

The Pragma Corporation
USAID Securities Market Development Project
Monthly Report
(for the period ending July 31, 1998)

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	Daniel Fitzpartick
COTR USAID/CAR	William Baldrige

ALMATY, KAZAKHSTAN

USAID SECURITIES MARKET DEVELOPMENT PROJECT

I. EXECUTIVE SUMMARY

This report provides details on the events and activities summarized below, as well as other events and activities regarding the USAID Securities Market Development Project, as implemented by consultants for the Pragma Corporation ("the Pragma Team"), for the month of July, 1998:

- TRADING CONTINUES TO BE CHARACTERIZED BY THE DOMINANCE OF OFF-EXCHANGE ACTIVITY
- PRAGMA TEAM OBTAINS COMMITMENT FROM NSC TO PROHIBIT, OR AT LEAST REDUCE, OFF-EXCHANGE TRADING.
- KASE OPENS ITS OTC TRADING SYSTEM WITH PRAGMA TEAM ASSISTANCE
- NUMBER OF COMPANIES LISTED ON KASE INCREASES SIGNIFICANTLY
- KAZAKHSTANI GOVERNMENT AGREES TO AMEND PENSION LAW, PRAGMA TEAM MEMBERS ASSIST IN DEVELOPING PROPOSALS FOR AMENDMENTS
- PRAGMA TEAM MEMBERS COMPLETE FURTHER IMPROVEMENTS TO WEBSITE
- NEW CHIEF OF PARTY APPOINTED

II. PROJECT DESCRIPTION

The Pragma Team works with the National Securities Commission ("NSC"), the National Association of Broker-Dealers ("NABD"), the Kazakhstani Stock Exchange ("KASE"), and the Central Depository in developing Kazakhstan's securities market. The goals of the project include an improved legal/regulatory system, increased volume of trading of blue chip and non-blue chip companies, the development of a viable OTC system, and the establishment of the NABD as an effective self regulatory organization. To further these goals, the Pragma Team works under a Memorandum of Understanding ("MOU") between USAID and the NABD, as well as an MOU between USAID and KASE.

III. PROJECT UPDATE AND PROGRESS VERSUS BENCHMARKS IN TASK ORDER

National Commission on Securities:

Relevant Task: Work with Kazakhstan's NSC in order to augment the legal framework for securities regulation.

In the latter part of the month, after several negotiations with the NSC, the Pragma Team obtained a preliminary commitment from the NSC to prohibit off-exchange trading. Over the past several months, the volume of off-exchange trading has outweighed the volume of trading on KASE by greater than a ten-to-one margin. In addition to the obvious result of increasing the trading volume on KASE, the prohibition (or, at least, extreme reduction) of off-exchange trading will increase the transparency and liquidity of Kazakhstan's stock exchange, attract more investors, and reduce the spread that investors are currently paying.

The Pragma Team also began assisting the NSC in drafting regulations under the Law on Joint Stock Companies which was passed in early July.

With regard to IT assistance, the Pragma Team developed a second version of the daily reporting system for broker dealers, registrars, etc. (the second version contains various improvements regarding user-friendliness). The team also continued its efforts to assist the NSC in developing a database of issued licenses for securities professionals.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
The NSC will have an Enforcement Division and possess both the legal/regulatory and operational capability to discipline market participants for securities violations.	The Department on Licensing and Surveillance works within the NSC. This department performs activities analogous to an enforcement division. This department regularly performs inspections and has suspended and canceled licenses as the result of violations.
The NSC will have developed both the internal and external procedures for rule-making and will possess the confidence necessary to develop the securities regulatory structure through rules rather than legislation.	The NSC has the authority to issue regulations pursuant to the Law on the Securities Market and a Presidential Decree that established the NSC. The procedures for developing regulations have been established by the newly-enacted Law on Normative Acts.
The NSC will have developed the regulatory structure for investment funds.	The NSC has developed several regulations stemming from the Law on Investments (passed in March, 1997). More are being developed.
The entire NSC prospectus emission review staff will have been trained in IAS and will be fully capable of understanding prospectuses and other documents that use IAS.	Consultants from the USAID Accounting Reform Project trained the relevant NSC staff members in a three week course. The Pragma Team is assessing whether further training is necessary.

Kazakhstan Stock Exchange:

Relevant Task: Assist KASE in its development of operational procedures, internal regulations, and computer systems.

Current Status: In addition to the above task, the AID mission requested that the Pragma Team assist in increasing the number of listings and the volume of trading on KASE.

In mid-July, KASE opened its long-awaited OTC trading system. Four trades worth 13 million tenge were executed on opening day. The opening attracted significant press attention. An article published in the local newspaper *Panorama*, noted the assistance that USAID had provided the Kazakhstani stock market.

In connection, with the opening of the OTC trading system, companies formerly categorized as "non-listed" came under the new OTC category. There are thus now three categories for shares, A, B and OTC. See attachment 1 for details on listings

Trades on KASE were light and continued to be dwarfed by off-exchange activity. See attachment 1 for details. See attachment 2 for month-by-month totals.

With regard to assistance to KASE, Rick Dvorin provided its surveillance staff with an overview of techniques for monitoring the OTC market. Further, Tim Smith clarified with

Azat Nukushev (the President of KASE) that USAID would provide it equipment in late August that would allow broker-dealers to remotely access KASE's trading system.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
The ISMS trading system will have been integrated into KASE so that KASE can trade corporate securities.	After the Task Order was written, Kazakh securities officials decided to develop their own system rather than adopt the ISMS. They completed this system and opened it in July, 1998.
The organizational and regulatory structure of KASE will be in place.	KASE is a licensed legal entity with a functioning charter and internal regulatory boards, etc.
A fully functioning OTC market system, able to accommodate a large volume of trading and applicable to similar markets in other countries, will be in place and fully tested and functional.	A computerized, OTC trading system opened in July 1998.
Information technology staff, who are part of the NABD, will be fully trained in the use and maintenance of the new OTC system and be able to operate it without additional expatriate assistance.	The IT staff, who are part of KASE, are capable of using and maintaining the OTC system.

National Association of Broker/Dealers:

Relevant Task: Assist the NABD in the establishment of over-the-counter securities trading system and in the development of the NABD's ability to operate as a self-regulatory organization.

Mr. Dvorin continued with his efforts to train the NABD regarding various regulatory matters. Several training sessions had to be rescheduled, however. Many of the training participants were called upon to accompany NSC staff on back-office inspection of brokers and dealers. With regard to future training efforts, Mr. Dvorin met with NSC officials to plan a listing and IPO conference as well as a seminar on back-office procedures and books and records requirements, both to be held in Almaty in mid-autumn.

As of the end of the month, the NSC still had yet to rule on the NABD application for approval as a self regulatory organization.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
NABD will be at least 75% financially self-sufficient and able to operate the OTC market system by itself, including the funding of IT personnel.	The NABD covers at least 75% of its expenses through membership fees and seminar revenues. The project pays for NABD seminar expenses (up to \$500 against receipt), and has agreed to pay the first year's membership fee in an international association of broker-dealers.
At least one Kazakhstani enterprise will have obtained corporate finance assistance from the broker/dealer community, and by the conclusion of the task order five firms will have obtained this assistance.	Spurred partly by initiatives and seminars of the Pragma Team, broker-dealers are bringing numerous companies to the OTC on a regular basis, as well as working with various enterprises

to determine means of obtaining financing.

Central Depository:

Relevant Task: Assist the Central Depository in its development of operational procedures, internal regulations, and computer systems.

In connection with the passage of the new Law on Joint Stock Companies, Mr. Dvorin and Pragma Team's local attorney drafted regulations on the interaction between the Central Depository and the registrars that will be authorized to hold shares of public companies under the new law.

With regard to IT assistance to the Central Depository, Mr. Smith met with Bakhytzhan Kupushev (the President of the Central Depository) to discuss its plans and future needs. In particular, Mr. Smith confirmed that clearance and settlement software that USAID had developed in Romania could work on the Central Depository's system and expressed hope that USAID could obtain this software for use in Kazakhstan. Subsequently, the AID mission informed the Pragma Team that this software was available.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
The organizational and regulatory structure of the Central Depository will be in place.	The Central Depository is a licensed legal entity with a functioning charter and internal regulatory boards, etc.

Corporate Finance Activities:

Relevant Task: Assist the government in a "blue chip" privatization program.

Current Status: Because Kazakhstan's blue chip privatization program was placed on hold, the Pragma Team has focused on increasing the number of listings of a broader range of companies.

With adoption of new regulations by KASE, the companies formerly categorized as "pre-listed" moved to the B board, and the "non-listed" companies were moved to the OTC market.

To further stimulate listing efforts, the Pragma Team helped organize a listing seminar for over 100 companies in mid-July. The official sponsor was the Almaty Regional Akim. Speakers included the Akim, NSC Commissioner Kulinov, the President of KASE, and the President of the ABD. Several Pragma Team members also spoke, including Paul Carlson, Andrei Nadein, and Alexander Kozlenko. After the seminar, Pragma Team members began follow-up efforts with the attendees.

Listing activities have begun picking up pace. With the assistance of the regional consultants a company located in northern Kazakhstan submitted an application for an A listing, and two other companies submitted applications for B listings. As of the end of the month, a company was awaiting final approval for an A listing and another company was awaiting final approval for a B listing.

As of the end of the month, the total number of listings had increased dramatically. See attachment 1 for details. Although this sharp increase was partly caused by the establishment

of the OTC category, further increases are expected as brokers increase their efforts to bring listing to KASE, most likely in early autumn.

Two of the more notable companies to be listed on the OTC with the help of the Pragma Team consultants was the Almaty candy factory Rakhat and the Pavlodar Refinery. Rakhat is one of Kazakhstan's largest producers of candies with a fully paid-in authorized capital of US \$7.7m. The Pavlodar Refinery, located in northern Kazakhstan, is considered one of the most modern refineries in the former Soviet Union.

The Pragma Team also explored further ways by which Kazakhstan's State Privatization Committee ("SPC") could increase its use of the stock market as a means of furthering privatization. Among the issues under discussion is an SPC mandate for having companies under its control to list their shares on the exchange.

Web Site Activities:

The Pragma Team improved the web site. It now includes the following features:

- Information on trades on KASE
- Statistics on visits to the web site
- Profiles of various large Kazakhstani companies

Other Events and Activities:

Upon a special request from the AID mission the Pragma Team began working closely with the USAID Pension Reform Project on submitting changes to the Law on Pension Provisions. One of the primary foci of the Pragma Team was clarification of the ownership rights of the beneficiaries to assets held by the pension funds.

Daniel Fitzpatrick was named Team Leader in late July.

IV. PROJECT STAFFING

The following personnel were engaged in project activities this month:

Paul Carlson, Senior Investment Advisor

Richard Dvorin, Senior Capital Markets Advisor

Daniel Fitzpatrick, Team Leader

Timothy Smith, Senior Capital Markets Advisor

Attachment I

Securities Market Development Project
Activity Analysis
30 July, 1998

Listing Monitor:

Exch	JSC's Listed	Issues Listed	Pipeline
A	3	4	1
B	11	21	35
OTC	15	24	2
Total	29	49	38

Comments: In July the pre-list issues moved up to the B board and the N list issues were assigned to the OTC market. There were four new companies listed on the OTC market representing six new issues. There are also three companies with applications pending at the exchange for A and B listings.

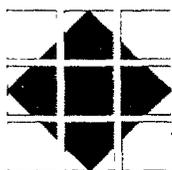
Attachment II

Securities Market Development Project

18 August 1998

1998 Comparative Stock Market Trading Statistics

Month	Off Exchange			KASE											
	Trades	Shares	Tenge Amount	Trades				Shares				Tenge Amount			
				"A"	"B"	"OTC"	Total	"A"	"B"	"OTC"	Total	"A"	"B"	"OTC"	Total
April	2,463	724,871	997,994,987				4				930				1,583,000
May	3,283	897,931	378,851,862				13				7,413				5,815,495
June	1,977	3,736,632	230,940,342				7				11,232				21,223,216
July	3,225	367,286	272,474,131	3	0	5	8	10,000	0	1,770	18,770	10,000,000	0	13,884,000	23,884,000
August															
Sept.															
Oct.															
Nov.															
Dec.															
Total	10,948	5,726,720	1,880,261,321.42				32				38,345				52,505,711



THE PRAGMA CORPORATION

USAID SECURITIES MARKET DEVELOPMENT PROJECT

MONTHLY REPORT

(Period Ended August 31, 1998)

For the

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER

Mohammad Fatoorechie

TEAM LEADER

Daniel Fitzpatrick

COTR USAID/CAR

William Baldrige

ALMATY, KAZAKHSTAN

USAID SECURITIES MARKET DEVELOPMENT PROJECT

Montly Report for August 1998

I. EXECUTIVE SUMMARY

This report provides details on the events and activities summarized below, as well as other events and activities regarding the USAID Securities Market Development Project, as implemented by consultants for the Pragma Corporation ("the Pragma Team" or "Team"), for the month of August, 1998:

- KASE and ABD reduce stock exchange fees for second tier brokers to encourage greater use of trading systems.
- NSC, after receiving input from Pragma Team decides against recommending restrictions on capital flows.
- Pragma Team begins process of preparing state-owned shares of companies to be listed on the stock exchange.
- Pragma Team submits proposals for changes to the pension law.

II. PROJECT DESCRIPTION

The Pragma Team works with the National Securities Commission ("NSC"), the Association of Broker-Dealers ("ABD"), the Kazakhstani Stock Exchange ("KASE"), and the Central Depository in developing Kazakhstan's securities market. The goals of the project include an improved legal/regulatory system, increased volume of trading of blue chip and non-blue chip companies, the development of a viable OTC system, and the establishment of the ABD as an effective self regulatory organization. To further these goals, the Pragma Team works under a Memorandum of Understanding ("MOU") between USAID and the ABD, as well as an MOU between USAID and KASE.

III. PROJECT UPDATE AND PROGRESS VERSUS BENCHMARKS IN TASK ORDER

National Commission on Securities:

Relevant Task: Work with Kazakhstan's NSC in order to augment the legal framework for securities regulation.

The Pragma Team continued to work on the issue of excessive off-exchange trading (see last month's report for a description of the off-exchange issue). A key factual question pursued by the Team was the extent to which brokers were trading with each other off-exchange. If such is the case, the need for restrictions regarding this matter would become even more compelling.

Further, the Team assisted the NSC in developing

- an instruction that would regulate the procedures for state registration and issuance of bonds;
- an instruction that would modify the rules for state registration of corporate shares;
- a regulation that would modify the rules for registrars in maintaining lists of shareholders.

The Team also assisted the NSC's Licensing and Surveillance Department with the processing of daily and monthly reports of market professionals and determining whether market professionals were maintaining the capital levels required by NSC regulations. Further, the Team continued its monthly assistance to the NSC with regard to registration of share issues.

With regard to IT assistance, the Pragma Team finalized a second version of the daily reporting system for broker dealers, registrars, etc. The installation and launch of the system awaits a decision on how the NSC will share this information with the ABD.

The Team began work on developing an internal computer network for the NSC.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
The NSC will have an Enforcement Division and possess both the legal/regulatory and operational capability to discipline market participants for securities violations.	The Department on Licensing and Surveillance works within the NSC. This department performs activities analogous to an enforcement division. This department regularly performs inspections and has suspended and canceled licenses as the result of violations.
The NSC will have developed both the internal and external procedures for rule-making and will possess the confidence necessary to develop the securities regulatory structure through rules rather than legislation.	The NSC has the authority to issue regulations pursuant to the Law on the Securities Market and a Presidential Decree that established the NSC. The procedures for developing regulations have been established by the newly-enacted Law on Normative Acts.
The NSC will have developed the regulatory structure for investment funds.	The NSC has developed several regulations stemming from the Law on Investments (passed in March, 1997). More are being developed.
The entire NSC prospectus emission review staff will have been trained in IAS and will be fully capable of understanding prospectuses and other documents that use IAS.	Consultants from the USAID Accounting Reform Project trained the relevant NSC staff members in a three week course. The Pragma Team is assessing whether further training is necessary.

Kazakhstan Stock Exchange:

Relevant Task: Assist KASE in its development of operational procedures, internal regulations, and computer systems.

Current Status: In addition to the above task, the AID mission requested that the Pragma Team assist in increasing the number of listings and the volume of trading on KASE.

In August, trading both on-exchange and off-exchange was light. This was not unexpected, given that many market professionals take their vacations during this period. Although off-exchange trades continued to dwarf those made on-exchange, the differences in volume appears to be decreasing. See attachment 1 for details and for month-by-month totals.

In order to spur on-exchange trading, KASE resolved to allow broker-dealers who are not members of KASE, to utilize the OTC trading system through March 31, 1999 without paying the requisite entrance fee (fees for initial access are \$4,000 plus a \$150 per month service fee). Given that many of these broker-dealers are the ones that are amassing shares from workers,

they will hopefully use KASE to trade these shares with other brokers now that these fees no longer apply.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
The ISMS trading system will have been integrated into KASE so that KASE can trade corporate securities.	After the Task Order was written, Kazakh securities officials decided to develop their own system rather than adopt the ISMS. They completed this system and opened it in July, 1998.
The organizational and regulatory structure of KASE will be in place.	KASE is a licensed legal entity with a functioning charter and internal regulatory boards, etc.
A fully functioning OTC market system, able to accommodate a large volume of trading and applicable to similar markets in other countries, will be in place and fully tested and functional.	A computerized, OTC trading system opened in July 1998.
Information technology staff, who are part of the ABD, will be fully trained in the use and maintenance of the new OTC system and be able to operate it without additional expatriate assistance.	The IT staff, who are part of KASE, are capable of using and maintaining the OTC system.

National Association of Broker/Dealers:

Relevant Task: Assist the ABD in the establishment of over-the-counter securities trading system and in the development of the ABD's ability to operate as a self-regulatory organization.

Rick Dvorin, the Senior Capital Markets Advisor, completed a training course on market surveillance, before leaving on vacation. The ABD surveillance officer continued to accompany NSC officials on their inspections of broker-dealer offices.

As of the end of the month, the NSC still had yet to rule on the ABD application for approval as a self regulatory organization.

Paul Carlson, the Senior Investment Advisor, met with several broker-dealers in order to prepare for and promote the seminar and consulting to be performed by Bob Thiel, who is expected to arrive in early September. Mr. Thiel's work will focus on how broker-dealers can develop and maintain a base of customers willing to invest in securities.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
ABD will be at least 75% financially self-sufficient and able to operate the OTC market system by itself, including the funding of IT personnel.	The ABD covers at least 75% of its expenses through membership fees and seminar revenues. The project pays for ABD seminar expenses (up to \$500 against receipt), and has agreed to pay the first year's membership fee in an international association of broker-dealers.
At least one Kazakhstani enterprise will have obtained corporate finance assistance from the broker/dealer community, and by the conclusion of the task order five	Spurred partly by initiatives and seminars of the Pragma Team, broker-dealers are bringing numerous companies to the OTC on a regular

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firms will have obtained this assistance.	basis, as well as working with various enterprises to determine means of obtaining financing.
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Central Depository:

Relevant Task: Assist the Central Depository in its development of operational procedures, internal regulations, and computer systems.

Discussions with the Central Depository regarding its possible, future utilization of the trading software developed by USAID in Romania continue.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
The organizational and regulatory structure of the Central Depository will be in place.	The Central Depository is a licensed legal entity with a functioning charter and internal regulatory boards, etc.

Corporate Finance Activities:

Relevant Task: Assist the government in a "blue chip" privatization program.

Current Status: Because Kazakhstan's blue chip privatization program was placed on hold by the Government, the Pragma Team has focused on increasing the number of listings of a broader range of companies.

As a result of the listing seminar in July (see last month's report for details) and the efforts of the regional consultants (who contacted more than 100 companies) the Team has developed a list of 22 serious candidates for listing applications. This list had been reduced somewhat due to several companies choosing to reregister as closed corporations under the new Law on Joint Stock Companies. The applications of two companies are currently being processed by KASE.

As of the end of the month, 35 companies (sixty share issues) were listed on the Kazakhstan stock exchange (see Appendix II for details). A full listing of Kazakhstani companies on the exchange are now be available on the Team's web site, www.kazecon.kz.

In a further reduction of barriers to listing companies, KASE reduced the time period for reviewing applications for OTC status from five days to one.

One notable new listing was that of JSC Bayan Sulu (on the B Board), one of the leading confectionery manufacturers in Kazakhstan.

Work began to prepare for listing seminars similar to the one performed in July. These will take place in Karaganda, Pavlodar, Ust-Kamenogorsk, and Astana.

Efforts that began last month in connection with listing companies held by Kazakhstan's State Privatization Committee ("SPC") have already begun to bear fruit. Early in the month, the Team, in a series of written exchanges between it and the SPC, outlined the conditions in which it would assist the SPC in privatizing through the stock market. The Team then received a list of close to 100 companies that the SPC had initially intended to privatize through the OTC. The Team has begun reviewing these companies to make sure they are appropriate for OTC privatization and to determine whether their required documentation is in order. The Team, however, expects that a close review of these companies will reveal that

many are either essentially bankrupt or hopelessly unprofitable. It is expected that one or two dozen companies from this group will eventually get listed on the stock exchange.

In further work to facilitate relations between broker-dealers and companies, Paul Carlson, the Senior Market Advisor, worked with three investment banks on how they might assist companies obtain capital and wrote up a set of guidelines for selecting a broker. These guidelines were distributed to the Team's regional consultants for further distribution onto companies on an as-needed basis.

Early in September, Mr. Carlson will be traveling to Astana to meet with SPC officials regarding the next steps in this initiative.

Finally, in terms of IT assistance, the Team began working on a system that would allow real time broadcasting of trades over the internet through the Team's website.

Web Site Activities:

The Pragma Team added a several new laws to the website in English and Russian and added a list of companies that are traded on KASE. It also began collecting references to articles on Kazakhstani legislation in both languages.

The number of sessions on Pragma Wes-site totaled 7,379. Note: a session is counted when a user opens a specific section of the web site. It is a good measure for calculating the intensity of the use of the site.

The Team also began exploring how the web site can eventually become a self funding entity.

Other Events and Activities:

Working under a special request from the AID Mission, the Pragma Team submitted to the USAID Pension Reform Project its proposed changes to the Law on Pension Provisions. The Pragma Team focused on clarification of the ownership rights of the beneficiaries to assets held by the pension funds.

During the month, the Team received a request from the NSC with regards to whether and how other emerging market countries restricted the rights of foreign investors to repatriate capital. The request stemmed from efforts of Kazakhstani officials to develop a policy response to the financial crisis facing Russia.

After coordinating with USAID and IMF officials, as well as several contractors, the Pragma Team was able to put together two responses to the NSC that emphasized the need for sound regulation in the financial sector, rather than restrictions on capital flows, as the best defense against a financial crisis. See Attachments 3 and 4. Of particular help in this effort were staff members of the back office of the Pragma Corporation, who performed a significant amount of research over a summer weekend to provide economic and policy materials to the Pragma Team on a timely basis.

IV. PROJECT STAFFING:

The following personnel were engaged in project activities this month:

Paul Carlson, Senior Investment Advisor

Richard Dvorin, Senior Capital Markets Advisor

Daniel Fitzpatrick, Team Leader

Timothy Smith, Senior Capital Markets Advisor

1998 Comparative Stock Market Trading Statistics

Month	Off Exchange			KASE											
	Trades	Shares	Tenge Amount	Trades				Shares				Tenge Amount			
				"A"	"B"	"OTC"	Total	"A"	"B"	"OTC"	Total	"A"	"B"	"OTC"	Total
April.	2 463	724 871	997 994 987				4				930				1 583 000
May	3 263	857 931	378 851 862				13				7 413				5 815 495
June	1 977	3 736 632	230 940 342				7				11 232				21 223 216
July	3 225	367 296	272 474 131	3	0	5	9	10 000	0	8 770	18 770	10 000 000	0	13 984 000	23 834 000
August	3 207	199 600	150 270 615	3	1	4	8	32 615	11 000	80	43 695	2 509 200	5 148 000	5 391 640	14 148 840
Sept.															
Oct.															
Nov.															
Dec.															
Total	14 155	5 926 323	2 030 531 936				40				82 040				66 654 551

Attachment I

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Attachment II

Securities Market Development Project
Activity Analysis
31 August, 1998

Listing Monitor:

Exch	JSC's Listed	Issues Listed	Pipeline
A	3	4	1
B	12	23	15
OTC	20	33	6
Total	35	60	22

In August, there were two new listings on the B board from one company and nine new OTC listings representing five additional companies. Total listings rose from 49 to 60 during the month and companies rose by six to 35. There are two pending B board companies which we expect the KASE council to act on soon. There are also three to four companies that we believe are very likely to complete their applications for the B board in September.

Attachment 3-A

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*Visit our site on the World Wide Web,
The Securities Market and Privatization in Kazakhstan, at
<http://www.kuzecon.kz>*

To: Mr. Niyazov
From: Daniel Fitzpatrick
Date: 12.08.98

Dear Mr. Niyazov,

For the last week the USAID Securities Market Development Project has been attempting to collect information in response to the request in your letter to me dated August 7, 1998. Further, several other USAID projects and the USAID mission itself have been attempting to gather the information you requested.

After much searching, it is our conclusion that there does not exist an up-to-date comparative analysis of the legislation on restrictions on the rights of investors to withdraw capital in countries that have been affected by the global financial crisis.

There are thus two alternatives. The first would be to perform individual research on each country and then assemble a comparative analysis. This task, however, is outside the scope of expertise of our project, and even if it were within our scope, would take weeks and perhaps months to accomplish.

The second alternative (which we chose) is to collect the annual ratings on capital flows and foreign investment regulations for various countries. These ratings are established by the Heritage Foundation, a research group based in Washington DC. According to their system, a rating of 1 or 2 indicate that the restrictions on capital flows and foreign investment are minimal. Countries with a score of approximately 3 have some restrictions in this area. Countries with a score close to 4 have significant restrictions. Countries with a score of 5 employ the most oppressive restrictions on capital flows and foreign investment.

The list of countries and their correspondent ratings are attached. Where possible, we have provided you with information on the performance of the particular country's stock market since the beginning of 1998. We can supply you with the original English language documents, if you need them.

I hope this material is helpful. Please note that over the next several days we will send you additional information if it becomes available. If you have any questions, please feel free to call.

Sincerely,

Daniel Fitzpatrick

BEST AVAILABLE COPY

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Attachment 3-B

Country	Rating on Restrictions on Capital Flows and Foreign Investment Country	Performance of Stock Market (in dollar terms) since January 1, 1998.
Type in checked countries	Type in rating (I will give you later)	
Argentina	2	-19,6%
Brazil	3	-7,9%
Vietnam	4	n/a
Hong Kong	1	-30,4%
India	3	-21,0%
Indonesia	2	-53,2%
Kazakstan	4	n/a
China	3	+10,6%
Korea, South	2	+14,9%
Malaysia	3	-39,9%
Mexico	2	-30,7%
Poland	2	+9,1%
Slovak Republic	3	n/a
Thailand	2	-19,7%
Turkey	2	-12,0%
Philippines	3	-23,1%
Czech Republic	2	+7,4%
Chile	2	-21,1%
South Africa	2	-13,6%

Rating

- 1-2 – No restrictions or Minor restrictions
- = Some restrictions
- Significant restrictions
- Most restrictive

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Attachment 4-A

REQUEST FOR TRANSLATION:

Dear Mr. Niyazov,

In my letter to you that accompanied the comparative information on capital flows and foreign investment, I stated that members of the USAID Mission were looking into a response to your request. Over the past several days, I have been speaking on this matter with Dr. Lewis Tatem, an economist working for the USAID Mission. As a result of these talks, I wanted to provide you some supplementary information on restrictions on currency and investment flows and to what extent such controls are likely to insulate Kazakhstan from the effects of the Asian crisis.

I will make my thoughts on this issue clear from the beginning: The Asian crisis has affected almost every developed and developing economy, regardless of their economic and fiscal policies. The real question is to what extent various policies will have on how a country comes through the crisis. And, of these policies, which ones are the most important. After speaking with Dr. Tatem and others, it is my opinion that the imposition of capital controls would not help Kazakhstan withstand the Asian crisis. Rather, sound economic policy, and well functioning financial markets and institutions are the key instruments for doing this.

Generally, countries that restrict the flow of capital do so because they want to limit the influence of international capital movements on domestic interest rates, inflation and exchange rates. An increase in the level of investment by foreigners--a capital inflow, can cause currency appreciation. Conversely, an increase in payments on foreign debt--a capital outflow--can result in currency depreciation. Thus, if Kazakhstan wishes to keep its currency from following the downward path of those taken by the Asian crisis, it needs to avoid sudden net capital outflows. Sudden capital outflows can occur when there is a loss of investor confidence--as in the Asian crisis.

The absence of capital controls was not the root cause of the currency crises within the Asian economies. Rather, in those economies there were unsustainable government policies and private sector practices in financial markets that attracted significant short term foreign investment. When investors perceived that those policies and practices were no longer sustainable, significant capital outflows took place. What one can infer from the Asian experience is that sustainable economic policies, sound financial markets, a well regulated banking sector, prudent lending practices and access to timely information are critical to avoid such crises. These are the policies that Kazakhstan should be focusing on.

If you have any questions, please feel free to call.

Sincerely,

Daniel Fitzpatrick

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Attachment 4-B

USAID SECURITIES MARKET
DEVELOPMENT PROJECT
Kazakhstan, Almaty 480091
58 Nauryzbai Batyr St., Office 49
Telephone: (3272) 39 33 22
Fax: (3272) 39 33 84



ПРОЕКТ USAID ПО РАЗВИТИЮ
РЫНКА ЦЕННЫХ БУМАГ
480091, Казахстан, Алматы
ул. Наурызбай Батыра 58, ком. 49
Телефон: (3272) 39 33 22
Факс: (3272) 39 33 84

Кому: Б.Ниязову
От: Дэниэла Фитцпатрика
Date: 18.08.98

Уважаемый Господин Ниязов,

В моем письме к Вам, сопровождавшим сравнительные данные по движению капитала и иностранным инвестициям, я упомянул, что сотрудники Миссии USAID работают над ответом на Ваш вопрос. В течение нескольких прошедших дней я разговаривал по этому вопросу с доктором Люисом Тэттем, экономистом, работающим в Миссии USAID. По результатам этих обсуждений, я хотел бы предоставить Вам некоторую дополнительную информацию по ограничениям движения капитала и инвестиций и по тому, в какой степени такой контроль мог бы изолировать Казахстан от воздействия Азиатского кризиса.

Я проясню свои соображения по этому вопросу с самого начала: Азиатский кризис затронул почти все развитые и развивающиеся экономики, независимо от их экономической и фискальной политики. Вопрос в том, в какой степени различная политика влияет на то, как страна проходит через кризис. А также, какие аспекты этой политики наиболее важны. После обсуждений с доктором Тэттем и другими, я полагаю, что введение контроля над капиталом не поможет Казахстану противостоять Азиатскому кризису. Ключевыми инструментами для этого, скорее, являются разумная экономическая политика, хорошо работающие финансовые рынки и институты.

В целом, страны, ограничивающие движение капитала, делают это, поскольку желают ограничить влияние международного движения капитала на внутренние процентные ставки, инфляцию и обменный курс. Увеличение уровня иностранных инвестиций – приток капитала, может вызвать ревальвацию валюты. И наоборот, увеличение выплат по иностранному долгу – отток капитала, может привести к девальвации валюты. Таким образом, если Казахстан хочет уберечь свою валюту от падения по пути Азиатского кризиса, ему следует избегать внезапных чистых оттоков капитала. Внезапные оттоки капитала могут происходить, если инвесторы теряют уверенность – как при Азиатском кризисе.

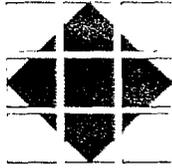
Отсутствие контроля над капиталом не было основной причиной валютного кризиса в Азиатских экономиках. Скорее, причинами в этих экономиках были непоследовательная политика и практика в частном секторе финансового рынка, которые привлекли значительные краткосрочные иностранные инвестиции. Когда инвесторы почувствовали, что эти политика и практика больше не являются стабильными, произошел значительный отток капитала. Азиатский опыт показывает, что последовательная экономическая политика, крепкие финансовые рынки, а также хорошо регулируемый банковский сектор, осторожная кредитная практика и доступ к оперативной информации являются критическими для предотвращения подобных кризисов. Это та политика, которой должен придерживаться Казахстан.

Если у Вас возникнут вопросы, пожалуйста, звоните.

С уважением,

Дэниэл Фитцпатрик

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THE PRAGMA CORPORATION

USAID SECURITIES MARKET DEVELOPMENT PROJECT

MONTHLY REPORT

(Period Ended September 30, 1998)

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER

Mohammad Fatoorechie

TEAM LEADER

Daniel Fitzpatrick

COTR USAID/CAR

Gary Linden

ALMATY, KAZAKHSTAN

USAID SECURITIES MARKET DEVELOPMENT PROJECT

Monthly Report for September 1998

I. EXECUTIVE SUMMARY

This report provides details on the events and activities summarized below, as well as other events and activities regarding the USAID Securities Market Development Project, as implemented by consultants for the Pragma Corporation ("the Pragma Team" or "Team"), for the month of September 1998.

- TRADING VOLUME ON AND OFF-EXCHANGE DROPS DRAMATICALLY AS INVESTORS REACT TO RUSSIAN FINANCIAL CRISIS.
- STANDARD & POORS DOWNGRADES KAZAKHSTAN'S CREDIT RATING.
- FRONT OFFICE SPECIALIST FROM PRAGMA TEAM PROVIDES INSIGHTS TO KAZAKHSTANI BROKER-DEALERS ON FINDING CUSTOMERS AS WELL AS SELLING AND MARKETING SECURITIES.
- AFTER RECEIVING INPUT FROM PRAGMA TEAM, NATIONAL SECURITIES COMMISSION ISSUES DECREE REQUIRING ALL BROKER-TO-BROKER TRADES ON THE EXCHANGE.
- PRAGMA TEAM'S LISTING SEMINAR IN KARAGANDA ATTRACTS OVER 100 GOVERNMENT OFFICIALS AND BUSINESSMEN.
- HALYK SAVINGS BANK AND THE SHIMKENT REFINERY MOVE UP FROM LOWER TIERS TO THE A LIST AT KASE.
- PRAGMA TEAM DRAFTS AND POSTS ON ITS WEB SITE "TEN REASONS WHY KAZAKHSTAN IS NOT RUSSIA".

II. PROJECT DESCRIPTION

The Pragma Team works with the National Securities Commission ("NSC"), the Association of Broker-Dealers ("ABD"), the Kazakhstani Stock Exchange ("KASE"), and the Central Depository in developing Kazakhstan's securities market. The goals of the project include an improved legal/regulatory system, increased volume of trading of blue chip and non-blue chip companies, the development of a viable OTC system, and the establishment of the ABD as an effective self regulatory organization. To further these goals, the Pragma Team works under a Memorandum of Understanding ("MOU") between USAID and the ABD, as well as an MOU between USAID and KASE.

III. PROJECT UPDATE AND PROGRESS VERSUS BENCHMARKS IN TASK ORDER

National Commission on Securities:

Relevant Task: Work with Kazakhstan's NSC in order to augment the legal framework for securities regulation.

The Pragma Team continued to work on the issue of excessive off-exchange trading by participating in the NSC's drafting of a regulation that would prohibit such trading. In connection with this effort, the NSC met with the members of KASE and the ABD to discuss such a prohibition. Members of the Pragma Team took part in this meeting and subsequently urged broker-dealers to comment on the proposed regulatory scheme. As the result of these

efforts the NSC issued a decree that required broker to broker trades to be executed on the exchange. This decree, which supplements the rule already adopted by the broker dealers, was awaiting approval at the Ministry of Justice as of the end of the month.

The Pragma Team arranged a meeting between USAID Capital Markets Officer Rick Gurley, NSC Commissioner Umit Kulinov, and Senior Capital Markets Advisor Rick Dvorin to discuss a possible memorandum of understanding between USAID and the NSC. A subsequent meeting will be held on this matter with all the commissioners in October.

Further, the Team assisted the NSC in developing a regulation on issuance and placement of shares of investment funds. Two other regulations, one on bond issues and one on share issues, that the Pragma Team assisted the NSC in developing, are under consideration by various departments within the NSC. Paul Carlson, the Senior Investment Advisor, advised the NSC on issues regarding regulation of investment funds.

The Team also assisted the NSC's Licensing and Surveillance Department with the processing of daily and monthly reports of market professionals and determining whether market professionals were maintaining the capital levels required by NSC regulations. Further, the Team continued its monthly assistance to the NSC with regard to registration of share issues.

In connection with an effort that is likely to encourage market trading and liquidity, the Pragma Team formally commented on draft regulations that would establish market making on the exchange.

The Team began work on a reporting system for pension fund investment managers with regard to their trading activity.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
The NSC will have an Enforcement Division and possess both the legal/regulatory and operational capability to discipline market participants for securities violations.	<p>The Department on Licensing and Surveillance works within the NSC. This department performs activities analogous to an enforcement division.</p> <p>This department regularly performs inspections and has suspended and canceled licenses as the result of violations.</p> <p>The Pragma Team continues to assist the NSC in monitoring activities of the broker-dealers.</p>
The NSC will have developed both the internal and external procedures for rule making and will possess the confidence necessary to develop the securities regulatory structure through rules rather than legislation.	<p>The NSC has the authority to issue regulations pursuant to the Law on the Securities Market and a Presidential Decree that established the NSC.</p> <p>The procedures for developing regulations have been established by the newly enacted Law on Normative Acts.</p> <p>The Pragma Team continues to assist the NSC on issuing regulations on a case-by-case basis.</p>
The NSC will have developed the regulatory structure for investment funds.	<p>The NSC has developed several regulations stemming from the Law on Investments (passed in March 1997).</p> <p>The Team assisted the NSC in developing -a regulation on issuance and placement of shares</p>

	of investment funds.
The entire NSC prospectus emission review staff will have been trained in IAS and will be fully capable of understanding prospectuses and other documents that use IAS.	Consultants from the USAID Accounting Reform Project trained the relevant NSC staff members in a three week course. The Pragma Team is assessing whether further training is necessary.

Kazakhstan Stock Exchange:

Relevant Task: Assist KASE in its development of operational procedures, internal regulations, and computer systems.

Current Status: In addition to the above task, the AID mission requested that the Pragma Team assist in increasing the number of listings and the volume of trading on KASE.

In September, the dollar volume of trading, both on-exchange and off-exchange, dropped significantly. On-exchange trading was off by 72 percent from the previous month. Off-exchange trading was off by 59 percent (see Attachment 1 for details and month-by-month totals). These decreases are indicative of the affect of the Russian financial crisis on investor activities in Kazakhstan.

Although, to a certain extent, the effects of the Russian crisis cannot be controlled, the Team is nevertheless moving forward in establishing a market/regulatory environment that will foster trading in securities. In accordance with the MOU with KASE, the Team purchased and delivered to KASE telecommunications equipment that would allow broker-dealers the capability to access the trading system remotely. Further, the Team assisted KASE in its development of a scheme for market makers, which, hopefully, will improve the liquidity of many of the securities currently listed on KASE. Finally, the Team assisted KASE in exploring the listing of corporate bonds and Eurobonds on the exchange.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
The ISMS trading system will have been integrated into KASE so that KASE can trade corporate securities.	After the Task Order was written, Kazakhstani securities officials decided to develop their own system rather than adopt the ISMS. They completed this system and opened it in July 1998. The Pragma Team procured and delivered equipment that will allow the broker dealers to access the trading system from off-site locations.
The organizational and regulatory structure of KASE will be in place.	KASE is a licensed legal entity with a functioning charter and internal regulatory boards, etc. The Pragma Team assisted KASE with regard to market maker regulations.
A fully functioning OTC market system, able to accommodate a large volume of trading and applicable to similar markets in other countries, will be in place and fully tested and functional.	A computerized, OTC trading system opened in July 1998. The Pragma Team further procured and delivered equipment that will allow the broker dealers to access the trading system from off-site

	locations.
Information technology staff, who are part of the ABD, will be fully trained in the use and maintenance of the new OTC system and be able to operate it without additional expatriate assistance.	The IT staff, who are part of KASE, are capable of using and maintaining the OTC system.

National Association of Broker-Dealers:

Relevant Task: Assist the ABD in the establishment of over-the-counter securities trading system and in the development of the ABD's ability to operate as a self-regulatory organization.

Bob Thiel, a short-term consultant on sales and marketing practices, conducted two seminars on this topic. Mr. Thiel's seminars emphasized sales to foreign institutions and individual investors in difficult times. Mr. Thiel then followed up with on-site visits and consultations with six of Kazakhstan's largest broker-dealers. As a final measure, Mr. Thiel agreed to have a taped version of his seminar made. This tape was dubbed over in Russian and will be made available to broker-dealers on an as-needed basis. For a detailed report of Mr. Thiel's activities and recommendations, see Attachment 2. For a copy of the presentation made to the broker dealers, see Attachment 3.

Reacting to the Russian crisis and its effects on trading in Kazakhstan, the ABD agreed to establish a working group (with the Pragma Team's participation). The task of the group will be to develop measures for maintaining and expanding business despite the challenges the crisis has posed.

The Pragma Team also assisted the ABD in preparing to take over the role the NSC has currently played with regard to reporting of trading activity by market participants. The changeover is expected to occur in October or early November.

Finally, the NSC's recognition of the ABD as a self-regulatory organization is but a few formalities from fruition. The only hold up appears to be caused by the ABD reregistering its name as an association (previously it was called the NABD). When this change is processed, the NSC will be able to formally recognize the ABD as a self-regulatory organization and give some or all SRO responsibilities to the ABD.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
ABD will be at least 75% financially self-sufficient and able to operate the OTC market system by itself, including the funding of IT personnel.	The ABD covers at least 75% of its expenses through membership fees and seminar revenues. The project pays for ABD seminar expenses (up to \$500 against receipt), and has agreed to pay the first year's membership fee in an international association of broker-dealers. The Pragma Team is holding off on payment of the membership fee pending a clarification of when it is actually due.
At least one Kazakhstani enterprise will have obtained corporate finance assistance from the broker/dealer community, and by the conclusion of the task order five firms will have obtained this assistance.	Several broker dealers have developed good leads for secondary offerings. However, they are holding off on this effort until the market crisis passes.

Central Depository:

Relevant Task: Assist the Central Depository in its development of operational procedures, internal regulations, and computer systems.

The Government of Kazakhstan and the Central Depository have decided to forego a loan from the World Bank for new software and hardware. This development increases the likelihood that the Central Depository will install software from USAID Projects in either Romania or Kyrgyzstan.

In connection with the potential introduction of trading of Eurobonds on KASE, the Central Depository, with assistance from the Pragma Team, is considering the various issues that the use of such instruments raises.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	Status
The organizational and regulatory structure of the Central Depository will be in place.	The Central Depository is a licensed legal entity with a functioning charter and internal regulatory boards, etc. The Pragma Team is assisting the Central Depository with issues raised by the introduction of Eurobonds to KASE.

Corporate Finance Activities and Privatization through KASE:

Relevant Task: Assist the government in a "blue chip" privatization program.

Current Status: Because Kazakhstan's blue chip privatization program was placed on hold by the Government, the Pragma Team has focused on increasing the number of listings of a broader range of companies.

The Pragma Team organized and conducted a listing seminar in Karaganda. Over 70 companies were represented by approximately 100 people. Over 30 representatives of the media and the local government attended as well. After the seminar, the Pragma Team presented an abbreviated version of the seminar to other members of the local government and the local state privatization committee. Two companies have already begun listing efforts as a result of the seminar.

With regard to ongoing listing efforts (as opposed to initiating new ones) two companies jumped to the A List: Halyk Savings Bank (one of the largest banks in Kazakhstan) moved up from the OTC List, and the Shimkent Refinery (one of only three refineries in the country) moved up from the B List.

As of the end of the month, 35 companies (sixty share issues) were listed on the Kazakhstan stock exchange. Four of these companies were listed with the assistance of the Team (see Attachment 3 for details) A full listing of Kazakhstani companies on the exchange is now available on the Team's web site, www.kazecon.kz.

Preliminary work continued on supplementing the data on companies held by Kazakhstan's Department of State Property and Privatization for purposes of determining their marketability on KASE. The Team gathered and processed missing information with regard to 81

privatization candidates that had been on CASE (the former stock exchange) previously. From this list, it is expected that approximately 8-10 companies will be attractive to portfolio investors.

Paul Carlson, the Senior Investment Advisor met with two broker / dealers separately about the efforts of each in facilitating secondary or initial offerings on the exchange. Although both broker-dealers are moving forward, they do not expect that the offerings will be made until the current crisis has abated.

Finally, although the Team holds little hope for blue chip privatization on the Kazakhstani market before the end of the year, it nevertheless continued to push for this issue on various levels. For instance, in connection with a meeting of the Council of Foreign Investors/Advisors, the Team lobbied members of this group, specifically ABN-AMRO and Baker McKenzie, on the need for blue chip privatization. The Team followed up its phone calls to these companies with a letter setting forth the reasons for privatizing the blue chips on KASE sooner rather than later. For a copy of this document, see Attachment 4.

Web Site and Market Promotion Activities:

The Pragma Team added several new features to its web site for purposes of promoting Kazakhstan's securities market. First, and perhaps most importantly, the Team developed a document entitled "Ten Reasons Why Kazakhstan is Not Russia". The document, which cites to numerous macroeconomic and political evidence, was written and posted to dispel the notions of foreign investors that Kazakhstan's economic situation mirrors that of the Russian Federation. For a copy of this document, see Attachment 5.

The second document compiles references to analyses of Kazakhstani commercial legislation that have been published or otherwise prepared by local and expatriate attorneys working in Kazakhstan. For a copy of this document, see Attachment 6.

The Team also continued in its efforts to determine how the web site can eventually become a self funding entity.

Other Events and Activities:

On a special request from the AID Mission, Daniel Fitzpatrick put together a briefing paper on the recently enacted Joint Stock Company Law. A variation of this paper was included in the materials that will be distributed at the meeting of the US-Kazakhstan Joint Commission, headed by Vice President Al Gore and Prime Minister Balgimbaev in November. See Attachment 7.

IV. PROJECT STAFFING

The following personnel were engaged in project activities this month:

Paul Carlson, Senior Investment Advisor

Richard Dvorin, Senior Capital Markets Advisor

Daniel Fitzpatrick, Team Leader

Timothy Smith, Senior Capital Markets Advisor

USAID SECURITIES MARKET DEVELOPMENT PROJECT

Monthly Report for September 1998

List of Attachments

Attachment 1: Trading Statistics (dollar and tenge volume on and off-exchange).

Attachment 2: Report of Bob Thiel.

Attachment 3: Presentation of Bob Thiel.

Attachment 4: Letter to ABN-AMRO Bank regarding blue chip privatization.

Attachment 5: Web site article on Ten Reasons Why Kazakhstan's Economic Situation Differs from Russia's.

Attachment 6: Web site list of articles on Kazakhstani legislation.