The Pragma Corporation

USAID Securities Market Development Project

Monthly Report

(for the period from July 13 through September 30, 1997)

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	Gabriel Al-Salem
COTR USAID/CAR	Paul Davis, William Baldridge

ALMATY, KAZAKHSTAN

THE PRAGMA CORPORATION
USAID SECURITIES MARKET DEVELOPMENT PROJECT

REPORT
July, August, September 1997

This report covers the initial activities of the USAID Securities Market Development Project for the period July 13, 1998 through September 30, 1997. For a more detailed accounting of events in capital market development for this period, please reference the monthly reports for July, August and September 1997 of the USAID Securities Regulatory Project, Phase III, also managed by The Pragma Corporation.

A. EXECUTIVE SUMMARY

Pragma legal advisors continued working closely with NSC staff members in the development of a plan to move the new Joint Stock Company Law. The proposed law is presently stagnated in the RK President's office. At the same time, the recently promulgated RK Government Resolution on transformation of Privatization Investment Funds (PIFs) was reviewed to determine its impact on the Pragma Project's future Task Order requirements. A public education plan was presented to the NSC Chairman regarding PIF transformation. The plan is being held in abeyance pending Government funding of the solicitation process.

A Pragma legal advisor with the assistance of a short-term expert, reviewed the NSC implementation of the Law on Investment Funds. Certain suggestions for improvement and assistance of existing regulations has, and will be, provided the NSC staff. Certain assistance was provided the Pension Fund Reform Project in the drafting of legal opinion covering creation, under existing law, of a non-profit organization. Pragma also assisted with the development of a training program, in conjunction with the World Bank, covering the Impact of Capital Markets on Pension Fund Reform.

2. PROJECT DESCRIPTION:

The objectives of the Kazakhstan portion of this Task Order are:

Task I:

To continue to work with Kazakhstan's National Securities Commission in order to augment the legal framework for securities regulation.

Task II:

To assist the government in its "blue chip" privatization program.

Task III:

To assist the National Association of Broker/Dealers in the establishment of an over-the-counter securities trading system and in the development of the NABD's ability to operate as a self-regulatory organization.

Task IV:

To assist the Kazakhstan Stock Exchange and the Central Depository in their development of operational procedures, internal regulations, and computer systems.

3. PROJECT STATUS/KEY EVENTS

1. National Securities Commission:

Pragma's Chief Legal advisor worked closely with the NSC's Natasha Maximova on revisions to the new Joint Stock Company law, as suggested in comments received from the various RK Government ministries to which the draft had been recently circulated. The NSC advised that the draft law was sent to the President's legal staff for their consideration. However, the law had remained in the President's Office and no movement had been made toward forwarding it to the Parliament. The staff initiated steps to determine if action could be taken to remedy the factors contributing to it's stagnation.

Work has begun on the establishment of a proper legal and regulatory framework to support the transformation of PIFs into investment companies and/or mutual fund organizations. The recently enacted RK Government Resolution on PIF transformation was reviewed to determine its impact on Pragma's future task order responsibilities.

In connection with it's review of the PIF transformation resolution, the staff prepared a plan for public education campaign to supplement the Government's efforts in the PIF transformation and presented the plan to the NSC Chairman. However, while in excess of 115 PIFs had obtained their receipt holder lists from the Privatization Committee and executed the necessary documents to transfer companies obtained at auction, it was determined that no Government authority had proffered the necessary funds to bear the costs of providing the newspaper disclosure materials, the ballots for voting or other attendant costs of conducting proxy vote. Steps are being taken to assist the Government and no USAID public education funds will be expended until the Government funds the proxy solicitation.

The staff utilized the services of a short-term expert to aid in the review of the NSC's implementation of the recently enacted Law on Investment Funds. Based upon our review, we determined that, while the NSC staff had performed a decent job of implementation, certain additional regulations were necessary, In particular, we had suggestions to close a weakness in limitation on investment manager's compensation. Moreover, suggestions were made to develop

regulations and forms for licensing investment funds and managers and certain agreements called for by the law. The staff will assist the NSC in developing the regulations and forms.

The staff assisted the Pension Fund Reform Project in the preparation of a legal analysis for the consideration of the NS Chairman of the existing law with a view to the creation of a non-profit pension fund organization.

Assisted in the development of World Bank sponsored training session on the Impact of Capital Markets on Pension Plan Reform. Met with a World Bank official on the matter.

To further enhance Pragma's technical assistance to the NSC, Pragma's Chief Legal Advisor has established a full-time office facility within the NSC headquarters building in Almaty. The office will provide full legal and administrative support facilities and staff, and is expected to work closely with NSC Chairman Marchenko.

2. Association of Registrars, Custodians, and Transfer Agents:

Pragma advisors attended several meetings in connection with NSC Commissioner Kulinov's deliberations on the creation of a central share registrar for Kazakhstan. Pragma has consistently recommended that the existing system of independent registrars be retained, with more attention focused on development of effective automated share re-registration system interfaces, and registrar regulation and monitoring procedures. Meetings with registrar organizations continued into September to pursue their membership in the proposed Central Depository SRO.

C.0 PROGRESS TOWARD BENCHMARKS

Subject to the above, the following progress toward benchmarks has been achieved:

- Final comments have been received from various RK Government ministries in connection with the new Joint Stock Company law. Appropriate revisions have been made and submitted to the Prime Minister's office for inclusion in the draft to be delivered to the RK President's legal staff. Appropriate steps are being taken to alleviate the stagnation of the law at that Office.

- Pragma staff began their review of the NSC's implementation of the recently enacted Law on Investment Funds and plans to continue their efforts to assist in the creation of such rules necessary for a clear and concise program for registration, clearance and reporting of fund activities.

- The program of training of NSC officials and staff is continuing by the proposed Seminar on Impact of Capital Markets on Pension Fund Reform.

- A fully-staffed Pragma legal office was established and is functioning at the NSC headquarters, managed by the team's Chief Legal Advisor. The office is a substantial

element of Pragma's on-going program of technical support to the NSC staff.

D. IMPLEMENTATION ISSUES:

Progress on Task Order implementation is contingent upon the following:

- Formal licensing of KASE and the Central Depository by the NSC, together with a broad-based purchase of KASE shares by a majority of broker/dealer organizations.

- The legal basis and mechanism for private placement of blue chip securities to institutional investors, through the successful enactment of the re-drafted Joint Stock Company law by the RK Parliament.

- Receipt of realistic bids from potential institutional investors, based upon blue chip operating and financial information presented at the July investment conference.

- Conversion and audit of financial statements of blue chip companies as prerequisites for proper listing of state shares packages at KASE.

- Integration of the CMA trading system with the CDCS systems now being developed by the NBK and KSE organizations.

E. PROJECT STAFFING:

The following consultant personnel were engaged in project activities during the months of July, August, and September 1997:

July 1997
Simon Eades, Senior Capital Market Advisor

August 1997
Richard Bewick, Capital Market Advisor
Gabriel El-Salem, COP
Simon Eades, Senior Capital Market Advisor

September 1997
Jack Gaffney, Capital Market Advisor
Gabriel El-Salem, Capital market Advisor, COP
Rick Dvorin, Senior Capital Market Advisor
Stanley Judd, Senior Attorney (Short Term)
Timothy Smith, Capital Markets Advisor

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(for the period ending October 31,1997)

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ALMATY, KAZAKHSTAN

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THE PRAGMA CORPORATION
Securities Market Development Project

MONTHLY REPORT
October 1997

A. EXECUTIVE SUMMARY

This month saw the resignation of Prime Minister Akezhan Kazhegeldin, officially due to health reasons, and the appointment as Prime Minister of Nurlan Balgimbaev, former president of Kazakoil, the national oil company. Several ministerial-level resignations followed, including that of National Securities Commission Chairman Grigory Marchenko; at the press conference at which he announced his resignation, Mr. Marchenko cited differences in opinion with the new Prime Minister over strategies for the development of the securities market as a major reason for his resignation. Mr. Aben Bektasov, a deputy governor of the National Bank, was appointed by the President as the new NSC Chairman. In meetings with Pragma consultants, Mr. Bektasov said that he would continue the securities market development policies put in place by Mr. Marchenko.

Pragma's Senior Consultant for broker/dealer and self-regulatory organization issues put forth a proposal for the creation of a "central market" for corporate securities in Kazakhstan. The concept entails the establishment of a single self-regulatory organization with two divisions, one responsible for the operation of all trading systems and the other responsible for all regulatory functions; presumably the current management and staff of KASE would form the former division while the NABD's would form the latter. This concept gained the acceptance of NSC Commissioner Kulinov and was discussed in great detail with the heads of KASE and the NABD.

Trading continued on the Kazakhstan Stock Exchange (KASE), Kazakhstan's model charter exchange, with **2** new companies listed for a total of **3** companies now listed at KASE. A Pragma short term consultant assessed the existing operational procedures at both KASE and the Central Depository and completed manuals on operational procedures for both institutions. The manuals are being translated for distribution.

Pragma continued development of the OTC trading system for the National Association of Broker/Dealers. The NABD chose Pragma's system in a competitive tender held in September. Two local systems developers were hired and have been tasked with refining various components of the OTC system.

Pragma's Senior Consultant for investment banking issues compiled an Offering Manual for use by NSC officials. The manual will be useful in educating those in the NSC responsible for the blue chip privatization program about internationally accepted procedures followed in such offerings. He also made a presentation at the

USAID/World Bank seminar on the securities market implications of pension reform, which was held in late October in cooperation with the Arman training center.

The Financial Times informed Pragma that the www.kazecon.kz Internet web site, "The Securities Market and Privatization in the Republic of Kazakhstan," was short-listed in the FT Business Web Site 1997 competition. The winners in the competition are to be announced at an awards ceremony in London in early November.

B. PROJECT DESCRIPTION:

The objectives of this Task Order are:

Task I:

To continue to work with Kazakhstan's National Securities Commission in order to augment the legal framework for securities regulation.

Task II:

To assist the government in its "blue chip" privatization program.

Task III:

To assist the National Association of Broker/Dealers in the establishment of an over-the-counter securities trading system and in the development of the NABD's ability to operate as a self-regulatory organization.

Task IV:

To assist the Kazakhstan Stock Exchange and the Central Depository in their development of operational procedures, internal regulations, and computer systems.

C. PROJECT STATUS/KEY EVENTS

National Association of Broker/Dealers:

- OTC trading system: Work continues on the trading system for the OTC market. The basic trading workplace is functional and now is being refined to ensure full compliance with applicable trading rules. Also, the workplace's interface is undergoing some improvements in order to make it more user-friendly. An additional demonstration of the system was conducted for NABD members, who provided useful feedback. Two local systems developers were hired and have been tasked with refining various components of the OTC system.

- Central market: Furthered discussion on a combined "central market" concept for the stock exchange and OTC market to be combined. The concept entails the establishment of a single self-regulatory organization with two divisions, one responsible for the operation of all trading systems and the other responsible for all

regulatory functions; presumably the current management and staff of KASE would form the former division while the NABD's would form the latter. Alternately, KASE and the NABD could continue existing as separate organizations and agree to a division of functions in which KASE would operate all trading systems - be they floor-based or remote access OTC systems - and the NABD would have all regulatory and enforcement functions; in this scenario, only the NABD would receive SRO status. Operationally, the central market would probably be more beneficial and more efficient for brokers, dealers, and customers. Commissioner Kulinov has given the concept his support and has agreed to work with Pragma to facilitate a consensus between KASE and the NABD on this issue.

Kazakhstan Stock Exchange and Central Depository:

- KASE and Central Depository operational procedures: A Pragma short term consultant assessed the existing operational procedures at both KASE and the Central Depository and completed manuals on operational procedures for both institutions. The manuals are being translated for distribution.

- Central registrar: Conducted meetings with Central Depository and the Fund Center, one of the major independent registrar firms, to determine the Depository's capabilities to act as the Central Registrar. The Fund Center could perform the functions of a central registrar if it were to merge with the Central Depository. Further discussions are needed, particularly with the NSC, in order to determine the feasibility of this proposal.

National Securities Commission:

- Information management for improved enforcement capability: Pragma is working closely with Commissioner Kulinov on the further development of the NSC databases of issuers and securities market professionals. The databases, which were designed and are maintained by Pragma staff, provide the basis for the creation of an information management system that would greatly enhance the NSC's enforcement capability. The database of share issuers, for example, will be expanded to allow for input of regular filings of disclosure information; this will allow the NSC to know at a glance which issuers have filed and which have not. More importantly, this issuer-specific information will be used in the creation of a Kazakhstani version of "Edgar," the US SEC's Internet web site that contains filed information on individual issuers. Thus, the NSC's enhanced information management system will benefit not only the NSC itself but will provide direct access to filed company data to investors around the world as well.

Various:

- The Financial Times informed Pragma that the www.kazecon.kz Internet web site, "The Securities Market and Privatization in the Republic of Kazakhstan," was short-listed in the FT Business Web Site 1997 competition. Pragma entered the site in the "public sector" category in July. The competing web sites will be judged by a panel of experts from the Financial Times and UUNET UK, one of Europe's largest

Internet service providers. The winners in the competition are to be announced at an awards ceremony in London in early November.

D. PROGRESS TOWARD BENCHMARKS

- KSE has continued trading, has listed a total of **3** issues, and is reviewing the listing applications of 5 additional issues.

- The drafting of operational manuals for KASE and the Central Depository was completed. The manuals will be translated for distribution in November.

- Development of the OTC trading system for the NABD continued; the system's workstation is complete and is undergoing refinements.

- The effort to create an SRO that manages trading systems and regulates securities market professionals was advanced by Pragma's proposing the "central market" concept.

E. PROJECT STAFFING:

The following consultant personnel were engaged in project activities this month:

- Gabriel Al-Salem, Team Leader, Capital Markets Advisor
- Richard Dvorin, Capital Markets Advisor
- Simon Eades, Capital Markets Advisor
- John Gaffney, Capital Markets Advisor
- Timothy Smith, Capital Markets Advisor

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ALMATY, KAZAKHSTAN

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THE PRAGMA CORPORATION
Securities Market Development Project

MONTHLY REPORT
November 1997

EXECUTIVE SUMMARY

Trading continued on the Kazakhstan Stock Exchange (KASE), Kazakhstan's model charter exchange, with 6 new companies listed for a total of 8 companies now listed at KASE. The volume of trades totaled $1.53 million, and November saw the first million-dollar transaction, in Kazchrome shares, since KASE opened trading in September. Pragma assisted the National Securities Commission (NSC) in reviewing some suspicious transactions, which were ultimately determined to be properly executed.

At a ceremony at the Financial Times' headquarters in London, SMDP's Internet Web site, "The Securities Market and Privatization in the Republic of Kazakhstan," won a top award in the FT Business Web Site 1997 Awards. The site, accessible at www.kazecon.kz, was the winner in the public sector category, in which it competed with sites from Ireland, the USA, and Great Britain.

Discussions continued regarding the proposal for the creation of a "central market" for corporate securities in Kazakhstan. The concept entails the establishment of a single self-regulatory organization with two divisions, one responsible for the operation of all trading systems and the other responsible for all regulatory functions; presumably the current management and staff of KASE would form the former division while the NABD's would form the latter. The NABD's management agreed to prepare a draft agreement on the division of responsibilities between the NABD and KASE but reneged on this promise in late November, continuing to insist that the NABD should operate the OTC system. As a result, USAID/CAR has suspended all direct assistance to the NABD, and Pragma, at USAID/CAR's request, has done likewise.

A new Government resolution on the "blue chip" privatization program was issued on November 15. The resolution contains instructions to the interministerial tender commission to begin negotiations with investment banks regarding the offering of shares of five of the blue chips and indefinitely postpones the offering of shares of the remaining eight companies that were slated in June for the first round of blue chip offerings.

B. PROJECT DESCRIPTION:

The objectives of this Task Order are:

Task I:

To continue to work with Kazakhstan's National Securities Commission in order to augment the legal framework for securities regulation.

Task II:

To assist the government in its "blue chip" privatization program.

Task III:

To assist the National Association of Broker/Dealers in the establishment of an over-the-counter securities trading system and in the development of the NABD's ability to operate as a self-regulatory organization.

Task IV:

To assist the Kazakhstan Stock Exchange and the Central Depository in their development of operational procedures, internal regulations, and computer systems.

C. PROJECT STATUS/KEY EVENTS

National Association of Broker/Dealers:

Central market: Consensus building and working sessions were held on the "central market" concept for the stock exchange and OTC market to be combined. The concept entails the establishment of a single self-regulatory organization with two divisions, one responsible for the operation of all trading systems and the other responsible for all regulatory functions; presumably the current management and staff of KASE would form the former division while the NABD's would form the latter. Alternately, KASE and the NABD could continue existing as separate organizations and agree to a division of functions in which KASE would operate all trading systems - be they floor-based or remote access OTC systems - and the NABD would have all regulatory and enforcement functions; in this scenario, only the NABD would receive SRO status. Operationally, the central market would probably be more beneficial and more efficient for brokers, dealers, and customers. Commissioner Kulinov has given the concept his support and has agreed to work with Pragma to facilitate a consensus between KASE and the NABD on this issue.

Drafted arbitration procedures for use with the NABD. However, due to the suspension of support to the NABD, the completed, amended Russian version (legalized) has not been delivered to the NABD. These procedures can be slightly amended to be used by KASE. Work continued on the draft training manual on enforcement and compliance.

Blue chip privatization:

New resolution: a new Government resolution on the "blue chip" privatization program was issued on November 15. The resolution contains instructions to the interministerial tender commission to begin negotiations with investment banks regarding the offering of shares of five of the blue chips (Zhezkazgantsvetmet, Mangistaumunaigaz, Kazaktelekom, Aktobemunaigaz, and the Ust-Kamenogorsk Titanium-Magnesium Complex) and indefinitely postpones the offering of shares of the remaining eight companies that were slated in June for the first round of blue chip offerings.

Kazakhstan Stock Exchange and Central Depository:

KASE trading continues: trading continued on KASE with 6 new companies listed for a total of 8 companies now listed at KASE; of these, one (Kazkommertsbank) is listed in category A, another (the Ust-Kamenogorsk Titanium-Magnesium Complex) is listed in category B, and six other issues are on the pre-listing board. The volume of trades totaled $1.53 million, and November saw the first million-dollar transaction, in Kazchrome shares, since KASE opened trading in September.

Trades reviewed: Pragma assisted the National Securities Commission (NSC) in reviewing some suspicious transactions on KASE, which were ultimately determined to be proper trades. The four transactions, in Kazaktelekom stock, took place within a period of several seconds, but the prices in the latter two trades were almost double the prices in the former two. After reviewing the transaction information, Pragma and the NSC agreed that all four trades were properly executed.

Review of KASE's N listing trading system: this review was done to determine the system's functionality. This system is really an extension of the Australian Trading System that is used for Blue Chip trading. The functionality was determined to be more than adequate for immediate OTC trading.
Central registrar: Conducted further meetings with Central Depository and the Fund Center, one of the major independent registrar firms, to determine the Depository's capabilities to act as the Central Registrar. The Fund Center could perform the functions of a central registrar if it were to merge with the Central Depository. Currently, the position of the Fund Center's management is not to pursue becoming the Central Registrar and rather to continue developing its business as one of the approximately thirty licensed independent registrars.

National Securities Commission:

Information management for improved enforcement capability: Pragma is working closely with Commissioner Kulinov on the further development of the NSC databases of issuers and securities market professionals. The databases, which were designed and are maintained by Pragma staff, provide the basis for the creation of an information management system that would greatly enhance the NSC's enforcement capability as well as its ability to make filed information accessible to investors around the world by Internet. A working group that includes Pragma staff was established at the NSC this month

specifically to work on information management issues. At the last meeting of the working group this month, the NSC requested that Pragma design the information reporting forms which will be regularly filled out by issuers and market professionals on a mandatory basis.

Memorandum of Understanding: Pragma's new Chief Legal Advisor assisted in the further development of the MOU to be signed by the US Ambassador and Kazakhstan's Prime Minister regarding continued technical assistance. In addition to points regarding capital markets development, the MOU will contain provisions on pension reform and accounting reform.

Various:

FT Business Web Site award: At a ceremony at the Financial Times' headquarters in London, SMDP's Internet Web site, "The Securities Market and Privatization in the Republic of Kazakhstan," won a top award in the FT Business Web Site 1997 Awards. The site, accessible at www.kazecon.kz, was the winner in the public sector category, in which it competed with sites from Ireland, the USA, and Great Britain.

The panel of judges, consisting of Internet business experts from the Financial Times and UUNET UK, commented that the site had "an impressive and unique site aim - to develop the business of an entire country by contributing to the establishment of a liquid securities market in this young country through the creation of an information resource for interested parties throughout the world." The judges also complimented the site for using the Internet in "stimulating overseas investment in an affordable way."

PROGRESS TOWARD BENCHMARKS

KSE has continued trading, has listed a total of 8 issues, and is reviewing the listing applications of 4 additional issues.

Operational manuals for KASE and the Central Depository were finalized.

Development of the OTC trading system for the NABD continued; the system's workstation is complete and is undergoing refinements.

The effort to create an SRO that manages trading systems and regulates securities market professionals was advanced by Pragma's furthering the "central market" concept.

E. PROJECT STAFFING:

The following consultant personnel were engaged in project activities this month:

Gabriel Al-Salem, Team Leader, Capital Markets Advisor
Lois Cohen, Attorney Advisor

Richard Dvorin, Capital Markets Advisor
Simon Eades, Capital Markets Advisor
Timothy Smith, Capital Markets Advisor

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ALMATY, KAZAKHSTAN

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THE PRAGMA CORPORATION
Securities Market Development Project

MONTHLY REPORT
December 1997

A. EXECUTIVE SUMMARY

With our counterparts at the National Commission on Securities (NSC) and in consultation with USAID/CAR we defined a revised workplan and short term goals for the Project. This re-definition of methods and targets was necessitated by November's personnel changes at the NSC, along with an apparent recalcitrance on the part of some of our other counterparts, notably ones at the National Association of Broker Dealers (NABD). During the month we formally withdrew all Project support from the NABD, with the Project's consultant for broker/dealer and market regulation issues (R. Dvorin) refocusing on developing the Kazakhstan Stock Exchange (KSE) as the country's primary regulator of market practices.

At monthy-end four companies' equity securities were listed for trading on the KSE, an increase of two over the prior month. An additional eight companies appeared on the pre-listing board, an increase of two over the prior month. Trading volume on the KSE, however, remains at disappointing levels, though the trading levels are volatile. The Project has defined a plan of work aimed at extinguishing most off-exchange trading in Kazakhstan within the first two months of the New Year. Should this be successful then trading volumes on the KSE should rise rapidly and substantially (ideally, perhaps ten- to twenty-fold, to as much as $100,000 equivalent per day).

The Project's legal advisor liased with and advised the NSC concerning new regulations aimed at extinguishing the bulk of off-exchange secrities trading in Kazakhstan (above). She also evolved with the NSC certain new practices that will have the effect of improving NSC oversight of broker-dealers (particularly their compliance with capital rules) and market activity (the new practices include new trade-reporting forms and rules). This work will spill into January and beyond, and is expected to be substantially complete, with the new practices functioning smoothly, by end-February.

During the month the government of the RK finalised a list of five of the so-called "blue-chip" companies, some of whose shares are to be offered to investors through underwriting syndicates. The Project has devoted substantial amounts of time and effort advising the government—through the NSC (the agency formally charged with preparing for the offerings)—on the proper arrangements. Our object has been to ensure that as many of the shares as possible remain for trading through the KSE and the local broker-dealer community, rather than being traded offshore in the form of American or Global Depository Recepits (ADRs, GDRs). In this respect we made substantial progress in a difficult area, evolving a plan (which has been accepted by the NSC) for the government to require of underwriters that preferential treatment is given to Kazakhstan investors in the allotting of shares.

Project work continued on the development of computer systems and in connection with the development of other market capacities and capabilities—particularly connected with the new central depository and with independent registrars, all in furtherance of the Task Order objectives. Work on the OTC trading system has shifted in emphasis now that the KSE is identified as the new operator of the system, following withdrawal of Project support from the NABD. The system to be used by the KSE is one involving software previously purchased by the KSE and Project work will be aimed at helping the KSE adapt and modify the software to work effectively in the planned manner.

B. PROJECT DESCRIPTION:

The objectives of this Task Order are:

Task I:

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Task II:

To assist the government in its "blue chip" privatization program.

Task III:

To assist in the establishment of an over-the-counter securities trading system and in the development of market organisations' ability to implement effective self-regulation.

Task IV:

To assist the Kazakhstan Stock Exchange and the Central Depository in their development of operational procedures, internal regulations, and computer systems.

C. PROJECT STATUS/KEY EVENTS

National Association of Broker/Dealers, Kazakhstan Stock Exchange:

- It was concluded during the month that in light of certain new emphases placed by the Project on the achievement of short-term goals, insufficient results were being achieved from our work with the NSC to justify a continued investment of effort. After numerous discussions, internally and with the NABD itself, the Project and USAID withdrew all support from the NABD and refocused its efforts connected with the development of self-regulatory bodies (SROs) on the KSE as the leading market SRO. R. Dvorin evolved a plan for the development of a SRO capability by the KSE

and for training at the KSE to ensure proper functioning in the KSE's new role. The plan, which provided for close cooperation between the KSE and NSC, as overseer of SROs, was accepted by the NSC. At month-end details of the plan remained to be agreed with the KSE. R. Dvorin continued work on a training manual for enforcement and compliance, which will be a foundation document for the KSE's new role as SRO.

- OTC trading system: As noted above, work here shifted substantially in emphasis as support was withdrawn from the NABD and refocused on the KSE. Development work ceased on the trading system formerly developed by the Project for the NABD and was refocused on helping the KSE refine a system previously purchased by it. This shift in focus was welcome for the Project, since it enabled certain resources to be directed towards development work on the NSC database (below) and towards work on the Kyrgyzstan trading system, which is due to start functioning in January.

- Central market: Work continued on implementing the plan developed for the "combined central market" involving the stock exchange and OTC market.

National Securities Commission:

- The Project is working with the NSC on the further development of the NSC databases (see preceding monthly report). The work has progressed modestly during the month, due to more pressing objectives for the computer development team elsewhere in Kazakhstan and in Kyrgyzstan (see below). That said, Pragma local staff have made good progress on identifying the basic elements of the databases and have commenced work on the design of the relevant software.

- The Project worked closely with senior NSC Commissioners during the month on various matters, in furtherance of our Task Order objectives and beyond. (i) We developed detailed cooperation plans connected with privatisation, SRO-development, enforcement and oversight issues, and corporate disclosure/securities registration. (ii) We started implementation of the relevant workplans. And (iii) we advised the NSC concerning required revisions to the draft companies law for Kazakhstan.

- Concerning the workplan connected with improving broker/dealer oversight and regulation, a plan has been evolved and agreed among the Project, USAID and the NSC for placing Project personnel "on the ground" in the NSC to lead by example in connection with broker/dealer regulation and oversight. It is anticipated that this work will rapidly enhance the standards of market practices and practitioners.

- The Project has proposed a programme of regulation-promulgation to the NSC aimed at eliminating trading of securities on unregulated markets. The proposed regulations and instructions, to be promulgated under existing powers of the NSC, will simply require all trading through regulated market participants to take place on an authorised market. The proposed regulations are being drafted and will be the subject of discussions with the NSC through mid to late January. Once promulgated, work will

begin on ensuring compliance. The aim is to substantially eliminate trading outside of unregulated markets by the end of Q1 1998.

Other computer systems development:

Pursuant to the Task Order (Tasks III and IV, above), the Project is involved in the development of certain computer systems connected with trading systems and database management. The Project's computer specialist, T. Smith, is responsible for similar developmental work in Bishkek, Kyrgyzstan. Most of his work during the month was focused on the Bishkek stock exchange and depository software development. This is due to be functional in January.

Time was also spent receiving and transferring equipment on the first phase of procurement for the Kazakhstan/Kyrgyzstan Task Orders. Work proceeded on software development for the KSE's new trading system (as noted above) and the Central Depository. Six complete software programs have to be finished and tested: Trade Floor Administrator, Cashier, Depository Administrator, Broker Workplace, Print Server, and the SQL Server Database (to connect all of the modules). This work has progressed well in December and January implementation is anticipated.

Phase I Procurement: Close to $80,000 of equipment for both the Kazakhstan and Kyrgyzstan Task Orders was received in December. Much time was spent clearing customs without paying VAT. This was accomplished successfully. The equipment was inventoried and some of it was transferred to local counterparts.

Phase 2 Procurement: The total computer equipment procurement for the Kazakhstan and Kyrgyzstan Task Orders exceeds $100,000 in each case. This requires documentation to be submitted to USAID Washington for approval. This documentation has been prepared and a draft is being reviewed by Pragma in Washington. There is $50,000 in money from the Kazakhstan OTC system that needs to be reallocated to other local organizations before the Phase 2 procurement can proceed.

Work connected with the NSC database development and web sites has been detailed above.

D. PROGRESS TOWARD BENCHMARKS

- On "blue-chip" privatisation, the Project had its suggestions accepted concerning the mechanics of new offerings, a move that will assure that as many shares as possible are traded within the Kazakhstan market, rather than being taken offshore, to be traded in the form of American or Global Depository Receipts.

- On market regulation, the progress made in evolving and agreeing a well-defined short-term plan and goals should ensure that we produce long-sought results in terms of closing unregulated trading and bringing the bulk of such trading under the purview of market regulators.

- The revised emphasis on the KSE as principal SRO give rise to a srong hope that over the coming two to three months we will achieve the long-sought result of a strong, functional and effective market practices overseer.

- The programme of regulation-promulgation should substantially eliminate trading outside of unregulated markets by the end of Q1 1998.

E. PROJECT STAFFING:

The following consultant personnel were engaged in project activities this month:

- Lois Cohen, Attorney Advisor
- Richard Dvorin, Capital Markets Advisor
- Simon Eades, Capital Markets Advisor
- Gabriel Al-Salem
- Timothy Smith, Capital Markets Advisor