THE PRAGMA CORPORATION

USAID SECURITIES MARKET DEVELOPMENT PROJECT

MONTHLY REPORT

(Period Ended October 31, 1998)

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

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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 October 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

A. National Commission on Securities:

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

The NSC's efforts to reduce off exchange trading hit a milestone. The Ministry of Justice approved and registered an NSC decree that prohibits broker-dealers to trade with each other anywhere but on KASE. This decree resulted in no small part from the efforts of the Pragma Team to bring this issue to the forefront of policy concerns with the NSC, KASE and the broker-dealers.

This decree is both a first step towards and a partial resolution of the off-exchange trading phenomenon. With this decree the broker-dealers main off-exchange trading is reduced to deals with workers and deals with large foreign investors. Trade with the former group is expected to taper off as the inventory of shares held by workers declines. Trade with the latter group is still an issue. In a Pragma-arranged interview with Bob Singletary, an official from one of the larger brokers noted that the processing of foreign investor trades through the exchange would hamper their business considerably.

RICK, A FEW CHOICE WORDS IN RESPONSE . . .?

In response to a request for assistance on a question regarding how to regulate the investments of banks in bonds and equities. the Pragma Team developed, under a short deadline, some pointed advice on this issue. See Attachments 1A and B. With regard to other legislative drafting issues the The Team provided the NSC with comments and advice:

- on capital controls (see Attachment 2);
- on the treatment of reverse split consolidations of shares, suggesting instead that shareholders receive cash payment from the issuers instead of fractional shares;
- on the role and compensation of independent directors;
- on NSC options with bringing an enforcement case against a non-payer of dividends (see Attachment 3); and
- on the legal rights of a nominee holder of shares (see Attachment 4).

Confirm that the NSC got this info

On October 9, the NSC requested a meeting with Rick Dvorin (the acting head of the Pragma Team) and Rick Gurley and Bob Singletary of USAID. At the meeting a range of issues arose including future USAID assistance to the NSC, and the recent efforts of the Government of Kazakhstan to privatize shares through the exchange (see discussion in Section III-__ below regarding the latter issue).

In a separate meeting with Commissioner Umit Kulinov, the Pragma Team discussed their ideas regarding the possibility of expanding KASE's SRO activities in response to the dissolution of the ABD as a functioning entity (see more discussion on this issue in Section III-__).

JAMILLA

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 Pragma Team continues to assist the NSC in

	monitoring activities of the broker-dealers.
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 Pragma Team continues to assist the NSC on issuing regulations on a case-by-case basis.
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). The Team assisted the NSC in developing -a regulation on issuance and placement of shares 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 October, trading both on and off-exchange once again plunged, this time from already low numbers in September. On-exchange trading was off by ___ percent from the previous month. Off-exchange trading was off by __ percent (see Attachment -- for details and month-by-month totals). These decreases further underline the affect of the Russian financial crisis on investor activities in Kazakhstan.

Despite this drop, KASE is demonstrating resilience with regard to find attractive instruments for trade in its system. In late October, KASE initiated trading of Kazakhstani Euronotes on the exchange. These instruments have proven rather attractive to private Kazakhstani pension funds.

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. The Pragma Team commented on KASE's draft regulation for market-making activities and completed its installation of telecommunications equipment that would allow for remote access to the KASE system.

The Team also met with Damir Karesaev, VP, to introduce the notion of KASE becoming a fully functioning SRO, in light of the recent demise of the ABD (see Section III-__). Mr. Kareseov was receptive to the idea. The Pragma Team began developing a plan for implementing this expansion of responsibility.

With regard to listings on KASE, Temir Bank joined KASE's "A" board list. Pragma's consultants significantly contributed to this effort. (EVIDENCE). Due to late filings of emission reports, the NSC suspended the registration of three companies that were listed on KASE. Following up on this action, KASE delisted these three companies from the OTC trading. CONFIRM THAT NONE WERE PRAGMA ASSISTED COMPANIES

Finally, according to the MOU between USAID and KASE, the latter was to have implemented a settlement guarantee fund, or obtained insurance by September 30, 1998. KASE failed to meet this deadline. With no meaningful amount of trading on KASE, it is currently impossible to determine an insurance premium. See Attachment __ for a summary of the parties' progress on the KASE-USAID MOU.

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.

The Team began the month closely working with the ABD with regard to their efforts to become fully authorized as an SRO and in their efforts to lobby the government to improve the conditions for trading on the market. With regard to the latter, the Team assisted the ABD in

a "white paper" analysis of the securities market in Kazakhstan and what might be done to improve the current situation.

However, as the dismal trade numbers became more and more apparent, and broker-dealers began losing trading revenues that had previously kept them afloat, the ABD decided that continued operation was no longer possible. In a general meeting of the ABD, the President Gabit Tolkimbaev resigned, and the members voted to "suspend" activities of the ABD, just keeping its legal identity. The members Damir Karesaev (the VP of KASE) as acting ABD President. The primary reason for this move was to seek means of cutting costs. With incomes from trading dropping the membership dues of $150 or $100 per month (depending on class I or class II broker/dealer status) had become burdensome. As many as fifteen member had fallen behind in their payments.

Initially, the members instructed the new President to come up with a plan for the ABD going forward at a reduced activity level. Instead, the Council of the ABD the next day voted to "put the ABD into hibernation", just keeping its legal status, with no staff, and placing the ABD's furniture and fixtures into storage (at a member's office).

In response to these rapidly developing events the staff of Pragma immediately started designing plans to have the KASE hire a trained staff person (and perhaps an additional person) from the ABD to act as the Compliance/Regulation Department chief, and for the KASE to become a fully functioning SRO.

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.

Extent of Progress Toward Relevant Benchmarks in Task Order:

Relevant Benchmark	**Status**
The organizational and regulatory structure of the Central	The Central Depository is a licensed legal entity

Depository will be in place.	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 October 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.

Request for Translation:

Dear Mr. Joldasbekov,

I tried to reach you earlier regarding your request for the opinion of our project regarding the amendments to the Law on Banks and Banking. Specifically you had asked whether banks should be allowed to purchase corporate bonds. After consulting with Mr. Dvorin, as well as with foreign advisors to the National Bank of Kazakhstan, it is our conclusion that banks should be allowed to buy these bonds.

However, the right of a bank to buy bonds issued by any particular company should be limited. Because a bond is essentially evidence of an obligation to repay a debt, it should be specified in the amendments to the law that the right to buy bonds from any particular company should be limited by legislation of the National Bank of Kazakhstan regarding limits on lending to any particular borrower (which is currently 10% of the bank's equity)

I hope you found this brief response helpful. We can draft actual amendments to the Law on Banks and Banking activities if you so request.

Sincerely,

Daniel Fitzpatrick

Request for Translation

Dear Mr. Niyazov,

In accordance with my letter of October 20th to you, I have set forth below my responses to the three questions you posed to me regarding regulation of capital flows across borders.

Before beginning that discussion, however, I must note that it has come to my attention this week that there is a mutually agreed policy between this project and the NSC regarding the processing of requests. As I understand it, all requests for information or other assistance must be approved by one of the commissioners or the chairman. We will be following this policy with regard to future requests

Before I respond to your questions, it is important to restate what I have said in previous memoranda Most experts on the subject of capital controls conclude that they produce few benefits, and have many drawbacks. History supports this As recently stated in the Economist, "Latin America's controls in the 1980's did little to keep foreign money at home but a lot to deter foreign investment " Such controls also increase the potential for corruption, which would work against the President's campaign to reduce this problem. As summed up recently by the Governor of the Central Bank of the Philippines, "controls are unmanageable and very susceptible to graft and corruption."

Further in the context of the current crisis, capital controls are even less beneficial For the most part, all the speculative capital has left. To use an often-quoted saying from rural America, why bother trying to close the farm gate after all the animals have escaped? Likewise in Kazakhstan, imposition of capital controls will not improve the situation and will, instead, make investors think twice before returning On its promotional materials, Kazkommertz Securities, emphasizes that Kazakhstan imposes no restrictions on capital repatriation It does this because it knows that investors will not come through the "entrance door," unless they are confident that the "exit door" is fully open whenever they want to leave.

Further, many of these points have been stated in an article in a recent issue of the Economist I am having that article translated and will be getting it to you by the end of this week.

Now as to your questions:

1. What kind of indirect protection measures of the stock market could initially promote reduction of speculative capital?

There are few sorts of measures for doing this, primarily because it is impossible to distinguish in the stock market between the speculators and the long-term investors. Thus, the only way to reduce speculative capital is to reduce all capital. Such efforts would hinder the efforts of the Government of Kazakhstan to lure investors back to the country in the wake of the Russian financial crisis.

Instead, as outlined in previous discussions with you on this, the best way to indirectly protect the stock is to pursue sound fiscal policies, to encourage transparency, and to promote prudent lending practices by lending institutions.

Another factor distinguishing "speculative" capital from "investment" capital relates to the transparency and information available about an issuer and the markets where it is traded. The "darker" the transparency, the more speculative the investment. Without having updated and accurate information, essentially, all investment is actually speculative in nature. Therefore, what is best for markets and investors is reliable and timely information, upon which more informed decisions can be made.

2 What regulation mechanisms are the most efficient ones for restriction of repatriation of non-residents' capital during crisis?

Economists and policy makers agree that the worst type of restrictions are those that restrict capital from leaving. This is because if investors want to leave, they will figure out a way to do, regardless of the

restrictions placed on them. To impose such provisions is to create a very damaging perception that Kazakhstan is willing to change the rules on foreign investors after they have come into the country. As a result, I cannot recommend as "most efficient" any method of restriction of repatriation, because they are all inefficient.

3. Is it necessary for Kazakhstan to change the current legislation on regulation of activities of non-residents on the local financial market?

No. As noted above, one of the more attractive aspects about Kazakhstan, in a world competing for foreign investment, is that foreign investors can leave when they want to. This is extremely important, because, as noted by a high official in Deutsche Bank's emerging markets department "the fear of being trapped is all-consuming for foreign investors". If investors fear that they cannot leave, they simply will not come.

I hope the above discussion helpful to you. Please contact me if you have any questions.

Sincerely,

Daniel Fitzpatrick
Director

MEMORANDUM

TO: Rick Dvorin
FROM: Natalia Pirozhkova, Oksana Kompaniets
DATE: October 7, 1998
RE: Failure to Pay Dividends

Both old provisions of the EP Law[1] (see subpoint 2) of point 1 of Article 62) and provisions of the current Law *On Joint Stock Companies* (hereinafter referred to as the JSC Law) dated from July 10, 1998 (see subpoint 2) of point 1 of Article14) establish the right of any shareholder to receive dividends.

The right to receive dividends may be abridged only in a limited number of instances explicitly provided by law. Those instances may be described as follows:

I. The old provisions of the EP Law required that dividends should be payable in almost all situations with the following exceptions:

1) if the charter capital is not fully paid in; or
2) if the payment of dividends would result in reduction of the charter capital.

II. Under the provisions of the newly adopted JSC Law a company shall be prohibited from paying dividends to shareholders on common shares in the subsequent year, provided that:

1) the company has a negative equity capital; or
2) the company has indications of inability to pay or insolvency; or
3) the above stated indications shall appear after authorization and payment of dividends (see point 1 of Article 20).

Moreover, general shareholder meeting or the Board of Directors, within the scope of authorities granted by the Law and the charter, may find it inexpedient to pay dividends on common shares upon review of the results of this or that period (see point 3 of Article 19 of JSC Law).

Those are few exceptions of the general rule which establishes the right of a shareholder to receive dividends. Should a company fail to pay dividends to its shareholders, the latter may exercise the right to file petitions both with government agencies (authorized to review such petitions) (see subpoint 6) of point 1 of Article 14 of the JSC Law) and with the court (see Article 9 of the RK Civil Code and repealed subpoint 4) of point 1 of Article 62 of the EP Law).

It also should be noted that under the new JSC Law preferred shares (versus to common shares) grant their holders some additional rights in the case of failure of the company to pay dividends thereon.

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[1] Pursuant to Section 4 of the Law *On Amending Some Statutory Acts Related to Joint Stock Company Issues* dated from July 10, 1998, **Chapter 3 ("Joint Stock Companies")** was removed from the Presidential Decree having the Authority of Law *On Economic Partnerships* (hereinafter referred to as the EP Law) dated from May 2, 1995 and therefore lost its legal effect.

Point 5 of Article 19 of the new JSC Law requires that the procedure for paying dividends on preferred shares and the minimum amount thereof should be established in the prospectus (the JSC Law is silent whether the same requirement applies to common shares as well[2]). In addition to that, the new JSC Law gives holders of preferred shares a somewhat unique right. Point 3 of Article 24 provides that unpaid dividends must be accumulated and become payable within the next deadline established for paying dividends as stipulated in the prospectus. If the dividends on non-voting preferred shares are not paid within 3 months after the established payment date, then upon elapse of that deadline the holder of a preferred share shall acquire that right to vote at a general shareholder meeting which right disappears upon payment off of the overdue dividends.

NSC is regulatory agency authorized by law to carry out government regulation of the securities market by (among other things) registering issues of emissive securities and overseeing the observance by issuers of terms and performance of obligations provided in the Terms for Issuing Securities (see Article 10 of the RK Law *On Securities*).

Should an issuer commit an act in violation of legislatively established requirements, the NSC may react as follows:

1) deny the registration of issues of securities;
2) suspend or invalidate the issues of securities.

Grounds for and consequences of suspension and invalidation of an issue of securities are governed by Articles 20 and 21 of the Law *On Securities Market*.

In our opinion the problem of non-payment of dividends is in most cases caused by lack of well-established regulatory mechanisms which could be employed by the NSC in order to impose the penalties and sanctions which are already established. Moreover, the existing penalties and sanctions are 'administrative' in nature and they do not contribute to the solution of the non-payment problem.

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2 Model Terms of Issue of Securities do contain provisions governing the requirements and procedures for paying dividends on common shares, which means that in the case of failure to comply with the established procedures and requirements the consequences are identical to those which occur in the case of failure to pay dividends on preferred shares (see information bellow).

MEMORANDUM

TO: Rick Dvorin
FROM: Natalia Pirozhkova, Oksana Kompaniets
SUBJECT: Nominee's holding rights
DATE: October 28, 1998

In accordance with part 17 of Article 2 of the Law of the Republic of Kazakhstan *On Securities Market* "a nominal holder" shall mean a professional participant who/which performs transactions with securities on his/her/its own behalf and the securities owner's expense in favour of and under a contract with the latter.

The following persons may act as nominal holders:

a) Central depository;
b) custodian;
c) broker/dealer who has the licence for conducting registration of transactions with securities issued by NSC (see Art. 4 of the Law On Registration of Transactions with Securities).

The functions of nominal holders can be described as follows:

a) registration of clients' transactions with securities and encumbrances attached to securities;
b) confirmation of the clients' rights to securities;
c) ensuring the availability of clients' securities and possibility for performing transactions with these securities;
d) acting as a payment agent;
e) providing clients with information concerning securities transferred to nominal holding;
f) other functions in accordance with the contract on securities nominal holding (see Art. 5 of the Law On Registration of Transactions with Securities)

Article 3 of the Law On Registration of Transactions with Securities specifically deals with nominal holding issues. Point 1 of the Article provides that "the transfer of securities under nominal holding shall not entail the transfer of the ownership right attached to these securities to the nominal holder. Securities owned by the clients of any nominal holder or being nominally held by this holder shall be exempt from any claims of the nominal holder's creditors".

Thus, under the Kazakhstani law, a nominal holder is not the owner of the securities he holds; he may exercise any of the rights attached to the securities only upon receipt of a specific authorisation from the owner (see).

Data on any nominal holder shall be subject to inclusion into the register of securities holders. Inclusion of the name of the nominal holder into the register or re-registration of securities onto the nominal holder's name shall not entail the transfer of the ownership right to this holder.

The following normative acts govern the activities performed by a nominal holder:

1) Law of the RK on Registration of Transactions with Securities dated March 5, 1997.
2) Law of the RK on Securities Market dated March 5, 1997.

3) NSC Regulation Governing Broker/Dealer Activities at Securities Market dated October 16, 1997.
4) Regulation Governing Maintenance of the Register of Securities' holders dated July 29, 1996.
5) Regulation Governing Custodian's Activities on Securities Market dated July 29. 1996.
6) Regulation on Central Depository dated June 29 1996.

98 Comparative Stock Market Trading Statistics

nth	Off Exchange			%Δ	KASE													%Δ
	Trades	Shares	Tenge Amount ($ Amount)	from previous month	Trades				Shares				Tenge Amount ($ Amount)					from previous month
					"A"	"B"	OTC	Total	"A"	"B"	OTC	Total	"A"	"B"	"OTC"	Total		
	2,463	724,871	997,994,987					4				930				1,583,000		
			$ 13,306,599													$ 21,106		
	3,283	897,931	378,851,862					13				7,413				5,815,495		
			$ 5,051,358	-62%												$ 77,539	267%	
	1,977	3,736,632	230,940,342					7				11,232				21,223,216		
			$ 3,079,204	-39%												$ 282,976	265%	
	3,225	367,286	272,474,131		3	0	5	8	10,000	0	8,770	18,770	10,000,000	0	13,884,000	23,884,000		
			$ 3,632,988	18%									$ 133,333	0	($ 185 120)	$ 318,453	13%	
st*	3,207	199,603	150,270,615		3	1	4	8	32,615	11,000	80	43,695	2,609,200	5,148,000	6,391,640	14,148,840		
			$ 2,003,608	-45%									$ 34,789	$ 68,640	$ 85,221	$ 188,651	-41%	
**	405	3,639,172	65,431,604		3	0	2	5	5,177	0	40	5,217	414,160	0	3,688,000	4,102,260		
			$ 817,895	-59%									$ 5,177	0	$ 46,100	$ 51,277	-73%	
**	238	13,729	5,827,786		1	0	1	2	850	0	8,065	8,915	68,000	0	1,645,260	1,713,260		
			$ 71,947	-91%									$ 840	0	$ 20,311	$ 21,151	-59%	
	14,798	9,579,224	2,101,791,326					47				96,172				72,470,071		
			$ 27,963,599													$ 961,153		

Average Exchange Rate April Through August Is Assumed 75 Tenge per US Dollar

· Average Exchange Rate In September Is Assumed 80 Tenge per US Dollar

e Average Exchange Rate In September Is Assumed 81 Tenge per US Dollar

Monitoring of Implementation of the Memorandum of Understanding between the USAID and the KASE

Rick Dvorin, Pragma Corporation

NOTE: Late in October 1998, the ABD Council voted to essentially disband the ABD, with the entity just keeping its legal status as a shell. Pragma took this opportunity to shift full SRO responsibility to the KASE, with a trained staff for the Compliance and Regulation Department. The plan to expand the KASE's SRO status is currently being implemented and in the process of being formalized.

I. KASE

As of 31 October 1998
(Changes in BOLD)

What shall be done	*What has been done*	*What is left to be done*
1. Increase the number of "A" and "B" listings, plus pre-listing, by 2 per month. Modify "A" listing requirements.	New listing rules were approved by the KASE General Meeting as of May 25 requiring one year audit by one of Big Six for "A" listing, and one year audit by either international auditor or a local one for "B" listings. Alraun Bank has filed documents for "B" board listing on 15 June...directed and aided by Pragma's regional consultant. Another 2 issues have filed for listing their common and preferred shares for "B" board trading...directed and aided by Pragma's regional consultants. However, 2 new listings were due for June, but this deadline was missed, just barely. Still, strong efforts are being made to bring listings. As of 12 August 1998, a new company, "Bayan-Sulu", entered "B" board, which was the only listing. Therefore, the KASE has violated the	Besides efforts being taken by the KASE and its members, Pragma's regional consultants have been working on bringing new listings over to the KASE: 20+ issuers are currently in this process.

	MOU agreement for August. There were 3 issues (2 companies') in September which were moved up to the "A" board from the "B" board and the OTC. Narodny Bank moved up to the "A" board on 16 September, along with ShymknetNeftiOrgSintez. On 8 October, Temir Bank joined the "A" board list, with the help of Pragma's consultants.	
2. To have 10 issues on the "A" and "B" board by 30 June, and 30 issues by 31 December.	As of 8 June, there are 9 issues on the "A" and "B" board. One more issue was needed by 30 June, but this was missed. The NSC approved listing requirements on 13 July. As of 15 July, the current list of "A" and "B" listings include 3 issuers (4 issues) on the "A" board and 11 issuers (21 issues) on the "B" board. As of 18 September, there are 16 issuers, and 28 issues in "A" and "B" boards. Trading volume in September was 3 trades on the "A" board (none on the "B"), 5177 shares, $5,177 (414,160 T). **As of 31 October, there were 6 "A" issuers; 9 issues...11 "B" issuers; 20 issues. Trading volume in October in "A" shares was 1 trade, 850 shares, for 68,000T ($840); no "B" shares traded.**	KASE and their members must continue to seek new listings and potential IPOs.
3. a) To transfer all issues on the "N" board to OTC.	a) According to the new KASE rules and	Ensure OTC system operational by 30 June.

b) To have OTC market operational by 30 June.	regulations, all issues from "N" board (currently 11 issuers; 18 issues) will be transferred to the OTC, when OTC operational. b) The OTC system (first stage) is completed and being tested. OTC training for broker/dealers began 15 June 1998. In the meantime, all members have access to the OTC system, if not remote, then on the floor of the KASE. Week of 22 June, bugs of system were removed, to prepare for start of trading. KASE general meeting was held on 13 July, approving opening of OTC trading system on 15 July. There were 13 issuers (21 issues) on the OTC. The first day of trading, 15 July, saw 4 trades in 3 issues, for a total amount of 13 million Tenge ($170,000). For September, OTC trading volume was 2 trades, 40 shares, $46,100 (3,688,000 T). . Equipment was delivered to the KASE for installation on 16 September. Testing and installation are still being implemented. **Installation of the remote access telecommunication**	Also there is a need to give all broker/dealers equal access to OTC, but this is a technical telecommunications problem, which needs money for upgrades and better telecom. networks in the RK. Pragma is working on the www.kazecon.kz web site, to make it accessible for broker/dealers to enter quotes and use it for trading on the OTC system. Additionally, Pragma has suggested to the KASE that a "floor broker" system be utilized for remote broker/dealers to call to quote and/or make trades. Telecommunications equipment was delivered to the Pragma offices the week of 7 September, for installation to provide all broker/dealers with remote access. Installation to be initiated by Tim Smith, upon his return to Almaty during the week of 14 September.

	equipment has been completed at KASE in October. As of 31 October, there were 16 issuers, 28 issues listed OTC; due to late filings of emission statements, the NSC de-registered 3 OTC issuers, and the KASE de-listed these. Trading volume on OTC for October was 1 trade, 8,065 shared, 1,645,260 T ($20,311).	
4. To market membership on the KASE and to provide marketing materials to members	KASE provides issuer information to its members on the regular basis. In addition, a bulletin board has been created on the KASE to present to brokers and dealers new companies that potentially can be traded on the organized market. Also, KASE provide Reuters News to its members. Recently, DB (Deutsche Bank) Securities, headed by ex-NSC Chairman Marchenko, joined the KASE and the ABD.	Now, there is only one company on this bulletin board, Astana-Bank, brought over the KASE by Pragma's regional consultants. The work will continue to provide more information on not yet listed companies. **The NSC is considering the requirement of all broker/dealers to become members of an SRO, i.e., the KASE or the ABD.**
5. To promulgate a rule, by 30 June, prohibiting all KASE members from participating in "gray market" (involving trades of <100 shares from customers); members subject to sanctions for violations.	According to the Draft KASE "Code of Ethics", all KASE members will be prohibited from trading KASE-listed securities off-exchange. Also, KASE approved a rule that all member-to-member trading shall be done on the KASE. On 13 July, the Code of Ethics was passed, requiring **only** member-to-member trading on the KASE. The issues of all	KASE members must approve and sign this Draft "Code of Ethics", which has the effect of any other KASE rule. Pragma has issued a discussion paper for the prohibition of off-exchange trading, and will discuss this with the NSC Commissioner and the other commissioners on 31 July. The NSC is getting together with KASE, ABD, and CD to discuss

	customer orders and block orders being required to be executed on the KASE was deferred for more discussion. The NSC has drafted a set of mechanisms designed to prohibit brokers from "gray market" trading. **The NSC regulation prohibiting B/D to B/D trading off KASE has been adopted in October.**	its proposals regarding the mechanism of requiring broker/dealers to trade on KASE, not off-exchange. Discussions currently being held with the NSC. **The professional participants must adopt regulations or rules prohibiting off-exchange trading.**
6. To form groups and committees of members as follows: - Trading committee - Listing committee - Marketing committee - Disciplinary committee	The Arbitration and Listings Committees have been established. Otherwise, the Exchange Council performs functions of other committees. Gabit T. has proposed that a joint ABD/KASE Arbitration Committee be established, rather than separate arbitration committees. It was agreed that a joint KASE/ABD/CD Arbitration Committee be established.	As trading activity increases on the KASE, other committees will be created to accomplish indicated tasks. (The ABD Committees overlap those of the KASE Committees, with broker/dealers being members of both organizations...what we are seeing is a fusion of the ABD and the KASE)
7. To develop a settlement guarantee fund or obtain insurance, feasibility studies due 30 June; fund initiated or insurance in place by 30 September 1998.	Alternatives have been studied as follows: a) a pool of state-owned securities; b) insurance with a local insurance company backed up by Lloyd re-insurance. Study was delivered to Pragma on 1 July. The local insurance company needs historical trading statistics, and defaults, in order to give quotes. The KASE is hopeful that the new Joint Stock Company Law and other regulations will help cause a dramatic increase	KASE must continue to seek insurance or the implementation of a guarantee fund. **Pragma must continue to urge the KASE in obtaining the insurance or guarantee fund, and help where we can.**

	of trading (and listings) on the KASE, in order to provide meaningful statistics. KASE has NOT met this deadline. There is still (effectively) no trading on the KASE. Also, based on a quote for insurance to settle "unpaidfor" trades, the premium was around $15,000...which the KASE does not have.	

II. USAID

What shall be done	*What has been done*	*What is left to be done*
1. Assistance in the form of employing personnel for the design and programming of the new trading systems, for both floor based and remote (i.e., over-the-counter) access capabilities. Technical assistance for bringing listings.	3 program developers and 2 system analysts of the KASE have signed work agreements with Pragma; Pragma has made the first installment of payments. These programmers have already completed the first phase of OTC system development. Pragma's regional consultants continue to work with issuers and broker/dealers in bringing listings to KASE. Trading system opened on 15 July, with 4 trades for 13 million Tenge. Pragma has implemented the second installment of payments to the programmers in July. The third and final installment of payment to the KASE programmers was made in August. **The remote access telecommunication equipment was installed**	Regional consultants to continue their work...to see results of a continuous flow of listings. Programmers to continue to develop and upgrade trading system. [Week of 22 June bugs were taken out of system to be ready for start of trading week of 29 June.] Delivery of remote access equipment to the KASE took place on 16 September, with installation of telecommunications equipment for remote access to take place. **The KASE staff completed testing this equipment.**

	at KASE in October.	
2. To assist in the development of exchange floor-based trading systems and of a remote access OTC trading system. USAID will provide technical and hardware support	A plan is being developed to create a communication network in the Min. Of Justice building which will provide professional participants with the remote access capabilities. USAID continues to provide technical support. Remote access telecommunications equipment is now installed at the KASE.	USAID must deliver hardware (monitors, modems, etc.) as listings actually increase on the KASE. Pragma has purchased and delivered telecommunications equipment to complete the network for all B/Ds to access the trading system on a remote basis. Equipment delivered to KASE 16 September, with installation by end September.
3. Professional training to the KASE personnel and its membership in developing all aspects of its regulatory, market monitoring, oversight and enforcement functions.	A training trip to Moscow was organized for KASE personnel in April 1998, and a trip to the Istanbul Stock Exchange was organized for the KASE management in May 1998. Pragma's advisers consult the KASE on a regular basis, and have provided drafts of normative regulatory documents. Pragma has given additional surveillance training to the KASE staff.	Continue the training and educational efforts...although many regulatory responsibilities for all broker/dealers and their securities activities will be taken over by the ABD upon receiving SRO license. **Currently, Pragma (Tim Smith) is planning a trip to Romania, to gain access to the CD software. As mentioned in the NOTE above, Pragma is currently developing and implementing a plan for the KASE to take on fully functional SRO capabilities.**
4. To support the KASE toward the ultimate goal of migration of transactions from the "gray market" to the KASE.	Pragma has drafted and commented on rules and drafted and commented on regulatory documents of the KASE and NSC, which require all securities trades to be conducted on the regulated and transparent listed and OTC markets. KASE members voted to	Continue to draft appropriate documents and to monitor their approval. Pragma drafted a memo for the NSC to adopt a regulation prohibiting all off-exchange trading. This memo must be discussed and the regulation must be drafted. Pragma had

	approve the Code of Ethics, which prohibits member-to-member off-exchange trading. The issues of requiring all customer trading and block trades on the exchange must still be discussed. As of the end of August, NSC has started drafting proposals and mechanisms of having all customer trading and block-trades done on the KASE, either in the form of transactions, or registration of transactions done off-exchange.	discussions with the Chairman and commissioners of the NSC on 31 July re: prohibition of off-exchange trading. **Discussions are currently taking place with the NSC and the broker/dealers (and Pragma) re: off-exchange trading. Pragma has delivered a letter to the NSC stating the necessity of prohibiting off-exchange trading.**
5. To provide professional training for the Exchange's members; this will continue if KASE's deadlines are met.	Pragma holds training seminars on a regular basis for all broker/dealers, and staffs of the KASE, ABD, and NSC. Additionally, Pragma has started interviewing the chief executive of broker/dealers to gain insight into their individual firm's business and needs. On 15 September, Bob Thiel presented a sales and marketing training seminar (approx. 25 in attendance) for broker/dealers, with follow-up individual broker/dealer meetings held. More meetings were held during the week of 21 September, with a follow-up seminar held by Bob on 24 September.	Continue group training and educational seminars. Continue interviews of individual broker/dealers.
6. USAID will permit KASE to post information about the KASE on USAID's capital markets web	Pragma has KASE information on the web page, including technical info. about the KASE, and trading information.	This information should be up-to-date, and possibly to include issuer information. Trade information should be included and posted at

page; KASE 30 June deadlines to be met.	Pragma has posted a "contest" on USAID's web site, for the broker/dealers who bring the most listings to the KASE in a month; winners will be given the opportunity to provide their firm's profile on the web site. According to the number of new listings brought by brokers to the KASE, KBS Securities won July contest: this company brought 6 new issues over the KASE. In August, there were no winners, as no broker/dealer brought new listings to the KASE. September saw no net additional listings, with 2 issues upgraded to the "A" board from the lower "B" and OTC, with the aid of Pragma's regional consultants.	least daily. The first month of the contest will end on 31 July, with the number of listings attributed to B/Ds tallied the following week, and the winners to be posted on the web site.

Monitoring of the Implementation of the Memorandum of Understanding between the USAID and ABD

Rick Dvorin, Pragma Corporation

NOTE: AS OF LATE OCTOBER, THE COUNCIL OF THE ABD VOTED TO ESSENTIALLY DISBAND THE ABD. AS THIS DOCUMENT IS AN MOU BETWEEN THE ABD AND USAID, THIS WILL BE THE LAST UPDATE!!!

PRAGMA, MEANWHILE, IS IN THE PROCESS OF IMPLEMENTING A PLAN TO SHIFT THE FULLY FUNCTIONING SRO CAPABILITIES TO THE KASE.

I. ABD

As of 31 October 1998
(Changes in BOLD)

What shall be done	*What has been done*	*What is still to be done*
1. To strive to meet the standards of the International Federation of Securities Markets ("FIBV").	With Pragma's help, ABD has developed rules and regulations in accordance with FIBV standards. ABD has just hired (during week of 8 June) a staff person to oversee surveillance, compliance, and enforcement. Training has started, with the hiring of the ABD compliance officer, and a formal training program has been implemented. The ABD, to help with compliance and surveillance, hired another staff person. On Monday, 29 June, the General Meeting of the ABD approved the draft documents and rules. During the week of 21 September, the ABD Council formed a working group to adopt documents and implement actions for a thriving securities market in the current world crises environment. The first meeting of the workgroup was held on 2 October, to determine the issues to be	These rules are to be approved by the NSC. They have been re-filed, and are expected to be approved soon by the NSC. Pragma will continue its intensive training of the ABD staff, in regulatory and SRO matters. Rules of the ABD have been submitted and approved by the NSC, however, the ABD still needs signatures of all members on their registration documents. This registration document is to be received by the ABD during the week of 5 October, at which time the ABD will deliver it for registration, **with final approval expected around 20 October. The NSC will then have everything needed to issue the SRO license. The signed document was received and delivered for registration, still looking for delivery to the NSC**

	addressed. Pragma was on hand and gave advice and recommendations. **This workgroup has had 2 subsequent meetings, and has discussed the initial draft report to be distributed to the NSC, the broker/dealers, and to various state agencies (e.g., tax authority), in addition to the media. Pragma is actively advising as to content and format, but the report is that of the ABD. The draft report was sent to USAID.**	**during the week of 19 October.**
2. To develop an OTC trading system, which will compliment the floor-based stock exchange trading system.	The OTC trading system is developed, and is currently being tested. Demonstration and training for broker/dealers started 15 June. The OTC market will be operated by the KASE and regulated by ABD. Bugs were removed from the trading system during the week of 22 June. System opened for trading on 15 July, with 4 trades in 3 issues totaling 13 million Tenge. Currently, if remote access is not available, then floor access is an option. Pragma agreed to provide KASE with telecommunication equipment for remote access trading. This will hopefully be accomplished by end of August. August OTC trading figures are 4 trades; 80 shares; 6 million Tenge. During the week of	There shall be improved remote access capabilities of the stock exchange and, accordingly, of brokers and dealers. Access must be available to all broker/dealers at the same time, and the quality of telecommunication lines must be improved. The telecommunications must now be installed by KASE for broker/dealer remote access capabilities. KASE has this equipment and is in the process of testing and completing installation.

	7 September, telecommunications equipment was delivered to the offices of Pragma, for installation at the KASE. During the week of 14 September, this equipment was delivered to the KASE, for installation to allow all broker/dealers remote access. September OTC trading figures are 2 OTC trades; 40 shares; $46,100 (3,688,000T). The equipment has been installed during the week of 12 October. **October OTC trading figures are 1 trade, 8,065 shares, 1,645,260 Tenge ($20,311). Off-exchange trading figures are equally dismal, at 238 trades, 13, 729 shares, 5,827,786 Tenge ($71,947).**	
3. To effectively eliminate "gray market" trading, by prohibiting all ABD members from participating in the "gray market, and by promulgating a rule with this prohibition, by 30 June.	All the brokers and dealers are required to report all their trading activities to the NSC. In addition, members of ABD will be prohibited from off-exchange trading in securities listed on the KASE, and the ABD has drafted an MOU with the NSC which states all trades must be done on the listed or OTC market. The MOU was signed by both parties on 13 July, however, the provision for the prohibition of off-exchange trading was removed. The NSC agreed	The General Meeting of the ABD must pass this rule, and the MOU must be signed by the ABD and NSC before 30 June. THIS 30 JUNE DEADLINE WILL NOT BE MET, but attempts are being made in earnest. It is still possible that the NSC will adopt a regulation or an instruction to prohibit off-exchange trading. Pragma has drafted a discussion paper regarding this prohibition, and will discuss with NSC Chairman and other Commissioners on 31 July. Pragma has discussed off-

	that off-exchange trading shall be prohibited and begins looking for ways to accomplish this task. **The NSC is currently in discussions with the broker/dealers regarding the drafting of the regulation for off-exchange trading.**	Exchange trading with the NSC during the week of 7 September, and is preparing a formal response and analysis. **Pragma is drafting a letter to the NSC commissioners, which will ask for points to be included in an MOU/protocol between the NSC and the SMDP, including adoption of a regulation to prohibit off-exchange trading.**
4. The number of issues that are listed should increase every month, with 10 issues listed by 30 June 1998, and 40 issues listed by 31 December 1998.	The OTC trading system should begin no later than 30 June; at which time the "N" board listings, which currently number 18, will be transferred to the OTC. Pragma's regional consultants are lining up companies for listing, which includes another 10 for OTC currently. OTC trading system opened on 15 July, with 13 issuers (21 issues, common and preferred) listed on the OTC. As of 11 September, there are 19 issuers and 31 issues (common and preferred) listed on the OTC. There are 26 issues listed "A" and "B" board. August saw no issues added to the OTC, which means that the ABD violated the MOU standard. *September saw 1 issue transferred from the OTC to the "A" board.* **On 8 October, Temir Bank joined the "A" board list,**	All professional participants, including Pragma's regional consultants, must strive toward getting more listings. Broker/dealers have approached Pragma to participate in various "road shows" for issuers to list, and for investors to invest. Details received, and Pragma will participate. Narodny Bank is expected to move from OTC to "A" board shortly. Narodny Bank and ShymknetNeftiOrgSintez have joined the "A" board on 16 September.

	due to the efforts of Pragma's consultants.	
5. To market membership in the ABD so as to assemble a broad group of professional brokers and dealers from the Republic of Kazakhstan.	An MOU agreement, being drafted between ABD and NSC, will provide that all brokers and dealers will have to become members of ABD, when the ABD receives SRO license. In addition, companies will only receive broker's licenses provided that ABD first reviews their applications. . The ABD/NSC MOU was revised, and signed on 13 July, however the NSC removed the requirement for all broker/dealers to join the SRO/ABD. A new member, R.G. Securities, joined the ABD. **DB Securities, headed by ex-NSC Chairman Marchenko, joined the ABD and the KASE.**	The ABD must be licensed as an SRO. Also, the NSC is still considering the requirement for all broker/dealers to become members of the ABD as an SRO. It is Pragma's recommendation that this is adopted. **The NSC drafted a regulation that requires all broker/dealers to be members of an SRO (i.e., the KASE or the ABD).** The ABD has the desire to add Mr. Marchenko of DB Securities (Deutsche Bank) to their Council. **The ABD General Meeting did vote to include Mr. Marchenko onto the Council, but the Council in a fit of irony, voted to disband the ABD.**
6. To develop a settlement guarantee fund or obtain insurance coverage to minimize losses. A feasibility study is to be completed by 30 September, and the fund or insurance is to be in place by 31 December 1998.	The ABD has informally looked into obtaining insurance. Also, within the MOU between the ABD and the NSC, the ABD will require itself to meet this guarantee fund or insurance requirement. Pragma received the KASE feasibility study on insurance on 1 July, which covers ABD members.	Trading will have to increase substantially for any kind of insurance to be viable. Otherwise, a guarantee fund will have to be contributed to by all broker/dealers, which will be another expense item for them. A joint plan, with the KASE, might have to be agreed upon.

I. USAID

What shall be done	*What has been done*	*What is still to be done*
1. To support the secondary market	Pragma has continued to provide technical	Technical assistance will have to be continued, for

OTC-trading for listing and trading.	assistance for the development of the OTC trading system. Pragma has made recommendations for the OTC trading system and trading screen for improvements. On 22 June, the OTC Committee met, to try to encourage all broker/dealers to quote on the OTC trading system, to trade on the system, and for each broker/dealer to bring at least 1 OTC listing. Furthermore, on 24 June, Mr. Bektasov, the Chairman of the NSC, blasted the broker/dealers for not doing much, and stressed their responsibilities to bring listings to the organized markets. . On 1 July, a preliminary meeting was held, with broker/dealers, the KASE, the ABD, Pragma, and the NSC present, to act as a sort of brain-storming session, with 3 formal plans submitted, regarding a multi-purpose listing, IPO, issuer, investor, broker/dealer conference to be held in the fall. With the Pragma's assistance, "Bayan-Sulu" company was listed on the KASE "B" board in August.	further developments of the system, and possible hard or software to be provided to upgrade telecommunications connections and accessibility. Listing and IPO Conference scheduled for October, but may be postponed until November. USAID is also scheduling and coordination a Central Asian investment conference to be held in Almaty in Mid November. **This conference has been postponed until early spring 1999, due to an abundance of like conferences being held November/December 1998.**
2. To assist the ABD in meeting the FIBV standards.	USAID provided a training trip for ABD management to Moscow in April 1998, and sponsored ABD president's participating in the foundation meeting of	A surveillance/ compliance officer was hired on 10 June, with training already initiated, to concentrate on regulatory aspects of ABD

	the Union of Associations of Professional Participants in May 1998. Pragma's advisers drafted ABD rules and regulations in accordance with FIBV standards, awaiting NSC's approval. Committees were formed in ABD to be responsible for legal aspects, monitoring and supervisory aspects, training practices, and informational services. A formal training plan has been implemented. Pragma has been conducting training sessions for the ABD staff, 2-3 times per week, 2 hours per session. The training session was completed in August.	activities. Pragma to continue to provide intense training for the compliance staff of the ABD. NSC must approve all documents. Due to ABD staff and members in Turkey, no training classes were held during this week. **With the encouragement of the NSC, the ABD has drafted rules for members to report all off-exchange trades to the ABD for surveillance. Additionally, the ABD has drafted a rule for members to make application to the ABD for inclusion in the primary dealing of T-Bills; the ABD would then make recommendations to the Min. Finance for this.**
3. To support the ABD, the NSC, and the securities market of the RK toward the ultimate goal of facilitating migration of transactions from the "gray market".	Pragma has drafted and commented on rules and drafted and commented on regulatory documents of the KASE and NSC, which require all securities trades to be conducted on the regulated and transparent listed and OTC markets. On July 31, possible prohibition of off-exchange trading was discussed with the NSC Chairman and other Commissioners, and an agreement was reached that off-exchange trades should be prohibited. The NSC has drafted a set of actions to eliminate "gray	Continue to draft appropriate documents and to monitor their approval. Pragma to discuss possible prohibition of off-exchange trading with NSC Chairman and other Commissioners on 31 July. During the week of 7 September, the NSC held a meeting with the ABD Council, discussing among other things, the total prohibition of off-exchange trading. The members of the ABD will draft their responses and alternative measures for further discussion with the NSC. Pragma to analyze

	market", and ABD, KASE, and CD are supposed to work closely together in discussing and implementing such actions. A proposal was informally discussed amongst members to adopt a "market maker" system to the OTC market on September 17.	and present a formal response. **Unfortunately, the ABD members did not respond to the NSC proposal. However, Pragma is drafting a letter to the NSC, which will include the necessity of prohibiting off-exchange trading.**
4. To provide professional training for the Association's members in all relevant and necessary areas.	USAID on a regular basis sponsors ABD-held seminars for all broker/dealers by allocating up to $500 per seminar and 20 seminars by year-end. To date, the ABD has held training seminars on schedule. Many of these have been led by Pragma staff. On 11 June, a broker/dealer training presentation was given on listings and OTC trading, led by Pragma. Pragma accomplished a training course for supervisory and inspection staff of the ABD. . Bob Thiel who arrived on 8 September 1998 will run the seminar. Seminar was held on 15 September, with more than 20 in attendance. Individual broker/dealer meetings followed...this week, Bob conducted 6 meetings. Bob conducted the seminar in Almaty on 24 September, with 14 personnel of broker dealers in attendance.	Continue group training and educational seminars. Pragma to continue interviews with individual broker/dealer firms to gain insight into their firm's business and needs. Pragma planning a fall seminar on books and records, back office procedures, to be jointly conducted with the NSC. A training trip is currently being planned to Romania. Pragma is planning a training seminar for brokers sales personnel and managers. Additional broker/dealer sales and marketing meetings will be held by Bob Thiel the week of 21 September, with another follow-up seminar. There are currently plans for a seminar for ABD members on T-Bills and Eurobonds.

Open Joint Stock Company «Temirbank»
80 Shevchenko Street, Almaty, 480091 Republic of Kazakhstan

INVESTMENT MEMORANDUM

Content:

I. Introduction
II. General information
III. Basic indices of financial activities
IV. Technical equipment
V. Banking products and services
VI. Accounting
VII. Management and organization
VIII. Structure of capital, share market
IX. Management of financial risks
X. Prospective development

I. Introduction

Address	80 Shevchenko Street, Almaty, 480091 Republic of Kazakhstan
Auditor	Price Waterhouse International Company
Registrar Holder	L.L.P. Kazregister
Total number of employees	821
Assets	T4.1 billion
Equity capital	T1.3 billion
Charter capital	T1 billion
Common Registered Shares	990,000 shares, par value – T1,000
Shareholders	27,100 physical and legal persons
Managing Board Chairperson	Saodat TASHPULATOVA
Managing Assistants of the Board Chairperson	Andrei BUTUKHANOV Serikzhan RAMAZANOV Berik SARIN

Issuer	Stock	Listing	Date	Comments
		"A"		
'KazkommertsBank" (Almaty)	Common		16 October 1997	
'NefteBank" (Aktau)	Common		15 April 1998	The Pragma's regional consultant met with the company's management to discuss listing possibilities. He renderd consultations with regard to the listing rules and procedures and helped to prepare the listing application.
UKTMK"	Common		16 October 1997	
UKTMK"	Preferred		16 October 1997	
ShymkentNefteOrgsintez"	Common		16 October 1997 included into Prelisting; 7 January 1998 Moved to "B"; 16 September 1998 Moved to "A"	
ShymkentNefteOrgsintez"	Preferred		16 October 1997 included into Prelisting; 7 January 1998 Moved to "B"; 16 September 1998 Moved to "A"	
emir Bank	Common		8 October 1998	Dias Sarsenov, Pragma's regional consultant for Almaty, has worked with the bank from decision-making to the actual listing of the bank's shares, including consultations he renderd with regard to the listing objectives and advantages, and help in preparing documents and filing the application.
emir Bank	Preferred		8 October 1998	
alyk Savings Bank	Common		30 July 1998 Included Into OTC; 16 September 1998 Moved to "A"	
		"B"		
azakhTelecom"	Common		28 October 1997 Included into Prelisting; 10 December 1997 Moved to "B"	
azakhTelecom"	Preferred		28 October 1997 Included into Prelis-	

			0 December 1997 Moved to "B"	
"Lariba-Bank"	Common		7 January 1998	
"Bayan-Sulu" (Uralsk)	Common		12 August 1998	The Pragma's consultant for Uralsk region Oskar Makhmudov discussed with the company's management advantages of trading equity on the organized market. He provided training, consultations, and help in preparing documents for listing.
'Aidabulsky Distillery"	Common		Moved from Prelisting on 15 July 1998	
Aidabulsky Distillery"	Preferred		Moved from Prelisting on 15 July 1998	
Altyn Den"	Common		Moved from Prelisting on 15 July 1998	
Altyn Den"	Preferred			
Aluminum of Kazkahstan"	Common		Moved from Prelisting on 15 July 1998	
Aluminum of Kazkahstan"	Preferred			
AktobeMunaiGaz"	Common		Moved from Prelisting on 15 July 1998	
AktobeMunaiGaz"	Preferred			
Borly"	Common		Moved from Prelisting on 15 July 1998	
Borly"	Preferred			
NK Kazkhrom"	Common		Moved from Prelisting on 15 July 1998	
NK Kazkhrom"	Preferred			
langystauMunaigaz	Common		Moved from Prelisting on 15 July 1998	
langystauMunaigaz	Preferred			
eftekhimBank"	Common		Moved from Prelisting on 15 July 1998	
eftekhimBank"	Preferred			
		"OTC"		
yrausky Refinery"	Common		16 January 1998	
yrausky Refinery"	Preferred		16 January 1998	

37

'ShymkentPivo"	Co[redacted]n	[redacted]	[redacted]ru[redacted]98	
'ShymkentPivo"	Preferred		23 February 1998	
Bank Kaspiisky"	Common		27 May 1998	
Bank Kaspiisky"	Preferred		27 May 1998	
EmbaMunaiGaz"	Common		16 January 1998	
EmbaMunaiGaz"	Preferred		16 January 1998	
Etalon" (Almaty)	Common		27 April 1998	
KustanaiAsbest"	Common		26 March 1998	Pragma's consultsnt for Kustanai region Vladimir Shabalin contacted the company with the purpose of describing advantages of raising capital through the stock market on 17 February 1998 He presented listing rules and procedures to the company's management along with the explanation of these.
KustanaiAsbest"	Preferred		26 March 1998	
orporation Kazakhmys"	Common		14 May 1998	On 19 November, a meeting of the KASE Exchange Council took place, at which upgrading Kazakhmys up to "B" Board was discussed. The meeting revealed that "Kazakhmys" has not paid dividends declared in 1997, although the documents submitted to the KASE for "B" listing stated it did. The meeting decided to check the information of "Kazakhmys" for its accuracy, and meanwhile to leave Kazakhmys in OTC.
orporation Kazakhmys"	Preferred		14 May 1998	
t-Kamenogorsk Bakery	Common		27 May 1998	Bakhyt Ualieva, Pragma's regional consultant for Ust-Kamenogorsk region contacted the company on 19 March 1998. She discussed with the company's management a possibility for the companyto pursue listing of its shares; she also provided listing documents and procedures to the company. As a follow up to the meeting, managers of the company attended a listing seminar held by Pragma/USAID on 28 April 198
t-Kamenogorsk Bakery	Preferred		27 May 1998	
gProjekt" (Almaty)	Common		15 July 1998	Pragma's regional consultant for Almaty Dias Sarsenov provided necessary documents and consultations to the company's management
htarminsky Cement Company	Common		15 July 1998	Pragma helped the company prepare all the listing related documents

38

Pavlodar Oil Refinery	Common		15 July 1998	Also, Pragma ren[illegible]red consultations with regard to the listing procedures.
Pavlodar Oil Refinery	Preferred		15 July 1998	As of the end of July 1998, "Pavlodar Oil Refinery" stocks were suspended from trades due to legal disputes between "CCL Oil" (strategic manager) and the RK Government. This should mean that until the dispute is settled, no trades in these stocks (common/preferred) may be executed.
Rakhat" (Almaty)	Common		24 July 1998	Pragma's regional consultant for Almaty Dias Sarsenov provided to the company the entire range of listing consultations and training.
Ilbinsky Metallurgical Plant	Common		30 July 1998	Pragma's regional consultant for Ust-Kamenogorsk region Bakhyt Ualieva rendered consultations to the company regarding listing rules and procedures Also, she helped in preparing of the company for KASE listing.
Ilbinsky Metallurgical Plant	Preferred		30 July 1998	
ary-Arka Polymetal	Common		30 July 1998	Pragma's consultant worked with the company in preparing necessary documents for KASE listing, as well as in training the company for listing.
ary-Arka Polymetal	Preferred		30 July 1998	
argarine Plant (Karaganda)	Common		30 July 1998	Pragma's consultant worked with the company in preparing necessary documents for KASE listing, as well as in training the company for listing.
argarine Plant (Karaganda)	Preferred		30 July 1998	
ctubinsk Chrom Compound Plant	Common		30 July 1998	Pragma's consultant worked with the company in preparing necessary documents for KASE listing, as well as in training the company for listing.
ctubinsk Chrom Compound Plant	Preferred		30 July 1998	

Note 1: Pragma submitted listing rules and procedures to all of the companies listed above.

Note 2: As of 15 October 1998, three stocks were delisted from OTC per the NSC's demand: "Asyl-Su" (common), "Kaztsynk (common), "Prikaspijskoe Construction Management" (common/preferred). The reason is that these companies failed to submit their emission reports in a timely manner, and, as a result, the NSC recognized their issues invalid. Now the above mentioned companies will have to go through the emission registration procedures all over again.

Updated November 2, 1998

Offering Block Shares of Kazakhstani Joint Stock Companies on the KASE

Proposal:

U.S. Government should formally request that the Government of Kazakhstan offer for sale State owned blocks of shares of attractive Kazakhstani Joint Stock Companies of the "second tier" on the KASE.

Should this proposal be accepted, USAID should move ahead quickly to support this effort and monitor its implementation. Continued support should be conditioned on progress to be measured by a specific number of companies over a specified time period.

Background:

USAID/CAR contemplated pulling out support for capital market development in Kazakhstan in November 1996. However, the program was revived when Mr. Grigori Marchenko was appointed Chairman of the National Securities Commission. As one of the conditions for accepting this position, Mr. Marchenko received a commitment from the President and Prime Minister that "blue chip" companies would be privatized and listed on the stock exchange in order to jump start the capital market. In support of Mr. Marchenko's plan, in December, 1996, The GOK issued two decrees with the states objective being, "to facilitate further development of the privatization by means of a stock market, promotion of new model Kazakhstan Stock Exchange, and start-up of securities market in general." However, by November 1997, no "blue chip" companies had been listed on the KASE, and Mr. Marchenko resigned his position in protest. Today, the possibility of "Blue Chip" stocks being offered on the KASE seems remote. To add insult to injury, the Ministry of Finance (MOF) plans to offer two "Blue Chip" companies through GDRs and ADRs on European Stock and American Stock Exchanges. Two other "blue chip" companies will be sold through private placement. These sales offer no benefit to Kazakhstan's Capital Market.

Block Shares

During the voucher and later cash auction phases of the mass privatization effort, the GOK sold shares in over 1700 companies. However, the State still holds blocks of shares in most of these companies with a majority share in many of them. It is these shares which are presently being sold off through auctions at a rapid pace to meet GOK revenue demands.

Many of the largest companies were held out of mass privatization for private placement and tender sales on a case by case basis. Block shares of these companies are also now being sold to generate revenues for the government.

Thus, it is the block residual shares, in many cases representing controlling interest, of the companies auctioned during the mass privatization, as well as block shares of the larger companies being sold through private placement which should be sold through the KASE.

Meanwhile, with the current, global economic crises hurting markets world wide, trading at the stock exchange has dwindled from an already low level. Kazakhstan's Capital Markets need a jump start far more today than when Mr. Marchenko was appointed NSC Chairman in 1996. Offering State Owned Block shares of quality Kazakhstani JSC's of the "second tier" on the KASE and a portion of the "blue chip" companies, which are already being sold, could provide that jump start.

Recent Developments:

When it became evident that blue chip companies would not be offered on KASE, the Capital Market Development Project began working with the MOF's Department of State Property and Privatization (DSPP) with the aim of privatizing some good quality, profitable, second tier companies by offering block shares on the KASE. Earlier this year, DSPP provided USAID with a list of 87 companies, which we were to evaluate as candidates for privatization through public offerings. USAID's review revealed that most of these companies were bankrupt or already had had their state shares sold through local auctions. The resulting, smaller group is now being offered on the exchange at a firm price, by the DSPP's broker. No sales have occurred recently.

After some delay caused by management changeover, the DSPP has shown some interest in moving forward in privatization on the stock exchange. The DSPP proposed the formation of a working group to prepare proposals on selling state owned blocks of shares of Kazakhstani JSC's of the "second tier" on the KASE. The NSC followed up on this proposal and developed a working group consisting of officials from the NSC, KASE, the Association of Broker/Dealers, and USAID.

On Friday, Oct. 9, the Chairman of the NSC, Mr. Bektasov, requested a meeting with the USAID Capital Market Officer and Pragma's Chief of Party. Three others Commissioners were present: Mr. Kulinov, Ms. Shalgimbayev, and Mr. Joldasbekov. They expressed concern that the Ministry of Finance and the DSPP would sell off all the remaining block shares of state owned companies in their registry, before there is a chance to offer any of them on the KASE. They asked if the U.S. Government (presumably the Ambassador), would write a letter to the Prime Minister requesting that the GOK stop selling companies through auctions and use a more open, transparent approach, i.e. offering them through the stock exchange.

At that meeting, we suggested that the NSC might get better results if, together with the KASE, Broker/Dealer Association, broker/dealers, the Central Depository and other concerned entities wrote directly to the Prime Minister themselves. Rather than writing a letter, the NSC began working with the DSPP to government decree that would establish a methodology for privatizing state shares through the stock exchange.

In the meantime, based on the efforts of the working group, the NSC proposed a list of fifty companies that should be privatized on the stock exchange. In follow up letters, the DSPP responded with letters indicating that, for various reasons, only 10 of these companies were appropriate for privatization through the stock exchange.

On Monday, November 2, 1998, in a meeting with Pragma contractors, Commissioner Joldaskbekov

announced that the DSPP was submitting a regulation to the Prime Minister on the rules for selling shares through the exchange. The regulations would establish a working commission (most likely the one that is in fact working now) that would establish procedures, collect information, identify companies, and make recommendations to the DSPP. Joldasbekov explained that this regulation was necessary to give the DSPP political cover for them stopping local auctions of specific companies in order to allow sufficient time to prepare shares for listing on KASE.

Mr. Joldosbekov expressed general satisfaction with the regulation. He noted, however, that it does leave much to the working commission and the DSPP following its proposals. As a result, implementation will be key to whether it is successful.

Conclusion:

USAID should fulfill the NSC's request for high level U.S. support on this important issue.

Kazakhstan's Capital Markets needs to offer some State Properties on the Kazakhstan Stock Exchange. It is particular important during this slow economic period. The companies are being sold to raise revenue. They are not being held for better economic times and a better price. Offering them on the Stock Exchange would not only offers greater transparency, but would show the government's support of the Capital Markets. It would give Broker/Dealers experience needed experience in initial public offerings, give the Central Depository shares to hold, the exchange trades to clear and settle, and, most importantly, it would give focus, momentum, direction and purpose to the nascent Capital Markets institutions.

USAID should urge that the regulation discussed above be adopted. Further, and far more importantly, it should clarify that proper implementation of the regulation is crucial to the development of the stock market. The corruption, politicization, and lack of information have plagued privatization in Kazakhstan. There is little reason to believe that such obstacles will disappear. USAID should suggest tangible benchmarks for evaluating whether the Kazakhstani government is willing to privatize companies through the stock exchange.

Of course, the best way to measure implementation is by the number of companies fully privatized through this method. Unfortunately, it is extremely hard to predict the number of companies in the state's inventory that would lend itself to successful privatization through the exchange. Estimates from the NSC and the DSPP have been between 100 and 200 companies. A number within this range might be helpful as an objective benchmark in measuring progress during the latter part of 1998 and the first half of 1999. USAID support for capital markets development could be based on whether these numbers are reached or at least a good faith effort is made to do so. Good faith efforts could be measured by the extent the DSPP provides information to the working commission and the extent it follows the commission's proposals regarding the process of privatizing these shares.

The Pragma Corporation

USAID Securities Market Development Project

Monthly Report

(for the period ending November 30, 1998)

For the

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	Daniel Fitzpatrick
COTR USAID/CAR	Rick Gurley

ALMATY, KAZAKHSTAN

43

The Pragma Corporation
USAID Securities Market Development Project
Monthly Report
(for the period ending November 30, 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 November 1998.

- TEAM SUBMITS PROTOCOL OF MUTUAL COOPERATION TO NSC; OBTAINS POSITIVE RESPONSE.
- TEAM ASSISTS DEPARTMENT OF STATE PROPERTY AND PRIVATIZATION IN ITS EFFORTS TO ACCELERATE PRIVATIZATION THROUGH THE STOCK EXCHANGE.
- SHARES OF COPPER COMPANY PRIVATIZED THROUGH EXCHANGE IN A TRANSACTION VALUED AT OVER 6.3 MILLION US DOLLARS.
- KAZAKHSTAN STOCK EXCHANGE AND BROKER-DEALERS GEAR UP FOR PRIVATIZING STATE SHARES.
- TEAM ASSISTS IN PUBLISHING RECENT DEVELOPMENTS WITH REGARD TO TENDERS FOR PLACING SHARES OF BLUE CHIP COMPANIES.
- TEAM MAKES CONTACT WITH OVER 160 COMPANIES THROUGH SEMINARS IN FOUR REGIONS.
- TEAM ASSISTS KASE IN TAKING ON FULL SRO RESPONSIBILITIES AFTER DISSOLUTION OF ASSOCIATION OF BROKER-DEALERS.

II. PROJECT DESCRIPTION

The Pragma Team works with the National Securities Commission ("NSC"), the Kazakhstan Stock Exchange ("KASE"), and the Central Depository in developing Kazakhstan's securities market. To further these goals, the Pragma Team works under a Memorandum of Understanding ("MOU") between USAID and KASE. A previous MOU between USAID and the Association of Broker-Dealers was rendered moot by the latter's dissolution in October 1998.

In November 1998, recognizing the changes in circumstances since the Task Order was written, Rick Gurley, the COTR for the AID Mission, signed off on an Action Plan that set forth the priorities of the Project through March 1999. The priorities of the Project for this period are noted in the boxes below.

III. PROJECT UPDATE AND PROGRESS VERSUS ACTIVITIES IN THE ACTION PLAN

The project update for this monthly report will correspond to the activities set forth in the action plan described above.

Task 1 Continued Assistance to the NSC

Defined Activity	Progress Made During the Month
1. Draft regulations.	After obtaining USAID approval, the Team submitted to the NSC a draft "Protocol on Mutually Beneficial Cooperation". The Protocol envisioned significant assistance to the NSC in drafting, and included a proposed schedule of documents for drafting or comment. See Attachment 1. In general the NSC agreed with the contents of the Protocol, voicing only minor concerns which the Team was addressing as of the end of the month. In the meantime, the Team continued to assist NSC officials in their efforts to draft regulations and policy documents, namely: • The NSC Program for 1999-2000; • Rules on Broker-Dealer Activities on the Securities Market, • Rules Governing the Operation of the Central Depository; • Instructions on the Procedures for Registering Emissions of Obligations; • Instructions on the Procedure of Government Registration of Emissions and Analysis of Emissions of Shares of Investment Funds and the Procedure Reviewing and Confirming Reports on the Results of Issue and Placement of Investment Funds; and • Amendments to the Law on Joint Stock Companies. The Team also explored the idea of ways in which a company could issue corporate bonds that are "secured". Specifically, the Team reviewed methods by which the company secures the claims of the bond holders. For instance, claims could be secured by either pledges of the company's property or by the guarantee of a third party (who would take a pledge of property from the company in order to secure its claim against the company in case of default). Finally, in assisting with the phase out of USAID support for NSC share registration activities, the Team reviewed the current and prospective requirements for registering issues of shares in Kazakhstan.
2. Assist in establishing enforcement power of NSC.	The Team began researching the possibility of the NSC using its licensing authority as a means of fining market professionals for violating securities regulations. In such cases, the fines would actually be "voluntary settlements" of an action by the NSC to deprive the market professional of a license. Such a method would allow the NSC to essentially impose penalties without going to court. This issue received initial positive responses from one of the NSC commissioners when it was raised in connection with the Protocol. Jae Abbitt, a compliance specialist on TDY, met with NSC Commissioner Umit Kulinov to follow up on inspection and compliance assistance she provided to the NSC in the spring of 1998. See Attachment 2. Finally, the Team continued with the assistance it has been providing the NSC with regard to registration of emissions of shares and the monitoring of activities of professional participants. In late November, the Team agreed with the NSC to phase out this assistance in connection with an evaluation the Team will perform on the

45

Defined Activity	Progress Made During the Month
	requirements of both the NSC and the emitters in registering shares.
3. Assist NSC in moving off-exchange trading to KASE.	The team drafted a rule for KASE which sets forth procedures allowing non-member broker/dealers to trade on KASE. The provisions drafted by the team to prohibit off-exchange trading are included in a revised regulation, sitting on the desk of an NSC Commissioner, awaiting review and approval, to be sent to the Ministry of Justice for final approval and adoption.
4. Establish NSC Data Warehouse/Trade Reporting System.	The Team's technical consultants continued developing the NSC Trade Reporting/Data Warehouse system. Specific activities for the month included: • development of the database of professional participants and firms with securities market licenses; • establishment of a system that would allow the NSC to assign numbers to share issues of companies; • full documentation of the data warehouse/reporting system The Team also addressed the issue of improving the NSC's ability to collect and process reports on the activities of companies managing pension fund assets. The Team organized a meeting between Commissioner Kulinov and the principals of the USAID Pension Reform Project (PRP). As a result of the meeting, the PRP acknowledged their willingness to establish the forms and other documents for reporting, and members of the Team agreed to write a program code for processing such reports. The Team expects that such work would significantly reduce the paper work that currently burdens the NSC.

Task 2 - Blue Chip Privatization

Defined Activity	Progress Made During the Month
1. Assist & monitor the privatization of state owned shares.	The State Department on Property and Privatization (DSPP) continued with its efforts to accelerate the privatization of second-tier companies through the stock exchange. To this end, the DSPP released draft rules on privatization through the stock market and draft rules on choosing broker-dealers for these efforts. Upon review of the draft rules, the Team concluded that the public notification provisions in the draft rules potentially violated the Law on Privatization. In response, the Team arranged with the NSC and KASE to draft and submit a letter to the DSPP expressing these concerns. Although the letter did not result in the DSPP changing its policies, it nevertheless has raised its awareness as to the concerns of the NSC, KASE, and the Team. Despite these concerns, the Team continued to support the efforts of the DSPP in choosing companies for privatization through KASE. Using the database they had developed over the past several years, Team members combed through potential companies and, after consultation with members of KASE, submitted them to the DSPP for consideration. Further, Team members shared information from their data base (specifically as to tracking sales of state shares) with regional offices of the DSPP in order to allow the latter to make better informed choices as to privatization. Finally, the Team worked closely with the NSC and KASE to develop a set of regulations that would govern the method by which the DSPP would choose broker-dealers to sell state packets of shares. This effort has begun to show immediate results, as of the end of the month, the DSPP had sold a copper company through the exchange for 6.3 million dollars and had listed eight new companies for sale on the exchange. See Attachment 3 for details.

46

Defined Activity	Progress Made During the Month
2. Assist and involve Broker/Dealers in working w/GOK privatization.	The Team obtained the approval from USAID of David Lucterhand (an investment banker) to work on the Project in December (for a preliminary visit) and from January through at least until March. Mr. Lucterhand's primary task will be working with the broker-dealers on privatization of state shares through the exchange. In anticipation of Mr. Lucterhand's arrival, the Team polled the broker-dealers to determine which ones would be interested in working with him on state share sales. Eleven (out of 11) broker-dealer companies responded enthusiastically to this offer.
3. Advocate listing part of shares of blue chip companies w/KASE.	The DSPP announced a tender for investment bankers to privatize shares of several blue chip companies, namely Kazakhstan Aluminum, Kazkhrom, Kaztzink, and the Sokolovko-Sarbaiskoe Mining and Enrichment Combine. Interestingly, the tender called on investment bank bidders to consider privatization through Kazakhstan's local stock market as well as through international markets. In response to a request from the DSPP, the Team placed information on this tender on its web site as well as information on these companies that had been provided by the DSPP.

Task 3 - Development of the Markets

Defined Activity	Progress Made During the Month
1. Encourage companies to list on KASE.	The Team finished up its series of regional listing seminars for the year with a flourish. During the month, the Team organized and ran listing seminars in Aktubinsk, Ust Kamenogorsk, Uralsk and Pavlodar. The four seminars (whose costs were partly offset from expense sharing with a USAID training project) attracted a total of 291 representatives from 164 companies. The Team also participated in a seminar on corporate securities that was sponsored by an American law firm and Kazkommerz Securities in Almaty. Further, the Team worked with Privatization Investment Funds in order to encourage them to negotiate with broker-dealers for having the shares in their portfolios listed on KASE. For instance, the Team posted on its web site the shares that Privatization Investment Funds wanted to have listed on KASE. As a result of such posting, a broker-dealer agreed to bring shares of the joint stock company "Aky" to the OTC floor Having now contacted over 2000 companies, the Team is focusing on the 25 most attractive companies for continued listing efforts. As of the end of the month, 37 companies (61 share issues) were listed on KASE. Twelve of these companies (three in November) were listed with the direct assistance of the Team (see Attachment 4 for details). On a final note, during the month KASE decided to extend the deadline of an "A" listed company for meeting certain "A" list requirements. The Team expressed its concern on the possible dilution of the reputation of "A" list if such deadline were extended. KASE acknowledged this concern, but nevertheless extended the company's deadline until January 1, 1999.
2. Encourage trading on KASE.	The Team continued its work with the web site in order to increase awareness of Kazakhstan and how it differs from Russia. Further, it posted on its web site several pieces of information concerning the GOK's recent efforts to privatize state shares. The Team also addressed once again the possibility of capital controls in response to a request for three specific questions posed by the NSC. See Attachment 5 for a translation of the Team's response to this request. For the month, trades were up sharply from the all time lows in October: the amounts of shares traded off exchange increased more than ten fold, the largest single trading month

Defined Activity	Progress Made During the Month
	for off-exchange trading since August. With regard to trades on-exchange, the privatization of the copper company, mentioned above significantly raised the volume of the amounts in shares traded during the month. Still, the increase would have been substantial, even without this sale. See Attachment 6 for details. Rick Dvorin, the Senior Capital Markets Advisor, gave a presentation on the Kazakhstan securities market at a conference in Almaty sponsored by the Asian Development Bank. In attendance were pension fund managers and other representatives of private investors. On a matter of note that did not directly relate to activities of the Team, KASE and AFINEX (the foreign exchange market) have agreed to merge. This move will reduce some overhead costs and enhance the efficiency of both exchanges.

Task 4 – Continued Assistance to KASE and the Central Depository

Defined Activity	Discussion of Progress Made During the Month
1. Support KASE in accepting the SRO responsibilities of the NABD.	The Team convinced KASE to sign an agreement obligating itself to take over the SRO responsibilities, upon transfer of such from the NSC. To help KASE with these new obligations, the Team convinced USAID to approve continued salary support of the ex-ABD staff person who had been trained by Rick Dvorin in SRO matters. KASE is currently awaiting a formal commitment from the NSC to transfer regulatory responsibilities to it.
2. Assist KASE to finalize rules for market-makers/work in conjunction with broker-dealers.	With slow trading volumes on KASE, this effort has been deferred until a market-maker system is more relevant to market conditions.
3. Improve broker-dealers operational efficiency and transparency.	The team continued to encourage individual broker/dealers to trade on KASE, even before the adoption of the NSC regulation to prohibit off-exchange trading.
4. Provide assistance to the Central Depository.	The Team began working on a regulation on activities of the Central Depository. This regulation would be an updated version of the one passed two years ago, and would take into account the new Law on Joint Stock Companies and the greater emphasis on on-exchange trading.

Task 5 - Other Activities

Defined Activity	Progress Made During the Month
1. Make the USAID web site a self-sustaining entity.	No work was done this month on this matter.

IV. Administrative Issues

The Team moved all of its members, save for those in the technology and information services group, over to the building where the NSC, KASE, and the CD are located. This immediately resulted in savings on rent and reduction of staff, in addition to adding to the team's efficiency by its proximity to the aforementioned counterparts. The Team further cut costs by arranging to have the USAID Training Project cover some of its expenses for its listing seminars.

V. PROJECT STAFFING

The following personnel were engaged in project activities this month:

Paul Carlson, Senior Investment Advisor (part time)

Richard Dvorin, Senior Capital Markets Advisor

Daniel Fitzpatrick, Team Leader

Timothy Smith, Senior Capital Markets Advisor

Mary Jae Abbitt, Capital Markets/Financial Policy Advisor

USAID SECURITIES MARKET DEVELOPMENT PROJECT

Monthly Report for November 1998

List of Attachments

Attachment 1: Protocol on Mutually Beneficial Cooperation

Attachment 2: Memorandum from M. Jae Abbitt (November 20, 1998)

Attachment 3: List of State-Owned Companies Placed for Sale on KASE

Attachment 4: Companies Listed on KASE and Description of Team's Contribution

Attachment 5: Translation of Letter to Mr. Nyazov regarding Capital Flow Restrictions

Attachment 6: Trading Statistics (dollar and tenge volume on and off-exchange)

Protocol on Mutually Beneficial Cooperation
between
the National Securities Commission of the Republic of Kazakhstan
and
the Pragma Corporation

I. Basis for Protocol

1. The Pragma Corporation ("Pragma") is providing technical assistance in the Republic of Kazakhstan in connection with development of the securities market, under a contract funded by the US Agency for International Development (USAID).

2. USAID has directed Pragma to provide technical assistance to the National Securities Commission.

3. The National Securities Commission ("NSC") has agreed to accept the technical assistance described in this Protocol.

4. Both Pragma and the NSC recognize that such technical assistance will be provided more efficiently if each side fully understands what to expect from the other.

5. In light of the above-described events and understandings, Pragma and the NSC state in this Protocol their mutually beneficial activities for the period from the date of the signing of this Protocol until March 31, 1999.

II. Pragma's Activities

Pragma, through its consultants, will:

1. draft or comment on the normative acts listed in Attachment 1, and submit such drafts or comments according to the schedule stated therein;

2. support the NSC in undertaking a pilot project for drafting normative acts in a manner that allows interested parties (citizens, non-governmental organizations, etc) to have a meaningful opportunity to review and comment on the draft normative acts before their submission for registration to the Ministry of Justice;

3. investigate and assess opportunities and obstacles with regard to NSC efforts to enforce the requirements under legislation on securities and the Law on Joint Stock Companies;

4. assist the NSC in bringing at least two enforcement cases in 1999;

5. publish over the internet the financial data provided by all listed companies that is provided to Pragma;

6. develop and install at the NSC a trade reporting system/data warehouse, according to the schedule in Attachment 2;

7. train NSC employees on use of the trade reporting system/data warehouse and a develop a plan, taking into account NSC concerns, for self-sustainability of the system/warehouse; and

8. provide other assistance that is mutually agreed upon by the NSC and Pragma through a supplement to this Protocol.

III. The NSC's Activities

The NSC will:

1. accept and consider the comments on or drafts of the normative acts that Pragma submits to the NSC according to the schedule specified in Attachment 1;

2. publish in certain newspapers and over the internet (the costs of which will be met by Pragma), drafts of the regulations specified in Attachment 1 by an asterisk(*), in order to allow interested parties (citizens, non-governmental organizations, etc) the opportunity to review and comment on the specified draft normative acts before their submission for registration to the Ministry of Justice;

3. initiate at least two enforcement actions, one of which will involve the failure of a company to issue dividends that had been authorized at a shareholder's meeting, the other will involve the failure of a company to disclose information required by legislation on securities;

4. make available to the public (through the media and the internet) the results of trade reporting, and if the collection of this information is transferred to an SRO, ensure that the SRO will do likewise;

5. shift regulatory authorities to the SRO, as the SRO demonstrates its competence to take on various regulatory tasks;

6. establish a register of public companies and require them to provide detailed information regarding their business and financial activities;

7. ensure that information provided by listed companies and public companies is available to the public through the internet;

8. continue to urge the Government to privatize shares of blue chips and second tier companies through the domestic organized market;

9. adopt and enforce regulations to eliminate off-exchange trading, i.e., to bring all securities trades to the organized markets;

10. provide Pragma with office room numbers 311, 413-415, and 420-422 at its office building located at Aiteke Bi 67 in Almaty according to a lease previously signed by Pragma;

11. by March 1, 1999 develop a joint plan with consultants from Pragma that would ensure the continued operation and usefulness of the trade reporting and data warehouse system, without USAID assistance after ____, 1999; and

12. undertake other mutually beneficial activities that are agreed upon by the NSC and Pragma through a supplement to this Protocol.

IV. Other Arrangements and Understandings

1. In order to ensure efficient and coordinated implementation of the activities in this Protocol, Pragma and the NSC will submit all requests concerning the above activities in writing to representatives specified herein. The representative for Pragma shall be Daniel Fitzpatrick. The representative for the NSC shall be _____.

2. Pragma and the NSC recognize that although the activities described in this Protocol do not rise to the level of legally binding obligations, the activities performed by one side depend on the corresponding execution of the

activities by the other. Pragma and the NSC further recognize that the activities stated in this Protocol are dependent on continued financing by the governments of the United States and the Republic of Kazakhstan respectively.

3. Original Russian and English versions (two each) of this Protocol will be signed and kept by Pragma and the NSC respectively.

V. Signatures, Authorities, and Date of Coming into Force

1. The individuals signing below represent that they have the authority to do so on behalf of their respective organizations.

2. If the dates of signing the Protocol are different, the date of its coming into force shall be the date when the latter of the two parties signs the Protocol

Daniel Fitzpatrick, on behalf of Pragma	Aben Bektasov, on behalf of the NSC
Date	Date

Attachment 1

List of Normative Legal Acts on which «Pragma» provides Technical Assistance

No	Name of the Draft	Input	Deadlines
1	**INSTRUCTIONS** Governing the Procedures for Public Registration of Issues of Shares and Cancellation of Issues of Shares and the Procedures for Reviewing and Approving Reports on Outcomes of Issue and Distribution of Shares by Joint Stock Companies in the Republic of Kazakhstan (1)	Comments	
2	**INSTRUCTIONS** Governing the Procedures for Public Registration of Issues of Bonds (4)	Drafting	
3	**INSTRUCTIONS** Governing the Procedure of Public Registration of Issues of Shares of Investment Funds (33)	Drafting	
4	**INSTRUCTIONS** Governing the Procedures for Public Registration of Issues of Derivatives (8)	Comments	
5	**INSTRUCTIONS** On Procedure for Publishing Information on Cnaiges in Business Activities Performed by Issuers (10)	Comments	
6	**REQUIREMENTS** to be Met by Registrars Maintaining Registries of Holders of Open Public Company Securities (12)	Comments	
7	**RULES** Governing the Operation of Central Depository (15)	Drafting	15.12.98
8	**RULES** Governing the Maintenance of Registries of Security Holders and Interaction between Registrars and Nominees (21)	Comments	
9	**RULES** for Maintaining Registers of Securities of Closely Held Joint Stock Companies (22)	Comments	
10	**EXEMPLARY RULES** for Preparation for and Conduct of General Shareholder Meetings (28)	Comments	
11	**RESOLUTION** of the National Securities Commission on Independent Directors (29)	Drafting	
12	**RULES** Governing the Performance of Custodial Activity at the Securities Market (13)	Comments	
13	**RULES** for Publishing by Securities Market Entities of Information on their Activities (31)	Comments	
14	**REQUIREMENTS** to Program-Technical Complexes for Registrars (45)	Drafting	
15	**INSTRUCTIONS** Governing the Conduct of Inspections of Issuers' Activities (50)	Drafting	
16	**INSTRUCTIONS** Governing the Procedures for Performing Public Registration of Additional Issues of Shares Pursuant to Court Decision and Cancellation of such Issues, and also the Procedures for Reviewing and Approving Reports on Outcomes of Issue and Distribution of Additional Shares Pursuant to Court Decision (27)	Comments	
17	**LAW** on Amendments to the Law On Joint Stock Companies	Drafting, comments	
18	**LAW** on the National Securities Commission of the Republic of Kazakhstan		
19	**RESOLUTION** on amending the Regulations for the National Securities Commission (in order to conform with the Law on Normative Legal Acts and include provisions on public hearings)	Drafting	
20	Amending various licensing regulations governing the activities at the securities market (with the view of allowing for the possibility of 'amicable settlement of issues' which serve as the grounds for revocation or suspension of licenses; the amicable settlement would mean the payment by the violator of a certain amount to the budget, compensation for damages caused by the violation and redressing the violation)	Drafting	

Attachment 2

Schedule
for Developing and Installing the NSC Trade Reporting System /Data Warehouse

Activity	Date of Completion
Reporting software for professional participants on trades in the stock market (Version 2)	Development completed and software installed in **October 1998**
State Register of licenses, permissions and certificates for professional activities in the stock market	**November-December 1998.** **January-May 1999** – support, debugging and enhancement of the software, development of new reports.
Reporting system for Pension Assets management companies	Currently, details of the task are being coordinated. **December 1998 – January 1999** - development of the software **February-March 1999** - Start of operation
State register of securities issues	**January-June 1999** Setting the technical task and development of the software.
Reports of Issuers in the stock market. Disclosure of information on public Joint-Stock Companies	**May-December 1999** Setting the technical task and development of the software.
Development of the common database, combining databases of all Departments and providing analytical functions.	Includes all above tasks.

TO: Dan Fitzgerald/COP

FROM: M. Jae Abbitt

RE: NSC BD Inspection Process/Meeting w/ Commissioner Kulinov

DATE: 11/20/98

Today I met with Umit Kulinov for his assessment of the NSC's broker dealer inspection program, and Pragma's 12-week spring training for Commission inspectors on the audit process.

He noted that the Pragma training was "fruitful" with respect to the inspection process. The NSC now has a successful ongoing BD inspection program, today consisting of approximately 2 inspections completed each month. Recently, the number was reduced due to the weak economy and resultant negative impact on individual BD firms. The NSC has decided to continue the inspection program in a lower profile manner, concentrating increased efforts in the next few months on issuer concerns, namely persistent: 1) poor/nonexistent disclosure to shareholders, and 2) failure to pay shareholder dividends after a public declaration of same.

Upon inquiry, he discussed the inspection deficiencies found in the May audit of the large BD, Kazcommerce Securities. Although no intentional fraud was noted, multiple deficiencies were found, primarily due to what looked to be inadequate supervisory/ operating procedures and lack of training in the following areas - inaccurate or incomplete order tickets; poorly documented client new account form information; inconsistent books and records, etc. As I was leaving SPMD consulting work in June, the audit had just been completed. Since this was the first time so many violations were discovered at a large well-respected BD, there was much ongoing discussion at the time about how to proceed.

The NSC completed the process with a detailed deficiency letter to the BD, followed by a a written warning letter, which noted that the firm would be audited again in approximately 6 months to determine if all findings had been adequately addressed. The Commissioner noted that the firm has responded to the NSC's deficiency letter, addressing all findings. The NSC has not yet re-audited the firm; however this is on the agenda soon.

He noted that for the first time in Kazakhstan a large BD's license is being revoked, and asked me what were the next steps to address the BD's assets – client accounts. The cause of the license termination is that the BD (AG Securities) failed to remit a client's securities upon request, the terms of the loan having been accurately documented. Kulinov said he did not know the value of the client's securities, however, it can be surmised that the amount was not small. The firm is insolvent and has not, and will not, be able to return the securities to the client. The only avenue for the client to be made whole will be success in a bankruptcy court proceeding – a long, expensive and

exasperating process. At this time the Kazakh financial system has not implemented customer protection for this type of BD closing, such as SIPC, E&O insurance, etc. The NSC discovered the misappropriation upon receipt of a client complaint letter, and subsequent BD "cause" exam.

I briefly described how the U.S. system functions in the termination of a BD license under these circumstances: client accounts, securities and cash assets are transferred quickly to another firm. In a nutshell, usually another BD who has heard about the problem steps in and volunteers to take over the accounts in as quick and efficient manner as possible – often working throughout the night with the clearing firm to complete this task. Frequently, the BD community does not know of the problem. In these cases, the federal regulator or a SRO will place telephone calls to a BD with similar profiles, products, etc. and ask if it would like to take over the client accounts and supervision of the brokers of the firm whose license is being terminated. At that time, the BD receiving the new accounts will work with an SRO and/or the federal regulator to prevent - as much as possible - disruption in management of the client's assets. Thus, the negative impact of an unplanned BD demise generally does not erode investor trust, and instead often instills increased confidence in the system.

We briefly discussed the need to begin work on, and make decisions about, the area of enforcement area regarding sanctioning BDs and Associated Persons who violate securities law. Constitutional law prohibits disciplining violators with a monetary fine. However, this situation may be worked out using other methodology.

When I discussed having a wrap-up conversation with an NSC inspector, it was noted that all are required to attend an investment management seminar, scheduled the next two weeks. Although this is general threshold information about asset management - and is not directly related to an inspection program - the seminar will provide examiners with basic fund company knowledge. Therefore, implementation of an adequate ongoing advisory inspection program, similar to the BD procedures, should not prove to be difficult. A systematic advisory audit prototype is a necessary component for the successful implementation of the Pension Reform Act, which created the Kazakh workers' retirement plan for long-term management of contributor assets in the capital markets.

Cc: Rick Dvorin

List of State-Owned Companies
Placed for Sale on the KASE as of 30 November 1998

	Issuer	Date	Share
1	"Vostochno-Kazakhstansky Copper and Chemical Combine"	20 Nov.	90%
2	"Amankaragaisky Grain Elevator"	26 Nov.	32%
3	"Dzharkulskysky Grain Elevator"	25 Nov.	14.41%
4	"El-Yrysy"	25 Nov.	20.81%
5	"Kant"	25 Nov.	22.12%
6	"Ordzhonikidzevsky Grain Elevator"	26 Nov.	39.6%
7	Hotel "Dostyk"	25 Nov.	24.67%
8	"Szhizheny Gaz" ("Liquid Gas")	27 Nov.	39.9%

	Issuer	Stock	Listing	Date	Comments
			"A"		
1	"KazkommertsBank" (Almaty)	Common		16 October 1997	
2	"NefteBank" (Aktau)	Common		15 April 1998	The Pragma's regional consultant met with the company's management to discuss listing possibilities. He renderd consultations with regard to the listing rules and procedures and helped to prepare the listing application.
	"UKTMK"	Common		16 October 1997	
	"UKTMK"	Preferred		16 October 1997	
	"ShymkentNefteOrgsintez"	Common		16 October 1997 included into Prelisting; 7 January 1998 Moved to "B"; 16 September 1998 Moved to "A"	
	"ShymkentNefteOrgsintez"	Preferred		16 October 1997 included into Prelisting; 7 January 1998 Moved to "B"; 16 September 1998 Moved to "A"	
	Temir Bank	Common		8 October 1998	Dias Sarsenov, Pragma's regional consultant for Almaty, has worked with the bank from decision-making to the actual listing of the bank's shares, including consultations he renderd with regard to the listing objectives and advantages, and help in preparing documents and filing the application.
	Temir Bank	Preferred		8 October 1998	
	Halyk Savings Bank	Common		30 July 1998 Included Into OTC; 16 September 1998 Moved to "A"	
			"B"		
	"KazakhTelecom"	Common		28 October 1997 Included into Prelisting; 10 December 1997 Moved to "B"	
	"KazakhTelecom"	Preferred		28 October 1997 Included into Prelis-	

				tin 0 December 1997 Moved to "B"	
2	"Latiba-Bank"	Common		7 January 1998	
3	"Bayan-Sulu" (Uralsk)	Common		12 August 1998	The Pragma's consultant for Uralsk region Oskar Makhmudov discussed with the company's management advantages of trading equity on the organized market. He provided training, consultations, and help in preparing documents for listing.
4	"Aidabulsky Distillery"	Common		Moved from Prelisting on 15 July 1998	
5	"Aidabulsky Distillery"	Preferred		Moved from Prelisting on 15 July 1998	
6	"Altyn Den"	Common		Moved from Prelisting on 15 July 1998	
7	"Altyn Den"	Preferred			
8	"Aluminum of Kazkahstan"	Common		Moved from Prelisting on 15 July 1998	
9	"Aluminum of Kazkahstan"	Preferred			
10	"AktobeMunaiGaz"	Common		Moved from Prelisting on 15 July 1998	
11	"AktobeMunaiGaz"	Preferred			
12	"Borly"	Common		Moved from Prelisting on 15 July 1998	
13	"Borly"	Preferred			
14	"TNK Kazkhrom"	Common		Moved from Prelisting on 15 July 1998	
15	"TNK Kazkhrom"	Preferred			
16	"MangystauMunaigaz	Common		Moved from Prelisting on 15 July 1998	
17	"MangystauMunaigaz	Preferred			
18	"NeftekhimBank"	Common		Moved from Prelisting on 15 July 1998	
19	"NeftekhimBank"	Preferred			
			"OTC"		
20	"Atyrausky Refinery"	Common		16 January 1998	
21	"Atyrausky Refinery"	Preferred		16 January 1998	

2	"ShymkentPivo"	Common		23 bruary 1998	
3	"ShymkentPivo"	Preferred		23 February 1998	
4	"Bank Kaspiisky"	Common		27 May 1998	
5	"Bank Kaspiisky"	Preferred		27 May 1998	
6	"EmbaMunaiGaz"	Common		16 January 1998	
7	"EmbaMunaiGaz"	Preferred		16 January 1998	
8	"Etalon" (Almaty)	Common		27 April 1998	
9	"KustanaiAsbest"	Common		26 March 1998	Pragma's consultsnt for Kustanai region Vladimir Shabalin contacted the
9	"KustanaiAsbest"	Preferred		26 March 1998	company with the purpose of describing advantages of raising capital
					through the stock market on 17 February 1998. He presented listing rules
					and procedures to the company's management along with the explanation
					of these.
	"Corporation Kazakhmys"	Common		14 May 1998	On 19 November, a meeting of the KASE Exchange Council
	"Corporation Kazakhmys"	Preferred		14 May 1998	took place, at which upgrading Kazakhmys up to "B" Board
					was discussed. The meeting revealed that "Kazakhmys" has not paid
					dividends declared in 1997, although the documents submitted to the KASE
					for "B" listing stated it did. The meeting decided to check the information
					of "Kazakhmys" for its accuracy, and meanwhile to leave Kazakhmys in OTC.
	Ust-Kamenogorsk Bakery	Common		27 May 1998	Bakhyt Ualieva, Pragma's regional consultant for Ust-Kamenogorsk region
	Ust-Kamenogorsk Bakery	Preferred		27 May 1998	contacted the company on 19 March 1998. She discussed with the
					company's management a possibility for the companyto pursue listing of its
					shares; she also provided listing documents and procedures to the company.
					As a follow up to the meeting, managers of the company attended a listing
					seminar held by Pragma/USAID on 28 April 198
	"LegProjekt" (Almaty)	Common		15 July 1998	Pragma's regional consultant for Almaty Dias Sarsenov provided necessary
					documents and consultations to the company's management
	Bukhtarminsky Cement Company	Common		15 July 1998	Pragma helped the company prepare all the listing related documents.

				Also, Pragma rendered consultations with regard to the listing procedures.
Pavlodar Oil Refinery	Common		15 July 1998	As of the end of July 1998, "Pavlodar Oil Refinery" stocks were suspended
Pavlodar Oil Refinery	Preferred		15 July 1998	from trades due to legal disputes between "CCL Oil" (strategic manager) and the RK Government. This should mean that until the dispute is settled, no trades in these stocks (common/preferred) may be executed.
"Rakhat" (Almaty)	Common		24 July 1998	Pragma's regional consultant for Almaty Dias Sarsenov provided to the company the entire range of listing consultations and training.
Ulbinsky Metallurgical Plant	Common		30 July 1998	Pragma's regional consultant for Ust-Kamenogorsk region Bakhyt Ualieva
Ulbinsky Metallurgical Plant	Preferred		30 July 1998	rendered consultations to the company regarding listing rules and procedures Also, she helped in preparing of the company for KASE listing.
Sary-Arka Polymetal	Common		30 July 1998	Pragma's consultant worked with the company in preparing necessary
Sary-Arka Polymetal	Preferred		30 July 1998	documents for KASE listing, as well as in training the company for listing.
Margarine Plant (Karaganda)	Common		30 July 1998	Pragma's consultant worked with the company in preparing necessary
Margarine Plant (Karaganda)	Preferred		30 July 1998	documents for KASE listing, as well as in training the company for listing.
Aktubinsk Chrom Compound Plant	Common		30 July 1998	Pragma's consultant worked with the company in preparing necessary
Aktubinsk Chrom Compound Plant	Preferred		30 July 1998	documents for KASE listing, as well as in training the company for listing.
"Caravan" (Almaty)	Common		9 November 1998	Dias Sarsenov contacted the company for listing of its stocks, he provided the management of the company with necessary consultations and training Also, he helped prepare and file the listing application.
Ak-ku (Uralsk)	Common		12 November 1998	A brokerage company KBS-Securities, that brought the company to the KASE, received information about the company from Pragma's web-site.
"Vash Vybor" (Pavlodar)	Common		18 November 1998	Tatyana Bakieva, Pragma's regional consultant for Pavlodar region has worked with the company in consulting the management on listing rules and procedures. Also, the regional consultant helped the company prepare listing documents and application.
KTK ("Commercial TV Channel")	Common		23 November 1998	

Note 1: Pragma submitted listing rules and procedures to all of the companies listed above.

Note 2: As of 15 October 1998, three stocks were delisted from OTC per the NSC's demand: "Asyl-Su" (common), "Kaztsynk (common), "Prikaspijskoe Construction Management" (common/preferred). The reason is that these companies failed to submit their emission reports in a timely manner, and, as a result, the NSC recognized their issues invalid. Now the above mentioned companies will have to go through the emission registration procedures all over again.

1. What kind of indirect protection measures of the stock market could initially promote reduction of speculative capital?

There are few sorts of measures for doing this, primarily because it is impossible to distinguish in the stock market between the speculators and the long-term investors. Thus, the only way to reduce speculative capital is to reduce all capital. Such efforts would hinder the efforts of the Government of Kazakhstan to lure investors back to the country in the wake of the Russian financial crisis.

Instead, as outlined in previous discussions with you on this, the best way to indirectly protect the stock is to pursue sound fiscal policies, to encourage transparency, and to promote prudent lending practices by lending institutions.

Another factor distinguishing "speculative" capital from "investment" capital relates to the transparency and information available about an issuer and the markets where it is traded. The "darker" the transparency, the more speculative the investment. Without having updated and accurate information, essentially, all investment is actually speculative in nature. Therefore, what is best for markets and investors is reliable and timely information, upon which more informed decisions can be made.

2. What regulation mechanisms are the most efficient ones for restriction of repatriation of non-residents' capital during crisis?

Economists and policy makers agree that the worst type of restrictions are those that restrict capital from leaving. This is because if investors want to leave, they will figure out a way to do, regardless of the restrictions placed on them. To impose such provisions is to create a very damaging perception that Kazakhstan is willing to change the rules on foreign investors after they have come into the country. As a result, I cannot recommend as "most efficient" any method of restriction of repatriation, because they are all inefficient.

3. Is it necessary for Kazakhstan to change the current legislation on regulation of activities of non-residents on the local financial market?

No. As noted above, one of the more attractive aspects about Kazakhstan, in a world competing for foreign investment, is that foreign investors can leave when they want to. This is extremely important, because, as noted by a high official in Deutsche Bank's emerging markets department "the fear of being trapped is all-consuming for foreign investors". If investors fear that they cannot leave, they simply will not come.

I hope the above discussion helpful to you. Please contact me if you have any questions.

Sincerely,

Daniel Fitzpatrick
Director

Request for Translation

FROM: Dan Fitzpatrick

Letter

TO: Mr. Nyazov
FROM: Daniel Fitzpatrick

Memorandum

TO:
FROM:

Law/Regulation

Report

Other

(Name of document's translation should be the name of the English version with the suffix "-r")

Dear Mr. Niyazov,

In accordance with my letter of October 20th to you, I have set forth below my responses to the three questions you posed to me regarding regulation of capital flows across borders.

Before beginning that discussion, however, I must note that it has come to my attention this week that there is a mutually agreed policy between this project and the NSC regarding the processing of requests. As I understand it, all requests for information or other assistance must be approved by one of the commissioners or the chairman. We will be following this policy with regard to future requests.

Before I respond to your questions, it is important to restate what I have said in previous memoranda. Most experts on the subject of capital controls conclude that they produce few benefits, and have many drawbacks. History supports this. As recently stated in the Economist, "Latin America's controls in the 1980's did little to keep foreign money at home but a lot to deter foreign investment." Such controls also increase the potential for corruption, which would work against the President's campaign to reduce this problem. As summed up recently by the Governor of the Central Bank of the Philippines, "controls are unmanageable and very susceptible to graft and corruption."

Further in the context of the current crisis, capital controls are even less beneficial. For the most part, all the speculative capital has left. To use an often-quoted saying from rural America, why bother trying to close the farm gate after all the animals have escaped? Likewise in Kazakhstan, imposition of capital controls will not improve the situation and will, instead, make investors think twice before returning. On its promotional materials, Kazkommertz Securities, emphasizes that Kazakhstan imposes no restrictions on capital repatriation. It does this because it knows that investors will not come through the "entrance door," unless they are confident that the "exit door" is fully open whenever they want to leave.

Further, many of these points have been stated in an article in a recent issue of the Economist. I am having that article translated and will be getting it to you by the end of this week.

Now as to your questions:

998 Comparative Stock Market Trading Statistics

'onth	Off Exchange			%Δ	KASE													%Δ
	Trades	Shares	Tenge Amount ($ Amount)	from previous month	Trades				Shares				Tenge Amount ($ Amount)					from previous month
					"A"	"B"	OTC	Total	"A"	"B"	OTC	Total	"A"	"B"	"OTC"	Total		
ril	2 463	724 871	997 994 987					4				930				1 583 000		
			$ 13 306 599													$ 21 106		
y	3 283	897 931	378 851 862					13				7 413				5 815 495		
			$ 5 051 358	-62%												$ 77 539	267%	
ıe	1 977	3 736 632	230 940 342					7				11 232				21 223 216		
			$ 3 079 204	-39%												$ 282 976	265%	
y	3 225	367 286	272 474 131		3	0	5	8	10 000	0	8 770	18 770	10 000 000	0	13 884 000	23 884 000		
			$ 3 632 988	18%									$ 133 333	0	($ 185 120)	$ 318 453	13%	
gust*	3 207	199 603	150 270 615		3	1	4	8	32 615	11 000	80	43 695	2 609 200	5 148 000	6 391 640	14 148 840		
			$ 2 003 608	-45%									$ 34 789	$ 68 640	$ 85 221	$ 188 651	-41%	
ɔt.**	405	3 639 172	65 431 604		3	0	2	5	5 177	0	40	5 217	414 160	0	3 688 000	4 102 260		
			$ 817 895	-59%									$ 5 177	0	$ 46 100	$ 51 277	-73%	
.***	238	13 729	5 827 786		1	0	1	2	850	0	8 065	8 915	68 000	0	1 645 260	1 713 260		
			$ 71 947	-91%									$ 840	0	$ 20 311	$ 21 151	-59%	
.****	228	102 932	81 882 531		2	0	1	3	50 100	0	527 724	577 824	6 600 000	0	524 779 300	531 379 300		
			$ 986 536	1271%									79518,0723		6322642,169	6402160,241	30169%	
ıl	15 026	9 682 156	2 183 673 857					50				673 996				603 849 371		
			$ 28 950 135													$ 7 363 313		

e Average Exchange Rate April Through August Is Assumed 75 Tenge per US Dollar

ıe Average Exchange Rate In September Is Assumed 80 Tenge per US Dollar

'he Average Exchange Rate In September Is Assumed 81 Tenge per US Dollar

The Average Exchange Rate In September Is Assumed 83 Tenge per US Dollar

The Pragma Corporation

USAID Securities Market Development Project

Monthly Report

(for the period ending December 31, 1998)

For the

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	Daniel Fitzpatrick
COTR USAID/CAR	Rick Gurley

ALMATY, KAZAKHSTAN

67

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

- TEAM RECEIVES VERSION OF MEMORANDUM OF UNDERSTANDING AS APPROVED BY NATIONAL SECURITIES COMMISSION; PASSES DOCUMENT ON TO USAID FOR APPROVAL.
- TEAM INCREASES LEGAL DRAFTING SUPPORT; SUBMITS NEW DRAFT REGULATION ON CENTRAL DEPOSITORY TO NATIONAL SECURITIES COMMISSION.
- REGULATIONS ON BROKER-DEALER PARTICIPATION IN PRIVATIZATION (PREPARED WITH SIGNIFICANT INPUT FROM THE TEAM) ARE ADOPTED.
- CHAIRMAN OF NSC ADVOCATES PROGRESSIVE PRIVATIZATION POLICY IN PAPER PREPARED WITH TEAM'S ASSISTANCE
- DEPARTMENT OF STATE PROPERTY AND PRIVATIZATION LISTS 21 NEW COMPANIES ON THE EXCHANGE, SELLING $14 MILLION IN SHARES.
- VOLUME ON KAZAKHSTAN STOCK EXCHANGE REACHES ALL TIME HIGH.
- INVESTMENT BANKER ON TDY MEETS WITH BROKER-DEALERS TO PREPARE FOR EFFORTS TO PRIVATIZE STATE SHARES.
- TEAM NARROWS AND FINALIZES THE LIST OF COMPANIES THAT WILL RECEIVE FOCUSED SUPPORT (FROM THE TEAM) IN ORDER TO LIST ON KAZAKHSTAN STOCK EXCHANGE.
- NEWLY HIRED KASE COMPLIANCE OFFICER BEGINS DEVELOPING SRO ARM OF KASE UNDER DIRECTION OF TEAM.

II. PROJECT DESCRIPTION

The Pragma Team works with the National Securities Commission ("NSC"), the Kazakhstan Stock Exchange ("KASE"), and the Central Depository in developing Kazakhstan's securities market. To further these goals, the Pragma Team works under a Memorandum of Understanding ("MOU") between USAID and KASE. A previous MOU between USAID and the Association of Broker-Dealers was rendered moot by the latter's dissolution in October 1998.

In November 1998, recognizing the changes in circumstances since the Task Order was written, Rick Gurley, the COTR for the AID Mission, signed off on an Action Plan that set forth the priorities of the Project through March 1999. The priorities of the Project for this period are noted in the boxes below.

III. PROJECT UPDATE AND PROGRESS VERSUS ACTIVITIES IN THE ACTION PLAN

The project update for this monthly report will correspond to the activities set forth in the action plan described above.

Task 1 - Continued Assistance to the NSC

Defined Activity	Progress Made During the Month
1. Draft regulations.	After further review of the draft "Protocol on Mutually Beneficial Cooperation" between Pragma and the NSC, USAID decided to reformulate the document into a Memorandum of Understanding between the NSC and USAID. Thereafter, several of the NSC Commissioners conducted further reviews of the document (now in the form of a draft MOU) and submitted their proposed changes to the Team at the end of the month. See Attachment 1 for a copy of this document. In the meantime, the Team boosted its local legal staff with the hiring of Ramzia Tonkopy, a former senior USAID attorney (HCN) who had worked for a period of time with the Almaty office of an international law firm. The Team also decided to restructure its legal department further, adding two individuals who had previously assisted the NSC personnel in registering emissions of shares and tracking the activities of professional participants in the securities market. With these added resources the Team intends to actively pursue opportunities to be the primary drafter of regulations and laws related to the securities market, where possible. Reflecting these added resources, the legal division of the Team stepped up the intensity of its activities. In December, it: • Drafted and finalized the Rules on the Central Depository Operations; • Continued working on the Procedures for Registering Emissions of Corporate Bonds; and • Continued working on amendments to the Law on Joint Stock Companies. For a detailed report of the work on these documents, see Attachment 2 (Memorandum from the Legal Division). Finally, the Director of the Team, after consultations with numerous experts on the matter, provided the NSC with a recommendation on the procedures for registering placements of securities by Kazakhstani companies in foreign markets. See Attachment 3 for the English version of this memorandum.
2. Assist in establishing enforcement power of NSC.	The Team drafted and submitted to the NSC a proposal that the NSC use its licensing authority as a means of fining market professionals for violating securities regulations. See Attachment 4 (English version of a memorandum from Daniel Fitzpatrick to Lazat Usenbekova). See also last month's discussion of this issue. In connection with an understanding between the Team and the NSC (see last month's report for details), the Team phased out its assistance with regard to monitoring activities of professional participants at the end of the month. The resources freed up by this move will be used to further the Team's activities in (a) drafting legislation and (b) privatization through the stock exchange. One of the supplemental services provided by the consultants was the provision of informal advice on issues regarding the new Joint Stock Company Law to government officials and businessmen in the regions. This was nevertheless an important service that provided the Team with intelligence with regard to how the Law on Joint Stock Companies was actually being implemented. It will likely be decided to continue this service on a temporary basis.
3. Assist NSC in	The provisions drafted by the team to prohibit off-exchange trading are included in a

Defined Activity	Progress Made During the Month
moving off-exchange trading to KASE.	revised regulation, sitting on the desk of an NSC Commissioner, awaiting review and approval, to be sent to the Ministry of Justice for final approval and adoption. As of the end of the month, the Team had received repeated promises that the document would be submitted to the Ministry of Justice by the end of the year.
4. Establish NSC Data Warehouse/Trade Reporting System.	The Team's technical consultants continued developing the NSC Trade Reporting/Data Warehouse system. Specific activities for the month included: • *Completion of the database for professional participants in the securities market and firms with securities market licenses.* The key breakthrough here was the development of a user-friendly database management system that will allow NSC staff members to track professional participants with relative ease. To a certain extent this will ameliorate some of the shortfalls that the NSC might experience as a result of the withdrawal of support by USAID regarding the ongoing assistance it had provided in this area for the past year. See subtask 2 of Task 1 for more detail regarding this phase out of assistance. • *Significant reworking of the NSC's database for tracking emissions of shares.* As with the accomplishment regarding the database on professional participants (see above), this system will improve the NSC's ability to track share emissions with fewer staff. This too will soon likely ameliorate some of the gaps that might develop with the phase out of USAID assistance to the NSC in this area. The Team also continued its work on improving the NSC's ability to collect and process reports on the activities of companies that manage pension fund assets. The Team worked with both staffers of the USAID Pension Reform Project and officials of the NSC regarding how this system should work.

Task 2 - Blue Chip Privatization

Defined Activity	Progress Made During the Month
1. Assist and monitor the privatization of state owned shares.	The Team's November assistance to the State Department on Property and Privatization (DSPP) in its efforts to privatize through the exchange, have begun to show some significant results. Last month, the Team in close cooperation with KASE and the NSC labored under tight deadlines to produce a proposed draft regulation on how the DSPP would choose broker – dealers to list state owned shares on the exchange (see last month's report for details). In December the DSPP adopted the proposed draft with only minor changes. See Attachment 5 for a translation of these regulations. Further, the DSPP significantly increased its efforts to privatize state shares through the exchange. As of the end of the month, the DSPP submitted the state share packets 21 additional companies to the exchange (bringing the total to 29) and had sold the state share packets of four of them (bringing the total to five). The revenue generated through these sales was approximately 14 million dollars (bringing the total to over 20 million dollars). See Attachment 6 for a graphic display of this information. Intending to keep up this momentum, the Team continued its efforts to support the DSPP in gathering information on companies in which the state owns blocks of shares. To facilitate this and other assistance, the Team opened an office in Astana at the DSPP's offices, which is staffed by a single consultant. The resources for this position were freed up by dismissal of one of the regional consultants who had not produced significant leads for companies suitable for listing. The Team will use this consultant as a liaison between the Team and the DSPP officials in Astana. The Team, in response to a request from the NSC, provided significant assistance with

Defined Activity	Progress Made During the Month
	regard to a policy paper on managing and privatizing state property, authored by the Chairman of the NSC, Aben Bektasov. The document provides some form of frank criticism of the Government's ability to manage property rationally. It offers a framework for classifying property for privatization or continued state ownership, and advocates the selling of property through the exchange or through other transparent procedures where appropriate. The paper was submitted to first Prime Minister Zhandosov. See Attachment 7 for a translation. Finally, the Team drafted a proposed Memorandum of Understanding between USAID and the DSPP. The document envisions USAID providing technical assistance to the DSPP so long as they continue with their efforts of placing and selling state share packets on the exchange in a fair and transparent manner. See Attachment 8 for a draft of this document, which was submitted to USAID at the end of the month.
2. Assist and involve Broker/Dealers in working w/GOK privatization.	As of the end of the month, broker-dealers had won the right to list on the exchange seven state blocks of shares. After receiving approval from USAID in the previous month, David Lucterhand (an investment banker based in Moscow) arrived in Almaty for a week's preliminary visit. During his stay, Mr. Lucterhand was familiarized with the situation in Kazakhstan, organized the Listing / Privatization Division of the Team, and met with several broker dealers (including those that had won the right to list state blocks of shares on the exchange). After Mr. Lucterhand's departure, the Team followed up with broker dealers on this initiative. Several Team personnel also met with the state brokers to work on means of increasing the amount and quality of the information on state shares that will be offered directly (rather than through a broker-dealer).
3. Advocate listing of shares of blue chip companies w/KASE.	The DSPP announced that it had extended the time in which investment banks could bid for the right to privatize several blue chip companies (see last month's report for more on the initial announcement of the tender. The Team placed this information on its web site in English.

Task 3 - Development of the Markets

Defined Activity	Progress Made During the Month
1. Encourage companies to list on KASE.	Having contacted more than 2000 companies, the Team began focusing on the best companies whose listing would most likely increase share trading. Accordingly, the Director of the Project (Daniel Fitzpatrick), David Lucterhand, with assistance from Pragma regional consultants reviewed the status of potentially viable companies (presented by the consultants). As a result of this review, the Team developed a list of companies that will be the focus of the attention of regional consultants operating out of Almaty in 1999. The Team also reduced its regional consultants by two in order to channel more resources into the Almaty based team supporting David Lucterhand. The Team formally announced its role as a collection center for materials/information on both broker-dealers and auditors. This program encourages broker-dealers and auditors to provide the Team with information which then can be made available to any company interested in these services for purposes of listing. Further, in response to Team's initiative (reported last month), flow of information from Privatization Investment Funds continued. The information included data on shares that the Investment Funds would like for listing on KASE. The Team posted on its web site both the contact information for the Investment Funds and the actual shares. As of the end of the month, 37 companies (61 share issues) were listed on KASE (the

Defined Activity	Progress Made During the Month
	same as the previous month). This number does not include the companies listed by the DSPP.
2. Encourage trading on KASE.	At a meeting with broker-dealers, NSC Commissioner Joldosbekov castigated the group for their less than sufficient activity in working with companies. Further, Joldosbekov emphasized the need for broker- dealers to place quotes on the exchange as a means of spurring market activity--a practice that the Team had been urging for a good part of the year. After obtaining permission from ABN-AMRO Bank, the Team placed on its web site several articles by the bank in English that offered a positive view regarding Kazakhstan's economic outlook. The Team also kept foreign investors and other viewers of its web site updated with regard to Kazakhstan's recent efforts to privatize through the exchange. For the month, trades were up sharply from that of previous month. The increase was helped significantly by the efforts of the DSPP to privatize state owned blocks of shares through the exchange; and several purchases by pension funds. With regard to trades off-exchange, volume was down from the previous month, owing partly to the recalculation of a 480,000-dollar off-exchange trade as an on-exchange trade and partly to lag times in reporting off-exchange trades. See Attachment 8 for details.

Task 4 – Continued Assistance to KASE and the Central Depository

Defined Activity	Discussion of Progress Made During the Month
1. Support KASE in accepting the SRO responsibilities of the NABD.	Working under the guidance of the Team, the KASE staff person who was hired last month, has been developing an SRO structure for KASE. The Team presented to KASE an outline of events, legal and otherwise, that were necessary to occur before KASE could obtain SRO status. The President of KASE was able to obtain the support of several influential broker-dealers, namely Grigory Marchenko (a long time counterpart of USAID) regarding the formalization of KASE as an SRO. KASE is expected to formally begin the establishment of an SRO department within its organizational structure after its merger with AFINEX in January.
2. Assist KASE to finalize rules for market-makers/work in conjunction with broker-dealers.	With relatively slow trading volumes on KASE (other than through privatization), this effort has been deferred until a market-maker system is more relevant to market conditions.
3. Improve broker-dealers operational efficiency and transparency.	Several staff members spent several days with broker dealers to observe their activities and better understand their business practices. On a request from the Eurasion Foundation, the Team agreed to review and comment on a training manual for broker-dealers seeking to take the exam for obtaining a government license.
4. Provide assistance to the Central Depository.	The Team finished a regulation on activities of the Central Depository and submitted it to the NSC. In drafting of the regulation, the Team's attorneys went to great deal of efforts to take into account the practical needs and concerns of the Central Depository.

Task 5 - Other Activities

Defined Activity	Progress Made During the Month
1. Make the USAID web site a self-sustaining entity.	The Director spent a considerable amount of time understanding the workings of the web site and began a search for a native English speaker who could improve the style and content of the English side of the web site.

IV. Administrative Issues

Along with Pragma- Bishkek, the Team made a presentation to the USAID Mission Director, Glenn Anders. The presentation was well received.

V. PROJECT STAFFING

The following personnel were engaged in project activities this month:

Paul Carlson, Senior Investment Advisor (part time)

Richard Dvorin, Senior Capital Markets Advisor

David Lucterhand, Senior Investment Advisor (TDY)

Daniel Fitzpatrick, Team Leader

Timothy Smith, Senior Capital Markets Advisor

Mary Jae Abbitt, Capital Markets/Financial Policy Advisor (TDY)

USAID SECURITIES MARKET DEVELOPMENT PROJECT

Monthly Report for December 1998

List of Attachments

Attachment 1.Draft MOU between NSC and USAID

Attachment 2.Memorandum from Legal Division on Month's Activities

Attachment 3.Memorandum on Information Regarding Issuance of International Securities

Attachment 4.Memorandum from Daniel Fitzpatrick on Use of Licensing Power to Increase Compliance with Securities Legislation

Attachment 5.Rules for Arranging and Conducting Tenders for the Right to Sell State Owned Blocks of Shares through KASE

Attachment 6.Graph Showing Privatization Listings and Sales through KASE

Attachment 7.Paper by Aben Bektasov on the Program on Management of State Property and Privatization

Attachment 8.Draft MOU between DSPP and USAID

MEMORANDUM OF UNDERSTANDING BETWEEN THE NATIONAL SECURITIES COMMISSION OF THE REPUBLIC OF KAZAKHSTAN AND THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT REGARDING THE DEVELOPMENT AND REGULATION OF CAPITAL MARKETS

1. Introduction

This Memorandum of Understanding (MOU) outlines the framework for mutual cooperation between the National Securities Commission of the Republic of Kazakhstan (National Commission) and the United States Agency for International Development (USAID) in support of the National Commission's efforts to develop and regulate the capital markets in the Republic of Kazakhstan. To this end, the parties commit to perform the activities stated in this MOU.

2. USAID's Activities

USAID, through its consultants, will:

2.1 draft normative legal acts or submit comments on normative legal acts developed by the National Commission, according to a schedule to be established by mutual agreement between USAID's consultants and officials from the National Commission;

2.2 consider with the National Commission the measure for increasing opportunities for interested parties (citizens, non-governmental organizations, etc.) to have a meaningful opportunity to review and comment on the draft normative acts before their approval (adoption);

2.3 provide practical assistance in registration of issues of shares and approval of reports with regard to public companies and also joint stock companies listed under Governmental Decree # 1716 (December 31, 1996);

2.4 assist the National Commission in reviewing the reporting requirements connected with registering issues of shares with a view toward reducing the required work for the National Commission and the issuers;

2.5 provide practical and technical assistance to the National Commission in working with attractive issuers with the view of preparing and putting their securities on the stock exchange;

2.6 assist the National Commission in establishing a plan of action for enforcing the requirements under legislation on securities and the Law on Joint Stock Companies;

2.7 assist the National Commission in bringing at least two enforcement cases in 1999;

2.8 assist the National Commission in developing procedures and capabilities for publishing over the internet financial data that is provided by listed and public companies;

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2.9 develop and install at the National Commission a reporting system software and databases, according to the Attachment to this Memorandum;

2.10 create a plan for installing a system for collecting and processing information on operations of openly held companies and public companies, their financial reports and other data which might be requested by potential investors;

2.11 develop a manual for users of the reporting system software and the databases, and develop a plan, taking into account National Commission concerns, for self-sustainability of the system/databases; and

2.12 provide other assistance that is mutually agreed upon by the National Commission and USAID through supplements to this MOU.

3. The National Commission's Activities

The National Commission will:

3.1 accept and consider the comments on or drafts of the normative acts that USAID submits to the National Commission according to a schedule to be established by mutual agreement between USAID's consultants and officials from the National Commission;

3.2 consider with the consultants of USAID the means by which the National Commission might increase the opportunities for interested parties (citizens, non-governmental organizations, etc.) to have a meaningful opportunity to review and comment on the draft normative acts before their approval (adoption);

3.3 initiate at least two enforcement actions, one of which will involve the failure of a company to issue dividends that had been authorized at a shareholder's meeting, the other will involve the failure of a joint stock company to disclose information required by legislation on securities;

3.4 make available to the public (through the media and the internet) the results of trade reporting, and if the collection of this information is transferred to an SRO, ensure that the SRO will do likewise;

3.5 shift regulatory authorities to the SRO, as the SRO demonstrates its competence to take on various regulatory tasks;

3.6 review with USAID consultants the current requirements connected with registering emissions of shares with a view towards reducing the required tasks of the National Commission and issuers in connection with this matter;

3.7 establish a register of public companies and require them to provide detailed information regarding their business and financial activities;

3.8 create conditions favorable for formation of the system for collecting and processing information on operations of openly held companies and public companies; encourage the availability of the system data for investors and interested persons;

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176

3.9 ensure that information provided by listed companies and public companies is available to the public through the internet;

3.10 continue to urge the Government to privatize shares of blue chips and second tier companies through the organized securities markets;

3.11 adopt and enforce regulations to eliminate off-exchange trading, i.e., to bring all securities trades to the organized securities markets;

3.12 provide USAID with office room numbers 311, 413-415, and 420-422 at its office building located at Aiteke Bi 67 in Almaty according to a lease previously signed by USAID;

3.13 by March 1, 1999 develop a joint plan with consultants from USAID that would ensure the continued operation and usefulness of the trade reporting and data warehouse system, without USAID assistance; and

3.14 undertake other mutually beneficial activities that are agreed upon by the National Commission and USAID through a supplements to this MOU.

4. Other Arrangements and Understandings

4.1 In order to ensure efficient and coordinated implementation of the activities in this MOU, USAID and the National Commission will submit all requests concerning the above activities in writing to representatives specified herein. The representative for USAID shall be the Director of the USAID Securities Market Development Project. The representatives for the National Commission shall be the Commissioners.

4.2 USAID and the National Commission recognize that although the activities described in this MOU do not rise to the level of legally binding obligations, the activities performed by one side depend on the corresponding execution of the activities by the other. USAID and the National Commission further recognize that the activities stated in this MOU are dependent on continued financing by the governments of the United States and the Republic of Kazakhstan respectively.

4.3 This MOU shall come into force on the date of the latter signature below.

4.4 Changes and additions to this MOU shall be made upon mutual agreement of the parties in written form.

4.5 Four original versions (two in English and two in Russian) of this MOU shall be signed. One original Russian and one original English version of this MOU will be kept by USAID and the National Commission respectively.

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77

The United States Agency for International Development

By:

Glenn Anders
USAID Mission Director
USAID Regional Mission
Central Asia

Date

The National Securities Commission of the Republic of Kazakhstan

Aben Bektasov
Chairman
National Securities Commission
of the Republic of Kazakhstan

Date

78

TO: **Daniel Fitzpatrick**
FROM: **Legal Division**

Monthly Report (December 1998)

Task 1. Continued assistance to the NSC

1. Development of legislative framework

1) ***Finalized the Draft Rules on Central Depository Operations and submitted it to the NSC (Ramziya, Natalia and Oksana)***

Drafting Procedure: each of us mentioned above was responsible for drafting two or three sections. Then they were combined to become a single document copies of which were circulated among our colleagues (Dzhamilya, Mirgul, Yuriy, Andrey and Sasha) to get their feedback

In the course of work we reviewed and analyzed appropriate legislation of the Russian Federation, interacted actively on an on-going basis with the NSC officials and Central Depository (CD) staff to develop a set of provisions which would 1) fully correspond to the notions of the Laws on JSC, on Securities Market and on Registration of Transactions with Securities (note that the Regulation on CD had been passed before those laws were enacted), and 2) incorporate the ideas of different parties concerned. The new draft can be featured as follows:

a) if compared with the existing Regulation, the structure was changed to make the text more coherent and easier to comprehend;

b) included were new sections, such as "Legal Status of the CD", "Prerequisites for Performance of Depository Activity", "Functions, Rights and Obligations of the CD", "Depository Contract", "Accountability of the CD to its Depositors", and Oversight of the CD Activity") containing detailed provisions describing specific aspects of the CD's status and operations (e.g. the Draft regulation does not any more contain a prohibition of one CD shareholder having more than one share. We specified that a CD shareholder may have more than one shares but only one vote at the shareholder meetings; CD now has the right to maintain the registry of a public company, provided it received a license for that type of performance, etc);

c) the notion of a 'nominee (consolidated) account' is preserved but it is made clear that the general rule is to open a separate depot account for each client of the nominee;

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a consolidated depot account may be opened only for the securities of those clients of the nominee who explicitly agree thereto[1];

d) the section on the Depository Contract describes the essentials of the contract and contains reference to the universal nature thereof as well as the CD obligations which should included into the contract;

e) The section providing for accountability of the CD is presented with all the necessary details which, we believe, could become a good guidebook for CD clients.

2) ***Continued drafting Instructions Governing Public Registration of Issues of Bonds and Review of Report Highlighting the Results of Distribution*** *(Ramziya, Natalia, Oksana, Mirgul and Dzhamilya)*

Drafting Procedure: Three of us reviewed the draft developed by Dzhamilya and Mirgul and conducted a number of meetings to brainstorm new ideas and possibly change the structure of the document.

After having reviewed the draft developed by Dzhamilya and Mirgul, we suggested (in order to respond to Dan's concerns) restructuring the document and adding new provisions which would allow investors to make a rational decision as to whether to invest in particular bonds. Since the deadline for this regulation has been postponed, we think that we have enough time to rewrite certain provisions. For example:

a) to give a definition of the prospectus emphasizing that it should describe the risks and advantages of investing in the bonds;

b) to specify the procedures for issuing mortgage-backed bonds (trust management is considered to be one possible scheme);

c) to state specifically which data should be included in an announcement of issue of bonds;

d) to be more specific about the types of bonds which may be issued (Mirgul and Dzhamilya think that bonds may be only registered and should not be issued in a bearer form, we still need to explore that);

[illegible]

[illegible]

f) to specify what volume of bonds (of this or that type) a company can issue and what the restriction of the volume should be based upon (upon the value of the charter capital? upon something else?);

g) probably, to consider a possibility of having bonds issued in tranches (in the Russian Federation such a possibility exists).

3) ***Draft Law on Amendments to the Law on Joint Stock Companies*** *(Ramziya, Natalia, Oksana, Mirgul and Dzhamilya)*

Drafting Procedure: *each of us mentioned above is responsible for reviewing two or three sections of the current law to identify technical and substantive problems. We are also contacting law firms to get their perspectives regarding what needs to be changed.*

We have already found a number of discrepancies within the law (e.g. requirements regarding the quorum of the general membership meeting which is 50 and more percent of the overall number of voting shares and certain issues which may be decided at the general membership meeting only by the qualified majority of all the voting shares; or no time limits with regard to the sale of shares by a shareholder (in a closely held company) to third parties, provided that other shareholders of the company and the company itself refused to buy out those shares (see Art. 5).

We plan to be working towards eliminating legal and technical obstacles in the way of effective corporate governance with a view of empowering shareholders and making legislative requirements less burdensome wherever it is possible.

Administrative assignments *(Ramziya, Natalia and Oksana)*

1. Assisted Andrey and Sasha in finalysing the draft MoU between the Pragma Corporation and DSPP;
2. Finalysing the Protocol of Mutual Cooperation between the Pragma Corporation and the NSC (both Russian and English versions thereof).

December Report - Attachment 3

Request for Translation (first priority)

FROM: Dan Fitzpatrick

Letter

TO:
FROM:

Memorandum

TO: Galina Shalgimbaeva
FROM: Me
Re: Request for Information Regarding Issuances of International Securities

Law/Regulation

Report

Other

DATE DUE: _22___ December, 98

(Name of document's translation should be the name of the English version with the suffix "-r")

In response to your request in your letter dated December 15, 1998 please find below my discussion of the proper procedures for regulating issuances of international securities.

Preliminary Issues

Before I answer your specific questions, it is necessary to address two issues. First what are the goals of the NSC's registration requirements and second, what is an "international security"? Then I will quickly let you know what US regulators require with regard to securities issued in foreign countries by American companies.

Regarding the first question, my staff has not been able to find a clear statement as to the goals of registration of emissions of securities in an official Kazakhstani document. Nevertheless, I believe it is safe to say that the goal of registration requirements is to give investors sufficient information on which to make an informed decision as to whether to purchase the offered security. Thus, any procedures to regulate emissions of shares should be formulated with the goal of providing this protection to investors operating in Kazakhstan's securities market.

Regarding the second question, my staff could not find any particular definition of an

A decision to regulate these instruments requires a close review of how they are created and traded in international practice. As you well know, an ADR or GDR of a Kazakhstani company is actually a claim against a depository that is holding the shares of the particular company.

With regard to Eurobonds, the issuer of such instruments is almost always a company founded in Europe. Thus when a Kazakhstani company seeks to issue a Eurobond, it will likely not be the issuer. Rather, it will be the *guarantor* of bonds issued by an entity that is located in Europe.

Thus with regard to ADR's or GDR's, it is important to note that the NSC already has exerted its regulatory authority over the emission when the shares were first issued. With regard to Eurobonds, the authority of the NSC to regulate such emissions is subject to challenge. The issuer is not a Kazakhstani entity, and the Law on Joint Stock Companies says nothing about the authority of the NSC to regulate the actions of companies that *guarantee* the obligations of companies operating in Europe.

Finally, with regard to how this is done in the United States: If an American company issues shares or bonds in a foreign country, and no efforts are made to market these shares to American investors, then the US Securities and Exchange Commission does not require registration of the emission.

Your Questions

I address each question with regard to ADR's/GDR's and Eurobonds in the attached table.

If you you have any questions regarding this letter, please do not hesitate to call.

Sincerely,

Daniel Fitzpatrick

Request for Translation

FROM: Dan Fitzpatrick

Letter

TO:
FROM:

Memorandum

TO: Lazat Usenbekova
FROM: Daniel Fitzpatrick
RE: Use of Licensing Power to Increase Compliance with Securities Regulation

Law/Regulation

Report

Other

DATE DUE: _____ December 31

(Name of document's translation should be the name of the English version with the suffix "-r")

Introduction

As some of my attorneys have discussed with you in general, the National Securities Commission ("Commission") considers legal proceedings in court against violators of securities legislation to be an expensive and slow process. Too a certain extent this is true. It is not efficient for the Commission to pursue minor violations of securities legislation through the court system.

Instead, I believe that the Commission should consider establishing a set of procedures that would allow it to extract minor fines from market participants without having to resort to court action. The method, discussed in more detail below, would be based on the Commission's licensing authority: instead of suspending a license upon the finding of a violation, the Commission should allow the violator to make a settlement (amicable agreement) in which the violator either compensates harmed individuals or "voluntarily" pays a fee to the budget.

The discussion below sets forth a brief review of the problem and a discussion of the possible solution.

The Problem

Each method available to the Commission for punishing persons who commit minor violations of the securities legislation, or having these persons compensate the victims harmed by such violations, is problematic.

Criminal Proceedings: The Commission, in order to utilize the penalties and remedies in the Criminal Code, must utilize the Procurator's office. This means explaining to these officials the underlying violation and convincing them to take the case. Such a method entails unpredictable outcomes and a loss of control by the Commission over the proceedings.

Administrative Proceedings: Pursuing violators under the Code of Administrative Violations is also troublesome. The underlying procedures of the Code are outdated. Further, they likely violate Article 26 of the Constitution, which states that "no one may be deprived of his property unless otherwise stipulated by a court decision."

Withdrawal or Suspension of License: The Commission clearly has the right to suspend the licenses of professional participants of the securities market who violate securities legislation. This punishes the violator, but is perhaps too much of a punishment for the Commission to use in cases of minor violations. Further, suspension of a license does nothing to compensate those harmed by the actions of the violator. It also requires cessation of the licensed activity, which often might be harmful to other professional participants in the securities market (for instance, if the activities of the Central Depository had to stopped if its license were suspended).

A recent illustration of this dilemma was the off-exchange trade of shares of Kaztelecom between two broker-dealers in violation of securities market legislation. Though the violation was relatively serious, the above methods for enforcement were clearly not appropriate. The result was that the Commission had to rely on the fining power of KASE in order to penalize the participants. In the future, the Commission may not be able to rely on SRO's such as KASE, for instance, when a registrar violates securities regulations.

The Solution

The Commission has the right to suspend or revoke issued licenses in keeping with the legislation on the securities market.[1] Each of the regulations that regulates the activities of a particular type of professional allows for suspension of a license in case of a "violation of the legislation of the securities market".[2]

As far as I understand, no regulation exists on how the Commission would determine whether a violation of the securities market has or has not occurred and whether such actions merit suspension. The Commission should consider the creation and submission of a regulation on "On Suspending the License of a Professional Participant in the Securities Market in Case of Violation of Securities Legislation".

This regulation should determine several questions:

---

[1] Regulation on the National Securities Commission, approved by the Decree of the President No. 3755 (Nov. 13, 1997), article 5, sub-point 17.

[2] For example, Regulation on Licensing the Central Depository, approved by the Resolution of the Government of the Republic of Kazakhstan, No. 293 (March 4, 1997), article 20, paragraph 5.

1) how the Commission determines whether a violation has occurred;

2) how the alleged violator could participate in or contest this finding at the Commission level; and

3) whether the violation, if found, demands that the license be suspended.

Point three above, is the crucial innovation. The regulation could call for three possible outcomes if a violation is found to have occurred:

1) suspension;

2) amicable settlement in lieu of suspension whereby the violator agrees to cease the violation (if ongoing) and to compensate individuals harmed by the violation; or

3) amicable settlement in lieu of suspension whereby the violator agrees to cease the violation (if ongoing) and pay a "fee for avoiding suspension of license" to the budget.

Of course, the violator may refuse to enter into the amicable agreements stated above. In such a case, the regulation would require suspension by the Commission.

It is important to emphasize the freedom of both the Commission and the violator in terms of their choice to enter into an amicable agreement. If a violation is found to have occurred, the violator has a **no right** to anything less than suspension. By entering into an amicable agreement he is voluntarily performing a substitute act in order to avoid this result. Under this system, the violator has more options than he would otherwise.

Likewise, when a violation is found, the Commission has **the right** to suspend the license. It however, is exercising its discretion to give up this right if the result (through an amicable agreement) results in better protections and compensation to investors and other market participants. This action certainly would be in conformity with the function of the Commission as stated in the President's Decree that formed the Commission.

Conclusion

The above approach provides the Commission with a possible solution to the chronic problem of minor violations that harm other market participants, or are too small to merit a suspension. Further, it gives the Commission a route to punishment of the violator when a suspension would be inappropriate (for instance when the activities of the violator are crucial to continued market activities).

Of course, objections have been raised on various technical grounds to this proposal. Some of them might be valid. But our first question should be whether this approach makes sense from the perspective of effective regulation of the market and protection of investors. If it does, then our staffs should work together to meet and overcome these technical concerns and objections. I am confident that further cooperation between the staff of the Securities Market Development Project and the Commission would lead to this result.

If you have any questions regarding this memorandum, they may be raised with Ramzia Tonkopy or Oksana Kompanyets, in my office. I will be returning to Kazakhstan in mid-January. I look forward to further discussions of this question with you and other staff members of the Commission.

RESOLUTION

ON APPROVAL OF RULES FOR ARRANGING AND CONDUCTING TENDERS FOR THE RIGHT TO SELL STATE OWNED BLOCKS OF SHARES THROUGH THE KASE

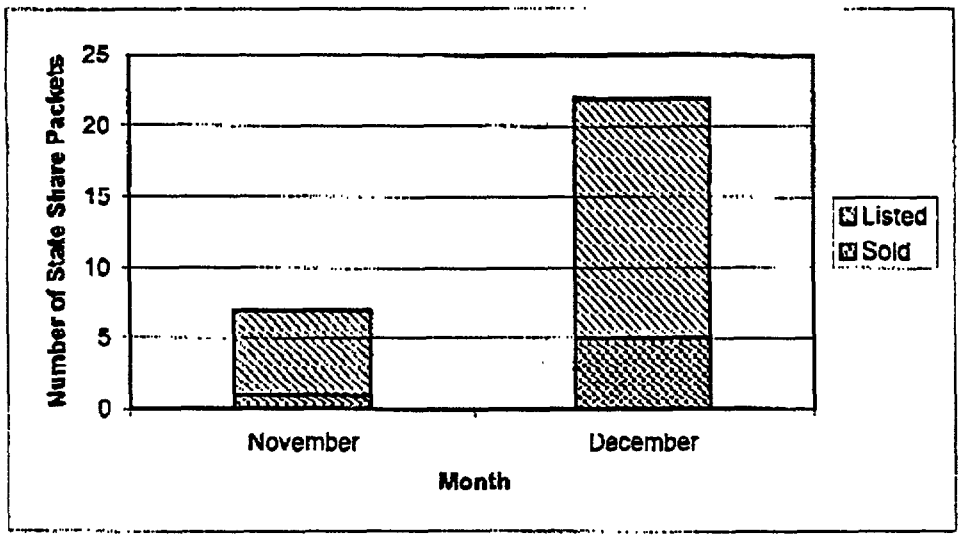
In order to activate the RK securities market and pursuant to the Plan of Measures on Implementation of the RK Government Program of Actions for 1998-2000, approved by the RK Government Resolution #119, dated February 19, 1998, and on the basis of the RK Government Resolution "On Approval of the Trade Rules for State Owned Shares through the Organized Securities Market" dated November 6, 1998, #1137, the DSPP under the RK Ministry of Finance RESOLVES:

1. To approve the attached Rules for arranging and conducting tenders for the right to sell state owned blocks of shares through the KASE and to enforce them starting from December 1, 1998.
2. Dominov E.E., Deputy Director of the Department shall be assigned with exercising control over execution of this Resolution.

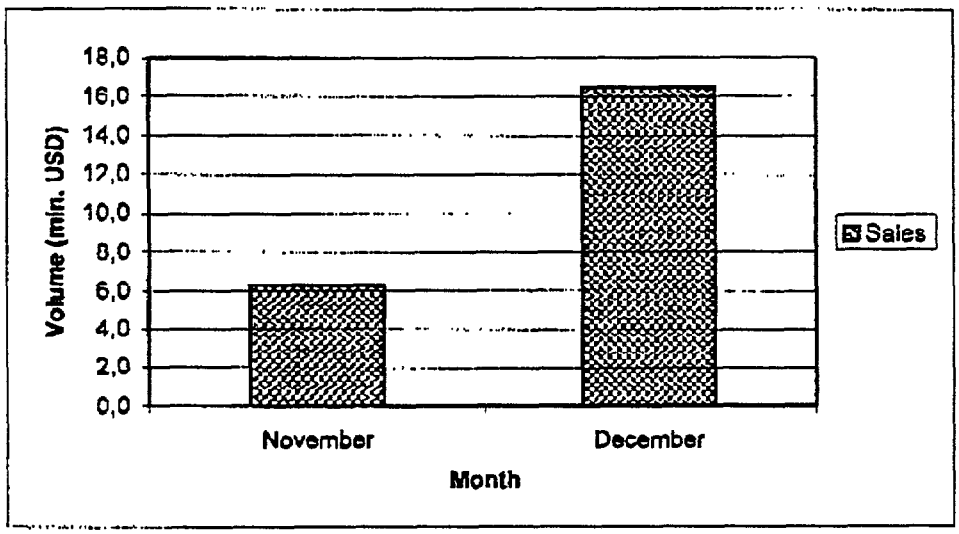
Erzhanov
Vice Minister of Finance
Director of the Department

December Report - Attachment 6

Number of State Share Packets Listed/Sold on KASE by Month



USD Volumes of Sales of State Share Packets on KASE



NATIONAL COMMISSION ON SECURITIES OF THE REPUBLIC OF KAZAKHSTAN

15.12.98.
05-1-2/5912

To : Mr. Jandosov U.A.
First Deputy of the Prime-Minister
of the Republic of Kazakhstan

Subject: On proposals to the Program on Management of State Property and Privatization

Dear Uraz Alievich,

In keeping with Resolution #237-p of the Prime-Minister of the RK "On creation of a working group on development of the Program on Management of State Property and Privatization", dated December 7, 1998, the RK NSC deems it necessary to submit to you its proposals to the draft of this Program .

We consider, that the major **objective** of the Program, development of which will be performed under your management, must be provision of the maximum efficiency of processes of management and disposition of the State assets, since as of today this problem is the most important.

Non-efficiency of the current management policy of the State with regard to its assets (state enterprises, JSC with state owned blocks of shares, economic partnerships with participation of the State) is reflected in :

- A passive position of the State in the process of management of their activities. This pertains to state enterprises and national JS companies and to JS companies and economic partnerships with partial state participation in their charter capitals. As a result, first of all the State losses a rigorous control over the status of its property and its use, and second of all, the efficiency of use and disposition of the state property goes down;
- A lack in the State policy of clear priorities in the sphere of assets use . Up to date, practically there was not performed any regular or goal-directed work on assessment of the status of the state property in Kazakhstan (such work was performed on a single case-basis), neither there were any preparatory procedures prior to selling or transferring of the state property under trust management.

In order to succeed in implementation of the Program objective, it deems necessary, first of all to determine the **priorities**, according to which the policy of the State in the sphere of management and disposition of the State property will be implemented. We consider that with regard to economic entities, which are fully or partially owned by the State, it is necessary to carry out the following:

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1) to classify economic entities depending on the necessity of keeping them in full or partial ownership by the State, and depending on advisability of their privatization, reorganization or bankruptcy (liquidation);
2) to determine the major principals and mechanisms of participation of the State in management of entities, in which the Government intends to keep its shares in the charter capitals;
3) to determine major stages and mechanisms of selling state owned blocks of shares and the State stock share in charter capitals of economic entities.

As for particular activities in keeping with the Program, we suggest the following items be included in the Program:

1. Creation and maintenance of the Common Registry of the State property and the monitoring system:

- Development of the methodology for evaluation of the state property, which would allow for current evaluation, prospective of selling or transferring under trust management, efficiency of the further use;
- Inventory of the state property and assessment of its current status. To this end, assessment of economic entities with participation of the State must be performed taking into account appropriateness of their privatization, reorganization or bankruptcy (liquidation);
- In association with other governmental bodies exercising regulatory functions over economic entities on the territory of the RK , creation and maintenance of the database

Realization of this work will allow for the possibility of exercising monitoring over the status of the State property, and consequently, for taking optimum decisions on the use of it.

1. Improvement of the normative legal basis regulating management and disposition of the state property.

In the framework of realization of this work, it deems expedient to develop a draft law of the RK "On State Assets" , which would set forth major principals and mechanisms of management and disposition of the state property, as well as authorities and responsibilities of governmental bodies exercising such functions.

In addition, this work may also contemplate introduction of changes and amendments in the RK President's Decree having the force of a law "On Privatization', dated December 23, 1995.

It also deems necessary in the framework of the current legislation to determine the legal status of national JS companies and peculiarities of their management.

2. Evaluation of economic entities having the State participation in their charter capitals.

In the framework of this work it is necessary to differentiate the following groups of economic entities (state enterprises, JS companies and business partnerships):

1) economic entities, which are not subject to privatization due to their strategic importance and interests of the national safety;
2) economic entities, which are subject to be owned by the state due to their importance as elements of the state infrastructure and which do not represent any commercial interest for private investments;

3) economic entities, which are subject to be owned by the state (fully or partially owned) due to their commercial interest for the State (for the purpose of gaining returns);
4) national joint stock companies and joint stock companies , whose state owned blocks of shares may be privatized only according to special decisions of the Government (so-called "blue chips");
5) state enterprises exercising commercial functions and which are subject to reorganization in joint stock companies and business partnerships with the purpose of optimization of their activities and further privatization;
6) joint stock companies, whose state owned blocks of shares are subject to privatization only through mechanisms of the stock market without any special decisions of the Government;
7) joint stock companies and business partnerships, which may be privatized in regions without using mechanisms of the stock market;
8) economic entities which do not represent any commercial interests for private investments and which are subject to bankruptcy (liquidation);
9) other possible groups of economic entities.

4. Determination of major principals and mechanisms of management of economic entities depending on their categorization.

We consider that the strictest management requirements must be set to "blue chip" companies. These requirements must include:

- mandatory conversion of accounts to new accounting standards;
- book-keeping by an outside auditor (an accountant company from "Big Five");
- mandatory regular audits by one of the companies from "Big Five";
- mandatory inclusion of shares in the official lists of KASE and/or leading foreign stock exchanges;
- strict compliance with the norms of the current legislation with regard to rules of corporate management and information disclosure on the activities;
- mandatory approval of detailed estimate of expenditures (including expenses for upkeep of executive bodies) by Boards of Directors and strict control over execution of approved estimates.

It deems expedient that any financial support of "blue chips" by the Government (credits, guarantees, tax privileges and deferments) must be provided under condition of activity of "blue chips" themselves in attracting additional finances through mechanisms of the stock market. International and domestic bonds, as well as additional issues of shares must become major instruments of such an attraction. To this end, decisions on issuance of securities must be taken exclusively by boards of directors of "blue chips".

As for other economic entities owned fully or partially by the State, special management rules must be developed for representatives of the State in the bodies of the given entities.

4. Examination of fulfillment of contracts for trust management of state property.

In the framework of implementation of this task, it is necessary to undertake measures on dissolving those contracts for trust management of state property, where it was

revealed that obligations of managing companies, with regard to selling of state owned blocks of shares earlier transferred under trust management, were violated.

In general we consider that the Government must limit the practice of transference of state owned blocks of shares under trust management.

5. Improvement of mechanisms of state property privatization.

In the forthcoming period, it deems expedient to limit the opportunities for conducting addressed sales of state owned blocks of shares, which were earlier transferred under trust management. These state owned blocks of shares must be sold through the stock market or through open auctions. Persons, who earlier were given state blocks of shares under trust management, may be entitled to have preemptive right to purchase such state owned blocks of shares on auctions.

In addition, in the forthcoming period, from our standpoint, it is reasonable not to conduct closed tenders for placing state blocks of shares.

It seems crucial to have the Program provide for state owned blocks of shares of Kazakhstani JS companies to be sold for the most part in organized markets. In order to increase efficiency of the given mechanism of privatization, in the framework of implementation of the Program, it is necessary to improve the existing procedure for placing state owned blocks of shares, especially with regard to providing brokers/dealers, arrangers of trades with securities and also potential investors with sufficient information on joint stock companies, whose state owned blocks of shares are subject to be sold.

6. Approval of the Program for privatization of state property.

The given document must determine the groups of state assets and the time period for their privatization in the course of implementation of the Program.

As for economic entities are concerned, the time periods for selling state owned blocks of shares and contributions of the State in charter capitals of economic entities, as well as methods and mechanisms of their privatization must be approved on an annual basis.

Bektasov
The RK NSC Chairman

92

MEMORANDUM OF UNDERSTANDING BETWEEN THE DEPARTMENT OF STATE PROPERTY AND PRIVATIZATION OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF KAZAKHSTAN AND THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT ON COOPERATION IN PRIVATIZATION OF STATE OWNED BLOCKS OF SHARES IN ORGANIZED SECURITIES MARKETS

Section 1. Introduction

The Department of State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan (the Department) and the US Agency for International Development (USAID) confirming their intention to strengthen their mutual cooperation for development of the process of sales of state owned blocks of shares in organized securities markets, and also taking into consideration the Agreement between the Government of the United States of America and the Government of the Republic of Kazakhstan on cooperation in assistance promotion from May 20, 1992, have made this Memorandum of Understanding.

Section 2. USAID's Activities

With the purpose of facilitating the privatization of state owned blocks of shares through organized securities markets in an efficient, competitive, and transparent manner, USAID, through its consultants, will:

2.1. Provide assistance in selecting companies, whose state owned blocks of shares will be privatized through the Kazakhstan Stock Exchange.

2.2. Provide direct assistance in preparing documents necessary for the listing and sale of the state owned blocks of shares selected for privatization through the Kazakhstan Stock Exchange.

2.3. Provide indirect assistance to privatization through the Kazakhstan Stock Exchange by assisting broker-dealers in preparing state owned blocks of shares for listing as well as marketing and selling state packets of shares.

2.4. Allow the Department to use the USAID database of joint stock companies and provide training to the Department's employees in using the database.

2.5. Develop a specialized section on the USAID Securities Market and Privatization Web site (www.kazecon.kz) for purposes of publishing information on future sales of state owned blocks of shares conducted by the Department.

2.6. Organize and conduct seminars for the Department's employees on the securities market in general and specifically on the rights of shareholders of joint stock companies.

2.7. Provide technical assistance in organizing measures of the Department for increasing public awareness of the processes of privatization of state owned blocks of shares in organized stock markets.

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2.8. Assist the Department in obtaining up-to-date information on the situation in the securities market of the Republic of Kazakhstan.

2.9. Provide other assistance based on mutual agreements between the Department and the USAID through making additional agreements to this Memorandum.

Section 3. The Department's Activities

Seeking to ensure that the assistance provided by USAID results in efficient, competitive and transparent sales of state owned blocks of shares in organized securities markets, the Department agrees to:

3.1. Identify, jointly with the USAID consultants, the companies whose state owned blocks of shares will be privatized through the Kazakhstan Stock Exchange.

3.2. Grant to the USAID consultants access to financial information on joint-stock companies, whose state owned blocks of shares are being prepared for sales at the Kazakhstan Stock Exchange, for assistance in financial analysis of the companies and preparation of documents required for sales of shares at the stock exchange.

3.3. Exercise its authorities to require companies, whose state owned blocks of shares will be privatized, to disclose to it all available information necessary for an investor to make an informed decision (the specific types of information to be determined by agreement between the Department and USAID consultants).

3.4. Provide the information discussed in point 3.3 to the Kazakhstan Stock Exchange, and to USAID Securities and Privatization Web site (www.kazecon.kz) for purposes of publication, no later than the date of the listing of the corresponding packets of shares.

3.5. Provide supplemental information to that mentioned in point 3.4 above, whenever such information becomes available.

3.6. Organize and conduct tenders for broker/dealers for the right to sell state owned blocks of shares at the Kazakhstan Stock Exchange.

3.7. Announce the intention to the Kazakhstan Stock Exchange and in the official press the intention to list the state owned blocks of shares identified in point 3.1 on the exchange no later than 30 days before actually doing so.

3.8. To preliminarily list all state owned blocks of shares on the exchange with "indicative quotes" for five trading days in accordance with the procedures outlined in the Attachment to this document.

3.9. Offer for sale on the Kazakhstan Stock Exchange the state owned blocks of shares of no fewer than ___ companies by ____, 1999.

3.10. Sell through the Kazakhstan Stock Exchange state owned blocks of shares of no fewer than ___ companies by ____, 1999.

3.11. Provide to the USAID consultants for comment drafts of regulative legal acts, amendments and addenda to effective regulative legal acts, which define procedures for organizing and sales of state owned blocks of shares in organized stock markets.

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94

3.12. Accept and review drafts, or comments on drafts, of regulations regarding sales of state owned blocks of shares in organized securities markets, prepared by the USAID consultants.

3.13. Ensure the conditions necessary to conduct the work for registration of property rights for shares purchased by Investment Privatizing Funds on coupon auctions, and registration of such trades in registrars of joint stock companies.

Section 4. Other Arrangements and Agreements

4.1. In order to ensure efficient and coordinated implementation of the activities in this MOU, USAID and the Department will submit all requests concerning the above activities in writing to representatives specified herein. The representative for USAID shall be the Director of the USAID Securities Market Development Project. The representative for the Department shall be _____.

4.2. USAID and the Department recognize that although the activities described in this MOU do not rise to the level of legally binding obligations, the activities performed by one side depend on the corresponding execution of the activities by the other. USAID and the Department also acknowledge that performance of the activities in the frameworks of this Memorandum will depend on financing provided respectively by the Governments of the United States and the Republic of Kazakhstan.

4.3. This MOU shall come into force on the date of the latter signature below. Changes and additions to this MOU shall be made upon mutual agreement of the parties in written form.

4.4. Four original versions (two in English and two in Russian) of this MOU shall be signed. One original Russian and one original English version of this MOU will be kept by USAID and the Department respectively.

On behalf of the United States Agency for International Development:	On behalf of the Department of State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan:
Glenn Anders Director of USAID Mission USAID Central Asia Regional Mission	Department of State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan
Date	Date

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95

1998 Comparative Stock Market Trading Statistics

Month	Off Exchange			%Δ	KASE													%Δ
	Trades	Shares	Tenge Amount ($ Amount)	from previous month	Trades				Share s				Tenge Amount ($ Amount)					from previous month
					"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		
			$ 13 306 599													$ 21 108		
May	3 283	897 931	376 651 862					13				7 413				5 815 495		
			$ 5 051 358	-62%												$ 77 539	267%	
June	1 977	3 736 632	230 940 342					7				11 232				21 223 216		
			$ 3 079 204	-39%												$ 282 976	265%	
July	3 225	367 285	272 474 131		3	0	5	8	10 000	0	8 770	18 770	10 000 000	0	13 884 000	23 884 000		
			$ 3 632 988	18%									$ 133 333	0	($ 185 120)	$ 318 453	13%	
August*	3 207	199 603	150 270 615		3	1	4	8	32 615	11 000	80	43 695	2 609 200	5 148 000	6 391 540	14 148 840		
			$ 2 003 608	-45%									$ 34 789	$ 68 640	$ 85 221	$ 188 651	-41%	
Sept.**	405	3 639 172	65 431 604		3	0	2	5	5 177	0	40	5 217	414 160	0	3 688 000	4 102 260		
			$ 817 895	-59%									$ 5 177	0	$ 46 100	$ 51 277	-73%	
Oct.***	238	13 729	5 827 786		1	0	1	2	850	0	8 065	8 915	68 000	0	1 645 260	1 713 260		
			$ 71 947	-91%									$ 840	0	$ 20 311	$ 21 151	-59%	
Nov.****	228	102 932	81 882 531		2	0	1	3	50 100	0	527 724	577 824	6 600 000	0	524 779 300	531 379 300		
			$ 986 536	1271%									$79 518		$6 322 642	$6 402 160	30169%	
Dec.	132	155 339	23 735 195		10	2	5	17	133 416	18 133	2 558 270	2 709 819	59 946 445	4 114 230	1 370 183 872	1 533 244 547		
			$ 285 956	-71%									$1 915 017	$49 569	$16 508 239	$18 472 826	189%	
Total	15 158	9 837 496	2 207 409 052					67				3 383 816				2 137 093 918		
			$ 29 236 101													$ 25 836 139		

Aug.: The Average Exchange Rate April Through August Is Assumed 75 Tenge per US Dollar

Sept.: The Average Exchange Rate In September Is Assumed 80 Tenge per US Dollar

Oct.: The Average Exchange Rate In October Is Assumed 81 Tenge per US Dollar

Nov.: The Average Exchange Rate In November Is Assumed 83 Tenge per US Dollar

Dec.: The Average Exchange Rate In December Is Assumed 83 Tenge per US Dollar

Note: *December Off-KASE Statistics is Provided for the Period of 01 - 18 December 1998*

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