The Pragma Corporation

USAID Securities Market Development Project

Monthly Report

(for the period ending January 31, 1998)

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	Simon Eades
COTR USAID/CAR	Paul Davis, William Baldridge

ALMATY, KAZAKHSTAN

THE PRAGMA CORPORATION
Securities Market Development Project

MONTHLY REPORT
January 1998

A. EXECUTIVE SUMMARY

The project has pressed ahead with implementation of the workplan defined during the previous month. Results have been mixed. In the area of "blue-chip" privatization and stock exchange development progress has been disappointing, with our counterparts in government and the Kazakhstan Stock Exchange (KSE) showing little inclination to work with us in important areas. On the other hand, our work with the National Commission on Securities (NSC) aimed at establishing a system of competent and effective market oversight broker surveillance is progressing apace, with (by and large) good cooperation from our counterpart. Ahead of schedule we have already achieved the first step towards a functioning trade-reporting system—a revised broker-reporting instruction for the NSC. Hardware and software development connected with the new reporting system is also progressing, on schedule.

The KSE made little progress during the month in attracting more companies' securities to any form of listing. At month-end there remained four issues listed on the KSE, with an additional eight companies on the pre-listing board. Trading volume on the KSE did not pick up meaningfully over the prior month. Our program aimed at extinguishing off-exchange trading, thereby leading to increased KSE activity, is, however, on-track, with generally good support from the NSC concerning broker reporting. We will, however, need to see a real commitment from the NSC to the promulgation of new regulations prohibiting unregulated trading if our ultimate objective is to be achieved. There was some evidence of resistance from the NSC to this during the month. Future progress towards a fully-regulated trading environment will also depend upon the level of cooperation shown by the KSE and brokerage community.

The programme of offering shares in five so-called "blue-chip" companies stagnated during the month. It appears to us that there is an on-going debate within the very highest levels of government over the merits of the programme. We have tried to have some input to these deliberations, but it is clear that we have not and probably cannot have any meaningful impact.

Project work continued on the development of computer systems connected with broker-reporting and information collection, maintenance and dissemination by the NSC.

Project personnel worked during the month on the drafting of a new Memorandum of Understanding (MoU) between the government of the RK and USAID.

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 in the establishment of an over-the-counter securities trading system and in the development of market organizations' 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 Securities Commission:

A new Reporting Instruction for broker-dealers, registrars and other market participants was written during the month Some small changes were made by the NSC to our draft, the resulting (interim) Instruction—encouragingly—being signed and put into effect by the Commissioners almost immediately. A longer, more detailed superceding Reporting Instruction will now be drafted, the implementation of which will need approvals from the Ministries of Justice and Finance. We anticipate achieving regular reporting by the bulk of market participants during February and full reporting within a couple of months thereafter, subject to the development of systems and software which allows for the electronic submission of data and its proper processing by the NSC. This will be a significant achievement and the first important step towards our goal of a fully-transparent market.

We also instituted during the month a program of training for NSC staff charged with responsibility for broker oversight. This will be on-going and is aimed at familiarizing them with the mechanics and need for market reporting. Once this has been accomplished we will begin implementation of our plan for NSC investigations of brokers rule and practice enforcement.

The Project continues to work with the NSC on the further development of the NSC databases. During January, most of this work was aimed at establishing the systems which will allow for reporting (above).

Mainly through our short-term consultant, Tom Allen, good progress was made during the month with the NSC and KSE towards developing and improving the standards of corporate disclosure connected with securities registration and stock exchange listings. A series of meetings was held with both institutions to press the need for full and adequate disclosure. Following these meetings the project started to compile a series of written presentations for dissemination to companies, to educate them on disclosure standards and how to meet them. Additional materials were being compiled for the NSC and KSE.

During the month we failed to achieve meaningful progress towards an NSC-promulgated regulation requiring all securities trading through regulated market participants to take place on an authorized market. It appears that such a regulation will be sufficiently controversial (with opposition largely from market participants) that its implementation will take substantially longer than we had previously hoped. We remain, however, somewhat optimistic that some form of regulation—even if weaker than we might have hoped—will be achievable in the coming two or three months.

Most of the more controversial measures we want to see from the NSC were included as NSC undertakings in the draft MoU we produced during the month. A series of preliminary meetings on the draft MoU was held. At this stage it appears, again, that we are getting good cooperation from the NSC. This process will spill well into February, and probably into March as more controversial undertakings concerning pension reform are incorporated into the draft MoU.

During the month we refocused our team of five locals, which is based at the NSC. We felt that their historical role of helping assemble and check new registrations connected with mass privatizations did little to further our goals of market development. We thus started redeploying them to help with improving the standards of corporate disclosure; some are also to be trained for a role helping on market enforcement issues.

"Blue-chip" privatization:

No obvious progress was made during the month towards effecting the further sales of the five companies earmarked for the first round of so-called "blue-chip" privatization. With USAID we must, during the coming month, carefully review our commitment to helping the government in this aspect of the markets development program. At present it looks increasingly doubtful that the government is going to be prepared to demonstrate a sustained commitment to this privatization program.

During the month we aided other USAID projects lobby the government for substantial changes to the draft company law, which was due to be submitted to parliament early in the month. (The submission has been delayed.) Feelings ran very high within the USAID community concerning the need for reasonably radical amendments to the draft. There were some strong disagreements between the project and USAID/CAR over how best and most effectively to handle to handle the lobbying; at the consequent behest of Paul Davis the project's Team Leader will be leaving the project in March.

National Association of Broker/Dealers, Kazakhstan Stock Exchange:

Our principal consultant in this area—R. Dvorin—was absent for the first week of the month, and for the latter part of the month he assumed the role of interim Team Leader. Despite this, he made some important progress with what are proving somewhat problematic counterparts (problematic insofar as they sometimes appear unmotivated and unprofessional). The important initiative was taken to draft a Memorandum of Understanding between the project and the KSE, so that our program going forward was clearly established with our counterparts. Work continued on the drafting of enforcement manuals, preparatory to the licensing of the KSE as a fully-fledged self regulatory organization (SRO).

A plan was evolved during the month for the project to acquire control over most of the TACIS-funded team of regional consultants, who currently collect information for dissemination through the project-maintained website. These will shortly be deployed as regional agents, responsible for educating companies concerning corporate disclosure and for marketing to suitable companies in their regions the virtues of stock exchange listings. We are hopeful that this will accelerate the growth in investible securities available in the Kazakhstan market.

Other:

We continued during the month to work on the development of computer harware and software for the NSC, both in connection with market participant reporting (the system was undergoing tests by month-end) and the creation of an "issuers database" containing securities registration information. KSE trading and other information was added to the project-maintained website (home page: http://www.kazecon.kz; KSE address: http://kase.kazecon.org). Work was also commenced on the development of software for use by pension fund managers.

D. PROGRESS TOWARD BENCHMARKS

- On our work with the NSC, important and highly satisfying progress was made towards establishing a requirement for and a system for facilitating market participant reporting. Such reporting is important in itself (as an element in improving the overall transparency of the market) and as a step towards a fair, transparent and efficient market environment.

- On "blue-chip" privatization, substantially no progress was made during the month. Our commitment to this part of the project must now come under serious review in light of the government's apparent lack of commitment to effect meaningful "blue-chip" sales.

- With the KSE and broker-dealer community, we continued to establish the regulatory and market practices framework and evolved a plan aimed at achieving a real growth in the amount of Kazakhstan securities available for investment through the stock exchange.

E. PROJECT STAFFING:

The following consultant personnel were engaged on the project this month:

- Lois Cohen, Attorney Advisor
- Richard Dvorin, Capital Markets Advisor (vacation, 1st – 9th January)
- Simon Eades, Team Leader (vacation from 19th January)
- Tom Allen, Capital Markets Advisor (short-term; latter part of month only)
- Timothy Smith, Capital Markets Advisor

The Pragma Corporation

USAID Securities Market Development Project

Monthly Report

(for the period ending Febraury 28, 1998)

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	Simon Eades
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ALMATY, KAZAKHSTAN

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THE PRAGMA CORPORATION
Securities Market Development Project

MONTHLY REPORT
February 1998

A. EXECUTIVE SUMMARY

Overall, February was another excellent month, with substantial and meaningful progress on at least two fronts—market participant reporting and grey market elimination. Ther continue, however, to be problem areas. In particular, in the area of "blue-chip" privatization and stock exchange development progress has again been disappointing, with our counterparts in government and the Kazakhstan Stock Exchange (KSE) showing little inclination to work with us in important areas.

Our work with the National Commission on Securities (NSC) on the establishment of a system of competent and effective market oversight broker surveillance is progressing well ahead of expectations. By month-end daily activity reports were being received by the NSC from 16 market participants, well in excess of expectations. Hardware and software development connected with the new reporting system is now being expanded so that all market participants will be able to report electronically, and not by fax, as some do currently.

During the month we drafted a Memorandum of Understanding for the KSE. This will oblige the KSE to pursue new listings more aggressively than hitherto. We will also require, as a condition of our continued support, meaningful progress towards the establishment of a functioning over-the-counter (OTC) stock trading system within approximately 3 months.

For the third consecutive month the KSE made little progress during in attracting new listings: one company's shares—Kazcommerts Bank's—were added to the A listing board, bringing the listings total to five. Trading volume on the KSE did not pick up meaningfully over the prior month. The good news, however, is that KSE members resolved during the month to effect all their trades with other members through the KSE. This should lead to substantial volume increases and should go a long way towards achieving an elimination of so-called "grey market" trading.

The programme of offering shares in five so-called "blue-chip" companies remained stagnant during the month. The messages we get from counterparts is equivocal and inconsistent: that the programme is on one minute, off the next. We have resolved with USAID to critically review our position with respect to this area early next month.

Project work continued on the development of computer systems connected with broker-reporting and information collection, maintenance and dissemination by the NSC. Very good progress was made in this area, with 16 market participants having supplied daily reports to the NSC, with most reporting regularly. Work is now in progress on new software that will facilitate easier reporting (electronically) and easier manipulation of the data at the NSC.

Project personnel continued work on the drafting and negotiation of a new Memorandum of Understanding (MoU) between the government of the RK and USAID. Negotiations have been delayed by wrangles over that part of the MoU that deals not with the work of this project, but rather with pension reform issues. We are thus encouraged by the seeming willingness of the NSC to commit to the (ambitious) targets we have set for them in the draft MoU.

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. *This part of the project will come under critical review next month.*

Task III:

To assist in the establishment of an over-the-counter securities trading system and in the development of market organizations' 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

We continued the process initiated in December of refining our program of work and clarifying our objectives with counterparts. Our object is to develop a set of achievable, short-term goals, and a system for monitoring progress and revising our programs in light of changing local conditions. We continued a series of weekly coordination meetings with USAID.

National Securities Commission:

The new Reporting Instruction for broker-dealers, registrars and other market participants, introduced last month, has already produced levels of reporting which exceeded our expectations. A satisfyingly high level of reporting has been achieved during the month by all of the major market participants: 16 such participants have supplied daily reports to the NSC, with most reporting regularly. Work is now in progress on the development of systems and software which allow for the electronic submission of data and its proper processing by the NSC.

We also instituted during the month a program of training for NSC staff charged with responsibility for broker oversight. This will be on-going and is aimed at familiarizing them with the mechanics and need for market reporting.

The Project continues to work with the NSC on the further development of the NSC databases.

Our short-term consultant, Tom Allen, continued to make good progress during the month with the NSC and KSE towards developing and improving the standards of corporate disclosure connected with securities registration and stock exchange listings. He produced comprehensive disclosure manuals for dissemination to companies, the NSC and KSE. Training using these materials was also provided for our new regional consultants (see last month's report) and the project's team at the NSC.

We remain blocked on the issue of new regulations requiring all securities trading through regulated market participants to take place on an authorized market. Our proposals that the NSC promulgate such a regulation, with a view to closing-down so called "grey market" trading in the very near future has met resistance, which can probably be traced to major market participants (brokers). We will instigate a series of meetings with such major participants in an attempt to garner support for our proposed reforms, and for the rapid development of the OTC system. How successful we might be is still an open question.

Both our new regional consultants and out team of five locals, which is based at the NSC, underwent training in-house in February, to equip them for their new roles (see last month's report). We are well on the way towards their full and effective redeployment to help with improving the standards of corporate disclosure.

Another major work program initiated with the NSC concerns broker-dealer inspections. We compiled a checklist of information items to be collected by the NSC from broker-dealers, to monitor compliance with minimum capital and other rules. Towards the end of the month we gave the first in a series of planned training seminars for those NSC staff members who will be involved in broker-dealer inspections. This is the first initiative to press for enforcement of rules which have in many cases been in place for many months.

"Blue-chip" privatization:

Again, no obvious progress was made during the month towards effecting the further sales of the five companies earmarked for the first round of so-called "blue-chip" privatization. This part of the project must now come under critical review.

We continued to provide some support during the month for what little was done to prepare for and further the "blue-chip" program, should it receive support at the highest levels of government. This included supplying some further advice on underwriting

provisions to secure maximum domestic participation. USAID also approved part funding of a March trip to London by Almas Jumagaly, Head of the NSC's Department of Strategy and Coordination of Investment Activity. During the trip, Jumagaly will work with banks, fund managers and syndicate managers to achieve optimal structuring of the potential issues, so that domestic investment demand—including demand from pension funds—is accommodated.

National Association of Broker-Dealers (NABD), Kazakhstan Stock Exchange:

Following more compliant rhetoric from the NABD USAID agreed to recommence supporting the NABD on technical development issues. In return, the NABD agreed to work toward becoming an SRO and to work towards rapid establishment of a functioning, regulated OTC trading system. Early in the month the NABD agreed to cooperate with the KSE to form a separate organization under the auspices of which the proposed OTC trading system would operate. Characteristically and frustratingly, this decision was reversed by the NABD, which decided to revisit the issue in March. Occurrences such as this caused our team member responsible for SRO development to draft a proposed Memorandum of Understanding for signing by the NASBD. However, while some team members are sanguine about the likelihood of compliance it has to be said that the departing Team Leader strongly doubts that any meaningful progress will be made with this counterpart. He has urged USAID to work more closely with major market participants, the dominant among whom is not even currently a member of the NABD.

During the month a series of training trips were planned for NABD and KSE personnel. Central Depository and NSC personnel would join some of these trips, which are to certain emerging markets which have benefited from past USAID support. A further program of in-country training of NABD staff and members by project personnel was developed during the month, in conjunction with the NSC.

Project personnel drafted Rules of Fair Practice, Disciplinary Procedures, Mediation and Arbitration Procedures, as normative documents needed for SRO.

In the absence of a positive response from the NSC on rule-promulgation aimed at forcing all trading into regulated arenas we brought pressure to bear on the KSE in an attempt to achieve a narrowing of the unregulated, so-called "grey market". Happily, KSE members voted to trade with each other *only* on KASE (i.e., not off-exchange). If thery abide by this resolution our aim of eliminating the grey market will be very substantially furthered. It remains to be seen, then, whether this paper result turns out also to be a real step forward in the development of a regulated and free market.

Our short-term consultant, Tom Allen, worked with the KSE on modified A-board listing requirements, designed to facilitate easier access to such listing. These are to be discussed by KSE Council in March.

R. Dvorin continued some work with the Central Depository in an attempt to accelerate its development. During the month the World Bank worked towards finalizing details of a proposed $3.5 million loan to Depository, to be completed in March.

Other:

We continued during the month to work on the development of computer hardware and software for the NSC, both in connection with market participant reporting (the system was undergoing tests by month-end) and the creation of an "issuers database" containing securities registration information. KSE trading and other information was added to the project-maintained website. Work also continued on the development of software for use by pension fund managers.

During the month project personnel contributed comments on a section on Economic Crimes in the draft Criminal Code.

D. PROGRESS TOWARD BENCHMARKS

- Our work on market participant reporting continued to progress more rapidly than anticipated. We have already achieved regular reporting by the most prominent market participants.

- On "blue-chip" privatization, substantially no progress was made during the month. A critical review of our continued involvement is now overdue.

- With the KSE and broker-dealer community, we achieved a resolution to trade among member firms only on the KSE. If adhered to, this will go a substantial way towards achieving our aim of substantially eliminating grey market trading.

E. PROJECT STAFFING:

The following consultant personnel were engaged on the project this month:

- Tom Allen, Capital Markets Advisor (short-term—to depart March 3rd)
- Lois Cohen, Attorney Advisor (vacation, 5th – 18th February)
- Richard Dvorin, Capital Markets Advisor
- Simon Eades, Team Leader

The Pragma Corporation

USAID Securities Market Development Project

Monthly Report

(for the period ending March, 1998)

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	Alan Rosenberg
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ALMATY, KAZAKHSTAN

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THE PRAGMA CORPORATION

Securities Market Development Project

MONTHLY REPORT

March 1998

A. EXECUTIVE SUMMARY

March saw significant progress on several fronts including creation of a viable over-the counter market by virtue of cooperation between the Association of Brokers and Dealers and the Kazakhstan Stock Exchange

Progress has been achieved on several Memoranda of Understanding: agreement on a Memorandum of Understanding between the Kazakhstan Stock Exchange and AID, agreement on a Memorandum of Understanding between the Association of Brokers and Dealers and AID, and submission to AID of comments on a Memorandum of Understanding between the Republic and AID, which among other things, would require the NSC to promulgate a regulation requiring privatized companies to list their securities on the KASE (or an over-the-counter market, when established).

Pragma has revitalized its listing program by implementing thirteen actions described below, including organization of a Listing Conference on April 22 for targeted companies.

Pragma has commenced its training seminar for the NSC's broker inspection team.

Pragma has commenced its training seminar for analysts in the NSC's registration department.

We are working with the Pension Reform project on analyzing the desirability of revising investment standards for pension funds.

We have organized a training program in Moscow for seven individuals involved in Kazakhstan's depository, clearance and settlement operations.

We have cooperated with the Association of Brokers and Dealers in the organization of a seminar on problems in the markets, have drafted remarks for the Ambassador, and will speak on several topics.

We have commenced drafting a proposed regulation to address conflicts of interest which arise when asset managers for pension funds register as securities brokers.

There was no progress on the Republic's blue-chip privatization program.

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 in the establishment of an over-the-counter securities trading system and in the development of market organization's 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/TURNKEY EVENTS

We continued the process initiated in December of refining our program of work and clarifying our objectives with counterparts. Our object is to develop a set of achievable short-term goals, and a system for monitoring progress and revising our program in light of changing local conditions. We continued a series of weekly coordination meetings with AID.

National Securities Commission

A revised broker-dealer inspection module has been delivered to all of the Commission surveillance staff. We had a preliminary training session that was poorly attended, then requested Umit Kulinov to instruct his staff to attend, which he did, and they did. To make the training less burdensome on the staff, we revamped the schedule, and are providing lunch.

We also completed preparation of a training module for the NSC's Corporate Finance Division training project, to begin in April. We held discussions with NSC senior staff to insure a proper level of sophistication and relevancy for the course.

We arranged for an eight person delegation (including Rick Dvorin as USAID/Pragma representative) to visit Moscow to view depository, clearance and settlement operations. The delegation consists of Almas Asilbekov, head of the NSC's Division of Market Regulation; Damir Karasaev, Vice President of the KASE and head of its Trading and Systems Department; Idel Marsil'evich Sabitov, head of the KASE's Hardware and Software Department; Bakhydzhan Khabdeshevich Kapushev, President of the Central Depository, Elena Victorovna Studenina, Manager of the Central Depository's Operations Department; Gabit A. Tolkimbaev, President of the Association of Brokers and Dealers; and Gulmira Kapenova, Manager for Rules and Compliance, Association of Brokers and Dealers. Site visits will include the Russian Trading System Offices; the National Association of Professional Participants; the Depository; the Federal Securities Commission; and a major broker dealer.

'Blue-chip' Privatization

We surveyed several market participants to ascertain the cause of the inability of this program to move forward, and submitted a memorandum to AID outlining the results of the survey. The opinions expressed on the reason for the delay ranged from lack of audits to unconsolidated financial statements. We believe that the foregoing are excuses, rather than reasons, and that RK government unwillingness to surrender large-scale enterprises is behind the lack of progress. It is questionable whether AID should fund further efforts in this area.

National Association of Broker-Dealers, Kazakhstan Stock Exchange

We finalized the MOU between the Association of Broker-Dealers and USAID, and received the signed MOU from Gabit Tolkimbaev, president of the ABD.

We participated in a back office/books and records workgroup (among other things, explained the importance of segregation procedures and policy and segregating customer funds and securities from those of the broker/dealer.

We attended and participated in an ABD Council meeting, among other decisions, the ABD Council voted to use the KASE system for OTC trading.

We participated in the discussion at the ABD council where the Rules of Fair Practice were discussed.

We negotiated several drafts of the KASE/USAID MOU and amended the proposed MOU to reflect those negotiations.

We secured the acceptance of the KASE to jointly develop the OTC trading system with the ABD.

We presented training to NSC staff on trade reports.

We developed the inspection module for NSC broker-dealer examination staff.

We commented on a NSC draft regulation on broker-dealer activities.

We commented on a NSC draft regulation on keeping registries of securities holders.

We organized a depository operations training trip to Moscow for April.

We held discussions with the pension reform team on po9ssible investments qualifying for pension fund money.

We prepared presentations on SRO operations and prevention of fraud and manipulation for a Securities Market conference to be held on April 9-11.

We met with presidents of two broker-dealers to discuss issues in the securities market, including blue-chip privatization and clearing delays.

We gathered information on fee levels and revenue received by the KASE.

D. OTHER

We began logistical planning, reviewed our current lease and held discussions with the NSC with respect to a possible move of Pragma's offices to the NSC building.