulation of financial market in order (1) to increase the level of protection of rights and interests of consumers of the financial services, (2) to form stable and effective infrastructure of domestic financial market, and (3) to increase trust to the national financial system.

2. Current state agency in charge of regulation and supervision of the financial market

Currently, it is the National Bank of the Republic of Kazakhstan that is the state agency of the Republic of Kazakhstan, which exercises state regulation of the financial market and which is directly subordinate and accountable to the President of the Republic of Kazakhstan.

The main tasks of the National Bank of Kazakhstan include:

- 1) ensuring internal and external stability of the national currency of the Republic of Kazakhstan;
- 2) development and enforcement of the state policy in the area of money circulation, credit arrangements, money transfers between banks and their clients, and foreign currency relations, which contribute to the attainment of goals of economic development of Kazakhstan and its integration into the international economy;
- 3) state regulation of banking activities;
- 4) state regulation of the securities market;
- 5) state regulation and control over the activities of the accumulative pension funds; and
- 6) state regulation of insurance operations.

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The bodies of the National Bank of Kazakhstan are the Management Board and the Board of Directors (Directorate). The supreme body of the National Bank of Kazakhstan is the Management Board. The Board of Directors represents the body of operative management of the National Bank.

Currently, the Department of Financial Supervision, which is incorporated into the structure of the National Bank, supervises the activities of all the segments of Kazakhstan's financial market: banking, pension, securities, and insurance.

Main tasks of the National Bank of Kazakhstan as of the agency of state regulation of the securities market include:

- 1) state regulation of relations arising in the securities market;
- 2) protection of rights and lawful interests of investors in the securities market;
- 3) imposition of requirements binding on the participants of the securities market;
- 4) supervision over the activities of professional participants of the securities market, their self-regulating organizations, organizers of securities' trade and other entities, whose activities in the securities market is carried out based on licenses or permissions; and
- 5) organization of educational system directed towards ensuring professional level of individuals as qualified specialists on the securities market.

3. Legislation of the Republic of Kazakhstan on securities market and joint-stock companies

The middle of 2003 was marked by enactment of major legislative acts regulating relations in the securities market – Joint-Stock Companies Act and Securities Market Act.

The new Joint-Stock Companies Act dated May 13, 2003:

- eliminated the outdated division of joint-stock companies into types (open and closed), since in practice, legal and organizational form of a joint-stock company did not correspond to the nature of its activity. According to the economic theory, a joint-stock company is the one, which securities are freely circulated in the market. The following situation has developed in Kazakhstan: 33 per cents out of total number of joint-stock companies with effective securities issues as of September 1, 2003 are represented by closed joint-stock companies, which stocks were placed among a certain number of persons and were not circulating in the secondary securities market. Besides, the old law had limited stockholders' rights to dispose of stocks held by them. Management system in closed joint-stock companies was not different from the one established for limited liability companies either.
- increased the size of minimal authorized capital of joint-stock companies up to 50,000 monthly index factors (one MIF is equal to KZT 872, which makes KZT 43,600,000 or USD 294,595, USD 1 = KZT 148). Enlargement of joint-stock companies will contribute to the transparency of their activities and will increase market attractiveness of stocks, which will let joint-stock companies to attract additional internal and external investments in order to develop their activities.
- excluded the ways of placing stocks, whether closed, open, or private. During the period of effectiveness of the old Law "On Joint-Stock Companies" dated July 10, 1998, 43 per cent of all open joint-stock companies had placed them openly.

- kept the definition of "nominal value" only when stocks are placed among founders. Non-founders (outside investors) will purchase stocks at the placement price, that is, at the market price, which will influence the effectiveness of the joint-stock company.
- foresaw replacement of auditing commission that was outdated and not completely usable in terms of its controlling functions with so-called internal audit service, which now has to be permanently active and independent from the executive body. Employees of the internal audit service shall be elected by the general meeting of stockholders and shall directly report to the Board of Directors.

Former Republic of Kazakhstan Acts about Securities Market and Securities transaction registration in the Republic of Kazakhstan that entered into force in March 1997, are now outdated and do not go along with the pace of development of the Kazakhstan economy in general and of securities market in particular. It was necessary to develop new and improved law on securities market, which, in addition would (1) include norms on registration of contracts involving securities (in a separate law), and (2) unify general provisions of the large number of subordinate normative acts effective at that moment.

The new Securities Market Act dated July 2, 2003:

- specifies the functions of the state authorized agency, including the issues of liberalization of admittance of securities of foreign issuers on the territory of the Republic of Kazakhstan.
- changed (simplified) norms that govern conditions and procedure of state registration of the issuance of various types of securities and broadened and put in details the contents of documents to be submitted by the issuers.
- sets the procedure of designating legal entities with a status of financial agency and the conditions of issuance of agency bonds. The Law also provides for the particularities of the issuance and circulation of mortgage bonds, the functions of representatives of holders of secured bonds and the actions thereof related with control over the property, which serves as security of issuance of such obligations.
- defines and establishes general order of circulation of secondary securities on the territory of Kazakhstan as well as the order of issuance and placement of Kazakhstan deposit receipts.
- sets conditions for the further improvement of the systems of licensing of and supervision over financial organizations on the securities market and the creation of conditions for fair competition between them.
- governs the registration of contracts involving securities by the registrars and nominal holders and new principles of nominal holding based on strict double-level system of nominal holding, reflection of the data of securities of nominal holders of the second level within the system of nominal holder of the first level, - the Central Depository of Securities.
- for the time established basic rules of revelation and prevention of fraud on the securities market as well as rules concerning manipulation of prices and insider contracts on the market.
- established norms, which define the extent of information to be unveiled by the authorized state agency, issuers and organizations, which represent the infrastructure of the securities market.

4. Self-regulation in the securities market of the Republic of Kazakhstan

Despite the fact that the creation of two-tier system of regulation of activities of professional participants of the securities market in Kazakhstan by means of self-regulating entities was more than once mentioned in various official programmatic documents as of the main directions of the development of securities market, self-regulation of the activities of professional participants of the securities market in Kazakhstan is still underdeveloped. Presently, there are two such self-regulating entities in Kazakhstan: (1) Kazakhstan Association of Registry Holders, which unites almost all registrars in Kazakhstan, and (2) Association of Assets Managers, whose members are being companies dealing with pension assets management, custody banks and pension funds.

5. Classification of methods and procedures of supervision

The system of certain procedures, methods, rules of regulation, and supervisory relations, which are shaped in the securities market, can be classified according to:

Entities of regulation, activities of which are to be regulated and supervised, and which are represented by organizations engaged in entrepreneurial activity in the securities market

- professional participants of the securities market, that is legal entities, which work in the form of joint-stock companies and which are licensed to work in the securities market (clauses 1.1-1.7);
- organizations licensed to work in the securities market, such as organizers of trades (stock exchange and quoting agency of the off-exchange securities market); and
- organizations that have permits to operate in the securities market, such as self-regulating entities in the securities market and educational centers dealing with training of qualified specialists of the securities market;

1) Organizations involved in keeping registers of securities' holders ("registrars"). Registrar is a professional participant of the securities market, who forms, keeps and maintains the system of registers of securities' holders.

2) Central Depository of Securities ("CD"). The Central Depository is a professional participant of the securities market which registers contracts with financial instruments, registers and confirms the depositors' (their clients) rights as to the financial instruments, dematerializes and stores financial instruments, issued in documentary form including clearing of contracts with financial instruments between depositors as well as maintenance of system of registers of securities' holders provided there is a relevant license.

3) Custodians ("CUS"). A custodian is a professional participant of the securities market, which registers financial instruments and money of the clients and confirms the rights thereto, maintains documentary financial instruments of clients and is responsible for their safety.

4) Brokers/dealers. A broker is a professional participant of the securities market, who concludes transactions with issued securities and other financial instruments under assignment of, at the cost of and in the interests of the client. A dealer is a professional participant of the securities market, who concludes transactions with issued securities and other financial instruments in its interests and at its own cost by means of placing quotations at the organized securities market and/or by means of publishing them in mass media.

5) Transfer agents (“TA”). A transfer agent is a professional participant of the securities market, who renders services on purchase and transfer of documents (information) between clients.

6) Organizations that manage investment portfolios (“IPM”).

7) Companies that manage pension assets (“PAMC”) and managers of investment portfolios are professional participants of the securities market which, on their own behalf and in the interests and at the cost of a client carries out activities of managing the object of civil rights.

8) An trades' organizer is a stock exchange and quoting entity of an off-exchange securities market (Kazakhstan Stock Exchange – “KASE”). Stock exchange is a legal entity created in the form of joint-stock company and dealing with organizational and technical support of trades by means of holding them using trade systems of the organizer. Quoting entity of the off-exchange securities market is a legal entity created in the form of a joint-stock company and dealing with organizational and technical support of trades by means of utilization and maintenance of the system of quotation exchange between clients of the organizer of trades.

9) Self-regulating organizations (“SRO”) of the securities market are legal entities created by professional participants of the securities market in the form of associations (unions) with the purpose of establishing uniform rules and standards of operation in the securities market.

The sources of information

The Department of Financial Supervision, when exercising supervisory functions, utilizes information on a permanent basis that is received:

- in the process of licensing of a commercial entity;
- in the course of exercising current control over the activities and subjects of regulation of the securities market, by means of regular reports and additional information (described in Section "Types of reporting for the entities of the securities market (SM)"); and
- during check-ups of activities of the SM entity (described in Section "Checking up the activities of the SM licensed participants").

The following are the additional sources of information on the activities of SM entities used by the department of financial supervision:

- any mass media legalized in accordance with the legislation of the Republic of Kazakhstan;
- information submitted by potential and existing issuers of securities and investors; and
- other official sources.

Certain components and procedures that are subject to permanent control (described in Section “Components, methods, and procedures of supervision over the activities of the SM entities”)

It is necessary to point out that various types of licensed participants of the securities market of the Republic of Kazakhstan are applied with very similar and uniform principles and standards of supervision, most important of which are shown in the table below.

Requirements to the licensee of the securities market

Requirement	Subjects of regulation of the SM								
	Registrars	CD	Custody	Brokers/ Dealers	TA	PAMC	IPM	KASE	SRO
Formation of the authorized and own capital	+/+	+/-	+/+	+/+	+/+	+/+	+/+	+/-	-/-
Prudential norms and criteria of financial stability	+	-	+	+	+	+	+	+	-
Organizational structure	-	-	-	+	-	+	+	+	+
Qualified specialists	+	+	+	+	+	+	+	+	+
Software	+	+	+	+	+	+	+	+	-
Daily reporting	-	-	+	-	-	+	-	-	-
Weekly reporting	+	-	+	+	+	+	-	+	-
Monthly reporting	-	-	+	+	+	+	-	+	-
Quarterly reporting	+	+	+	+	+	+	+	-	+
Annual reporting	+	+	+	+	+	+	+	+	-
Annual external audit	+	+	+	+	+	+	+	+	-

6. Types of reporting of the licensed participants of the securities market

Professional SM participants submit reports summarizing their activities, which are subject to check-up according to the principle of consecution, where the data of submitted reports and data of previous reports are analyzed and compared, and to cross-checkup of the compliance of data of submitted reports with the data of reports of other participants of the securities market.

Below are the types of reporting of the SM licensed participants:

- 1) Daily electronic reporting, to be submitted by custodians with regard to the registration and keeping of pension assets in custody, in view of each separate serviced accumulative pension fund, namely reports on movement of pension assets; accrued and paid commission remunerations; structure of pension assets; movement of pension assets in view of each separate foreign currency.
- 2) Weekly reporting, to be submitted by:
 - registrars on the registered operations of transfer of securities;
 - brokers/dealers on the contracts concluded in off-exchange securities market with non-state securities; and by brokers/dealers who are being nominal holders - the reports must be submitted for registered operations of transfer of securities;
 - the stock exchange upon the results of trade of non-state securities;
 - banks-custodians, with regard to activities, related to the registration and keeping of pension assets in custody, in view of each separate working day of the week and each separate serviced accumulative pension fund, namely reports on movement of pension assets; accrued and paid commission remunerations; structure of pension assets; movement of pension assets in view of each separate foreign currency; and
 - organizations that carry out investment management of pension assets for the activity related to the allocation of pension assets and their assessment, in view of each separate working day of the week, namely reports on the cost of “net” pension assets; structure of pension assets in view of each separate serviced accumulative pension fund; concluded

transaction on investment of pension and own assets; structure of own assets; calculation of prudential norms and financial reporting.

3) Monthly reporting, to be submitted by:

- brokers/dealers with summary data on non-performed and performed contracts with securities;
- the stock exchange, summarizing the activity on organizing trades with securities, including data on concluded transactions within the trade system, members of the KASE, securities, included into trade lists, and financial reporting;
- banks-custodians, with regard to activities, related to the registration and keeping of pension assets in custody, namely summarized monthly reports on movement of pension assets; accrued and paid commission remunerations; structure of pension assets; movement of pension assets in view of each separate foreign currency; and
- organizations that carry out investment management of pension assets for the activity related to the allocation of pension assets and their assessment, namely reports on the cost of "net" pension assets; structure of pension assets in view of each separate serviced accumulative pension fund; concluded transaction of investment of pension and own assets; structure of own assets; calculation of prudential norms and balance sheet.

4) Quarterly reporting, to be submitted by all SM entities, summarizing the results of their activities, excluding companies managing pension assets and the stock exchange. Namely the following reports are submitted by:

- registrars: reports on serviced issues of securities, number of transactions with certain securities, leftovers of securities on the accounts of nominal holders;
- Central Depository: reports on all transactions on transfer of securities and on those securities that are nominally held by its depositors;
- bank-custodians: reports on all concluded transactions on transfer of securities and on securities that are in nominal holding;
- brokers/dealers: reports on all concluded transactions involving securities and securities found in nominal holding; and
- self-regulating organizations: reports on all conducted measures in accordance with main goals and tasks and in accordance with annual internal plan of activities submitted to the authorized body as well as information on members of SRO, member of the Board of SRO and officers of the executive body of SRO.

7. Check-ups of the activities of the participants of securities market

The SM entities are checked by the Department of Inspection and can be scheduled (conducted in accordance with the approved quarterly plan) and unscheduled and conducted due to the following:

- 1) violation of securities market legislation is revealed in the course of examining the reporting of the SM entities;
- 2) complaint on the actions of a securities market entity is received; and
- 3) other state bodies require it.

The check-ups are conducted at the whereabouts of SM entities or by means of requesting copies of necessary documents. Duration of one check-up does not normally exceed thirty days.

Check-ups at the whereabouts of SM entities are, in fact, the most complete and accurate sources of information about the activities of securities market participants. The main purpose of conducting check-ups is to determine compliance of the real state of business of an entity with the requirements of legislation of the Republic of Kazakhstan and with the data submitted by an entity during licensing process and the data in reporting. Namely the following is checked:

- 1) general organization of business and documents management;
- 2) presence of internal documents that govern the procedure for carrying out activities in the securities market and that establish organizational structure of the licensed SM entity;
- 3) availability of facilities, soft- and hardware ensuring proper and uninterrupted professional activity in the securities market;
- 4) presence of minimal number of specialists, who possess relevant qualification certificates and documents, which prove their labor relations with the SM entity checked;
- 5) contents of logs of registration, client's accounts, other registration matters that are needed to be conducted by the licensed entity, as well as their authenticity and compliance with the legislation of Kazakhstan pertaining to the securities market;
- 6) originals of clients' orders and instructions, contracts with counterparts of the licensed SM entity as well as its own internal (investment) decisions, which serve as a basis for any operations or transactions associated with activities in the securities market;
- 7) safety of keeping of primary documentation and registration logs of the licensed entity as well as the regularity of archiving of the mentioned documentation submitted in the electronic format;
- 8) authenticity and compliance of the procedure of preparation, registration and maintenance of the daily calculations of own capital as well as the criteria of financial stability and of prudential norms;
- 9) book-keeping policy and compliance of basic principles and rules of accounting with the requirements of legislation of the Republic of Kazakhstan on accounting and book-keeping;
- 10) presence of financial investments and other assets, the value of which is reflected in submitted financial statements, by means of checking original excerpts of registry holders, nominal holders, which confirm the property rights to securities or the originals of documents confirming their acquisition, legality of their usage as well as correctness of reflection in balance sheets; and
- 11) incoming and outgoing documentation of the licensed SM entity, its registration in view of compliance of all aspects of its activity with the legislation of the Republic of Kazakhstan.

After the completion of check-up, a "check-up act" is prepared within five days, which is to be signed by the members of controlling commission and sent to the entity that was checked.

The checked entity either signs the check-up act or officially (in writing) objects thereto. Based on the objection, a comparative table is drawn up (contents of the act and objections thereto), in which commentaries and clarifications of the members of the controlling commission as to the violations discovered, are produced.

The check-up act and, when present, the comparative table, is submitted to the administration of the National Bank of the Republic of Kazakhstan for a decision on further steps with regard to the entity checked or of the officers thereof.

Further operation of the securities market entity with regard to elimination of violations found in the course of a check-up, is controlled by a supervising specialist from the Department of Monitoring and Prudential Regulation of the Department of Financial Supervision.

8. Components, methods and procedures of supervision of activity of regulated entities of the securities market

The system of supervision over activity of SM participants may be divided into separate components of the control over:

- 1) compliance of general organization of business of a SM participant, activity procedure for its activity in the securities market and its internal documents management system with the requirements of the legislation of the Republic of Kazakhstan on securities market and internal rules of regulated entities of securities market agreed upon with the authorized agency;
- 2) operations of participants of SM. Transactions carried out by participants of SM are checked with respect to their compliance with the requirements of legislation of the Republic of Kazakhstan on securities market;
- 3) SM participants' staff. Supervision of compliance of qualification of SM participants' staff with the qualification requirements. This includes supervision over availability:
 - of statutory minimum of specialists with relevant qualification certificates issued by authorized agency, which may be of the following three categories: (1) for the right to conclude transactions; (2) for the right of registration and execution of transactions in the securities market; and (3) for the right of management of investment portfolio, in the staff of a SM participant;
 - of qualification certificates of relevant category with officials and other employees participating in conclusion, performance, registration and recording of transaction with the securities, execution of other operations associated with the licensed activities in the securities market (except for the technical transactions);
 - of consents of the Qualification Commission of the authorized agency given to the managers, including chief accountants of the licensees to their appointment/election. Candidatures for the managerial positions get approved in order to determine their professional aptitude. It is mandatory for all the licensees;
- 4) financial statements data of SM participants. Balance sheet with an explanatory note must be presented weekly by PAMC, monthly by the stock exchange, and quarterly by other SM participants (except for SRO). These SM participants upon expiry of an accounting year must present financial statements, auditors' report confirming the data of the financial statements for the past fiscal year;
- 5) compliance of value and procedure of calculation financial stability factors and prudential standards of SM participants with requirements established by the normative and legal acts on the securities market:
 - financial stability criteria established for brokers/dealers: adequacy of owned capital and absolute liquidity of assets;

- financial stability criteria established for registrars: adequacy of own capital and absolute liquidity of assets;
 - banks-custodians must comply with the requirements established by the National Bank of the Republic of Kazakhstan in the Rules on prudential standards for the second tier banks;
 - prudential norms established for the PAMC are the following: adequacy of own capital, profitability of the pension assets, investment of own funds to non-current assets or inventories, amount of reserve capital depending on the amount of the pension assets that are under investment management of the PAMC, investments at cost of own assets, investments into non-governmental securities of one issuer, in deposits in one second tier bank;
 - Central Depository of securities must meet the requirements on minimum amount of own capital calculated in accordance with the accounting rules as well as reserve and insurance capitals;
 - stock exchange should comply with the requirement on minimum amount of own capital calculated in accordance with the accounting rules;
- 6) availability of material, technical, software and other facilities of SM participants that ensure uninterrupted performance by them of the main activity on transactions with the securities, their registration or effective performance of such activities with the securities, as well as their compliance with requirements of the effective legislation of the Republic of Kazakhstan.

9. Development of the Securities Market

The concept of development of financial sector of the Republic of Kazakhstan for the period till 2006 approved by the Enactment of the Government of the Republic of Kazakhstan in July of 2003 established that, measures on further introduction of international standards of regulation of certain segments of the financial market, such as principles of the Basel Committee for the banking system, requirements of the International Association of Insurance Supervision (IAIS) for the insurance market, principles of regulation of securities market of the International Organization of Securities Commission (IOSCO) will be continued for the purposes of improvement of mechanisms and procedures of supervision over the financial market. Apart from that certain standards and directives of the European Union on the issues of prudential regulation of the financial market participants will be gradually adapted for the purpose of formation of healthy and complete infrastructure of the financial market.

The following are the main directions of development of the securities market:

- 1) development of domestic institutional investors;
- 2) extension of possibilities for investments;
- 3) improvement of mechanism of protection of rights and interest of investors;
- 4) elaboration and implementation of principles of risks management in the securities market; and
- 5) development and upgrade of technical infrastructure of the securities market.

Development of domestic institutional investors

Main task here is development and realization of the potential of domestic institutional investors as main entities of mobilization and redistribution of vacant resources into the real sector of economy.

Currently only PAMC are the large institutional investors in Kazakhstan, whilst there is not a single investment fund operating as of today, and the second tier banks, which have concentrated sufficient volume of resources, and insurance organizations due to the weak development of the insurance market have not fully realized their potential of the institutional investors.

In this connection one of the priority tasks of development of the securities market is improvement of mechanisms of attraction of savings of the population (non-professional investors) through collective forms of investments. Efforts of the state will be mainly aimed at development of investment funds as the main form of voluntary attraction of savings of the small non-professional investors and at investment of such funds into the equity market instruments. Adoption of the new law "On Investment Funds" and improvement of the normative base of the organizations conducting the activity on securities portfolio management will promote realization of such task. This will also raise the effectiveness of investment of assets of legal entities and qualified investors – individuals.

It is assumed that any organizations licensed to manage investment portfolios, except for insurance (reinsurance) organizations, will be able to manage investment funds for the purpose of boosting development of collective investment schemes. Such companies will be able to use the networks of transfer-agents in the securities market or their settlements departments, if it is a bank that manages the investments portfolio, in order to distribute participatory interests or shares of investment funds. Such a scheme will allow using all possible resources for people at large to participate in investment programs. Optimization of taxation of incomes of investment funds depositors will be another important direction of development of the forms of collective investments. Measures on implementation of such optimization will be taken in the course of elaboration of the draft of new law "On Investment Funds". At the same time Investment Funds of Kazakhstan (IFK) was created for realization of the state investment policy. Key activities of IFK are reflected in the Strategy of Industrial and Innovational Development till the year 2015.

Extension of possibilities for investments

Formation of comprehensive list of attractive financial instruments is one of the priorities for development of domestic securities market. The principal goal of this direction is the creation of conditions for appearance and establishment of the new financial instruments, which will favor investor's ability to reallocate credit risks by means of diversification of investments, and as for the enterprises-issuers – new sources of borrowings that are a relatively cheap alternative to bank credits.

Today, one can observe heavy deficit of attractive financial instruments of the securities market, which was caused by constant growth of investment potential of domestic institutional investors. Another factor entailing the deficit of instruments attractive for institutional investors is high level of affiliation of financial market participants with the principal issuers of the official "A" list of Kazakhstan Stock Exchange, particularly with regards to the shares issued by the financial organizations, mostly by banks. Thus, the organizations performing investments management of pension assets for the purposes of diversification of the investment portfolios of accumulative pension funds are forced to mostly place available pension assets in foreign markets.

Realization of this goal requires implementation of a system of procedures and measures aimed at the following:

- increase of investment attractiveness of Kazakhstan shares and bonds within which a special consideration will be given to observance of corporate management standards, reinforcement of principles of protection of rights and interests of minor shareholders, payment discipline at the joint-stock companies and transparency of their activity; and
- development of debt securities market, as part of which measures stimulating emergence of new types of bonds (agency or mortgage bonds) and new instruments of monetary market (commercial papers and deposit certificates) will be implemented.

Launch of market of agency bonds will allow the financial agencies to perform an effective borrowing policy during realization of the state investment policy. Establishment of this instrument will be promoted by preferential taxation, authorization of purchase of agency bonds at the expense of the pension assets of accumulative pension funds and assets of insurance (reinsurance) organizations, admission to refinancing by the National Bank as well as inclusion of agency bonds into the rank of liquid assets for calculation of prudential standards and financial stability factors of the financial institutions. These measures will stimulate establishment of the agency bonds as attractive marketable instruments and will increase their competitiveness against corporate bonds.

Launch of market of convertible deposit certificates will promote occurrence of a new source for borrowings for the second tier banks and increase of their deposit base, while flexibility of terms and procedure for payment of interest thereon will promote marketability of this instrument;

- development of the derivative securities and financial instruments market, within which measures stimulating occurrence and establishment of Kazakhstan depositary receipts, derivative instruments on debt securities, hedging instruments of interest and foreign currency exposures, contract instruments will be continued.

Development of market of hedging instruments of interest and foreign currency risks will promote risk reduction of both institutional investors and enterprises – participants of export-import transactions. Occurrence of derivative contract instruments with base assets for the goods will promote risk deduction of foreign trade transactions against variation of prices.

Improvement of mechanism of protection of rights and interests of investors

Constant improvement of the system of protection of rights and interests of investors is required as the securities market gets developed, new financial institutions and instruments occur and new technologies develop. The level of protection of rights and interests of shareholders in the Republic of Kazakhstan deserved the rate of the European Bank for Reconstruction and Development of "sufficient comprehensive protection" in 2000.

Realization of this trend requires step-by-step introduction of the following measures:

- transition to the international standards of disclosure of information in the securities market, which will be implemented on the basis of adaptation of the European Union Directives On Disclosure of Information in Kazakhstan, particularly, during the listing procedure in the organized market, in the offering prospectus, regular statements of the listing companies and information about major holders. The principal measure aimed at increase of informative transparency of Kazakhstan securities market will be creation of centralized systems for disclosure of information on activities of the joint-stock companies (including introduction of mandatory disclosure of information by all the participants of the financial market and joint-stock companies). Another material step in this direction will certainly be transition by all the economic entities of the Republic of Kazakhstan to the international standards of financial

reporting in 2003-2004 which will ensure completeness, lucidity and authenticity of the disclosed information for investors;

- improvement of regulation of the licensed SM entities. This measure contemplates introduction of prudential regulation with regard to the licensed entities of the securities market, which are the main intermediates of investment process. At the same time there will be gradual adaptation of certain standards of financial stability, professional ethics and procedures of cooperation with the clients to comply with the European Union Directives' requirements. The mentioned measures besides increase of level of investors' protection will facilitate lucidity of the domestic market which is one of the conditions for upgrade of the development level of securities market;
- encouragement of bona fide competition in the securities market. Within this issue measures on adaptation of the norms of European Union Directives on issues of inside trade and abusive acts in the securities market will be taken. Moreover, such preventive measures as enhancement of transparency level of stock auction, disclosure of information on conflict of interests and activation of business of the market-makers in the securities market will be stimulated; and
- measures to ensure preservation of assets of institutional investors besides the package of aforementioned measures, will include constant improvement of listing requirements including that on differentiation of issuers as per economy sectors, increase of level of diversification of their investment portfolios and establishment of insurance risks in the securities market.

Elaboration and implementation of principles of risks management in the securities market.

With regard to risks management in the securities market, it should be noted that in the legislation of the Republic of Kazakhstan besides the following general requirements to the professional participants of the securities market on:

- availability of certain minimum of the qualified specialists;
- compliance with the prudential standards and financial stability criteria;
- compliance with the requirements on organizational structure, availability of separate structural subdivisions for each type of activity carried out in the securities market;
- availability of software-hardware, means of communication and other property enabling uninterrupted and high-grade servicing of the clients;
- annual auditing of financial and economic activity;

there are no any specific standards purposed for risks management or favoring their mitigation, like exposure hedging.

Participants of securities market and the authorized body of the Republic of Kazakhstan still have to work on elaboration of rules of risks management, which would identify and limit fraud and manipulations in the securities market, including with the use of the inside information, as well as the activity of the securities market participants that is in conflict with the principles of commercial ethics.

It is expected that as both insurance and securities markets keep developing further in the Republic of Kazakhstan, insurance of transactions with securities and exposure hedging of activity of different categories of professional equity market participants will be also duly developed apart from creation of special systems of risks management in the equity market. Experience of insurance organizations from the countries with advanced financial systems that deal with insurance of participants of securities market would be very useful for Kazakhstan at this stage.

Development and improvement of technical infrastructure of the securities market.

Development of technical infrastructure of the securities market will be mainly aimed at improvement of current infrastructure, establishment of its certain components and enhancement of the procedure for interaction with the foreign securities market participants.

The following are the primary tasks of the development of technical infrastructure of the national securities market:

- Ensuring full access for the citizens of the Republic of Kazakhstan living in different regions of the country to the services of financial institutions. Development of transfer-agents network in the securities market will be required for that in the nearest future. After such a network is sufficiently formed, the state's actions will be aimed at upgrading the quality of the intermediary services rendered by the transfer-agents;
- Increasing reliability and enhancing informational systems of all the entities of the technical infrastructure, first of all those of the Kazakhstan Stock Exchange, Central Depository and independent registrars. Requirements to operation of the technical systems of all the entities of the technical infrastructure will be increased and normative and legal base on the procedural and methodological issues of accounting of new financial instruments and transactions therewith will be elaborated as part of this task;
- Increasing the level of protection of the rights certified with the securities by means of establishment of a diversified organization (with branches in all the oblast centers and largest cities of an oblast level) on the base of the Central Depository in the years 2004-2005, which will perform functions of a central depository, registrar and payment agent in the securities market;
- Development of procedures for interaction of domestic market technical infrastructure entities with the entities of the foreign states securities markets, for instance on the issues of mutual acknowledgement of licenses and opening of nominal holders' accounts for non-residents;
- Expansion of the list of operations of broker and dealer organizations of the securities market and, at the same time, increasing of the level of their capitalization including the access to the exchange market.

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