

**The Pragma Corporation**  
**USAID Securities Market Development Project**  
**Monthly Report**  
**(For the period ending April 30, 1999)**

For the  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	David Lucterhand
COTR USAID/CAR	Rick Gurley

ALMATY, KAZAKHSTAN

**The Pragma Corporation**  
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**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 April 1999.

- FIRST CENTRAL ASIAN FIXED INCOME CONFERENCE IS COMPLETED
- FOURTEEN COMPANIES LISTED OTC ON KASE
- DRAFTING OF REGULATIONS FOR NSC CONTINUES
- DSPP IS REORGANIZED
- PRESIDENT OF KASE STEPS DOWN
- KASE PLANNING TO LIST DEPOSIT CERTIFICATES
- KASE HIRES REPLACEMENT ENFORCEMENT OFFICER
- NEW COMMISSIONER JOINS NSC

**II. PROJECT DESCRIPTION**

The Pragma Team works with the National Securities Commission ("NSC"), the Kazakhstan Stock Exchange ("KASE"), broker-dealers and the Central Depository in developing Kazakhstan's securities market. To further these goals, the Pragma Team has been working under a recently signed MOU between USAID and the NSC. Pragma also has been working with KASE under the auspices of a 1998 Memorandum of Understanding which established the precedent and rules of engagement. While these MOUs have expired, Pragma and NSC & KASE continue to cooperate in accordance with the pre-existing agreement.

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 its completion date. This Action Plan was further refined to reflect priorities through March of 2000 and approved by the COTR, Rick Gurley, as presented. 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. It is important to note that a significant part of project resources both in terms of time and people was dedicated to making the Fixed Income Conference a success. This included: program planning, cooperation with SABIT personnel who provided the majority of funds, coordination with the NSC for guest list preparation, speaker confirmation, coordination of hotel and a ground transportation including airport meets, eating facilities, conference site preparation, support staff assignments, preparation of conference

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materials, simultaneous translation, and audio/visual taping for preparation of post conference proceedings.

In total, more than three hundred fifty persons attended with SABIT participation from five Central Asian Republics. The keynote address was delivered by U.S. Ambassador Richard Jones and the welcoming address by Chairman Joldasbekov of the National Securities Commission.

In other developments, the regional consultant in Uralsk, working with a Privatized Investment Funds (PIF), succeeded in getting fourteen blocks of shares listed OTC II from the company's portfolio. Efforts continued with Vita, the food processor and distributor of vegetable oils, to identify an entity which could function as a trustee for the issuance of asset backed securities. Additionally, work continued with many companies towards their listing on KASE. Management from many of the companies working with our corporate finance group also attended the fixed income conference as observers. Regarding exchange activities, the KASE lost its President who resigned to accept a position in Astana. He was replaced by the KASE Vice President Damir Karasaev who is serving as acting President. During the month, meetings KASE met with Pragma staff to enlist our support for the introduction of a new financial instrument called Deposit Certificates. Banks are likely issuers of these instruments which are expected to be short term and denominated in U.S. Dollars. Pragma was asked to poll possible buyers for indications of interest. Also, this month Pragma hired on behalf of the KASE a new enforcement officer who will participate in the SRO and surveillance training sessions planned for June.

The drafting of regulations continued for NSC. The memorandum on enforcement action previously delivered in March and in English was translated into Russian. Instead of the NSC voting to implement these recommendations, however, it decided to launch a series of user inspections in an effort to find stronger cases. Also during April, KASE, after extensive consultation with Pragma, issued its draft plan for SRO development. By the end of April, there were seven "A" issuers, ten "B" issuers, and forty-six OTC issuers with 63 issuers in total. Total listings equaled 100 and included common and preferred shares. One small package of state owned shares with a dollar value of \$3,747 was privatized. April trading volume exceeded that of March by 300% while KASE experienced the largest number of shares traded in a week not due to privatization since its opening. Systems support for the NSC continued with a new internal information system designed to streamline internal communication. Work with KASE resulted in a module being developed to analyze and update data received from registrars. Support for the [www.kazecon.kz](http://www.kazecon.kz) continued with a new web site design and structure completed and ready for testing.

On related NSC matters, an important addition was made to NSC with the appointment of Nurlan Moldakhmetov as a new Commissioner. He is expected to oversee all legal matters relevant to NSC as a regulator as well as being responsible for the activity of pension funds. He was formerly a Vice-Minister with the Ministry of Finance.

DSPP was transformed into the Committee for State Property and Privatization. It is now responsible for oversight of management contracts for state owned industries and privatization of all blue chips. New criteria now divides state property into two categories: 1. Property owned by the Republic of Kazakhstan; 2. Property owned by municipal governments. Ninety per cent of all state packets of shares are expected to be transferred to the oblasts. State owned packets of large enterprises are to be transferred to the ministries, which oversee the respective industry sector. This appears to be a preliminary step to get state assets

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redistributed from federal control possibly escalating the privatization process as cash strapped oblasts look for sources of revenue.

Lastly, drafting began for the Request for Proposal that will be circulated for privatization of the web site.

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

**Task 1 - Continued Assistance to the NSC**

Defined Activity	Progress Made During the Month
1. Draft regulations.	<p>The Team's Legal Group continued its work on various laws and regulations noted below:</p> <ul style="list-style-type: none"> <li>• <i>Payment Agent Regulation:</i> Lays out provisions which govern bank or similar entities responsible for paying interest, dividends, principal, etc. on securities.</li> <li>• <i>Revision of Licensing rules:</i> Completed rules on revocation and suspension of licenses introducing notions of due process not previously recognized in NSC procedure.</li> <li>• <i>Instruction on Types of Security:</i> Defined what constitutes a security for purposes of registration.</li> <li>• <i>Notification of Large Transactions:</i> This is a law requiring corporations engaging in large transactions to give public notice for their creditors. The regulation would specify the content of the notice.</li> <li>• <i>Capital Rules for Pension Asset Managers:</i> Significant coordination with the Pension Reform Project is underway to develop rules which safeguard against mismanagement by asset managers. Currently, asset managers not meeting performance benchmarks are required to make up the difference from their own capital. It is easy to envisage a scenario where an under-capitalized company cheats the fund by engaging in affiliated transactions then going bankrupt.</li> <li>• <i>Evaluation of Shares in Redemption Offers:</i> Attempts to eliminate the ambiguity between using average weighted market value and the "demand" price offered by shareholders for companies wishing to buy back their shares. This is especially important when there is no market for the company's shares and the demand price must adhere to different price rules.</li> <li>• <i>Placement of Shares in Closed Offerings:</i> This is similar to private placements and details the concept when a security should be registered and when registration can be avoided</li> </ul>
2. Assist in establishing enforcement power of NSC.	<p>The Group submitted a detailed enforcement plan to the NSC early in March. In response to a request from the NSC for further guidance, Kevin Fogarty developed a second memorandum with specific recommendations. However, rather than voting to adopt these, the NSC decided to get comments from its legal department before proceeding and launching issuer inspections as an alternative to proceeding with enforcement actions. (See Attachment 1)</p>
3. Assist NSC in moving off-exchange trading to KASE.  (continued)	<p>As noted in February's report, the Regulation on Broker/Dealer Activity, which effectively prohibits off-exchange trading, was passed by the NSC, sent to the Ministry of Justice, and obtained the status of a legally binding document. In March, the NSC held conferences with the broker/dealers who violated the new prohibitions for off-exchange trading detailing sanctions if violations continued. In April, a record week of trading volume occurred on the KASE representing preferred shares bought from employees - transactions usually executed off exchange.</p>



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Defined Activity	Progress Made During the Month
<ul style="list-style-type: none"> <li>4. Establish NSC Data Warehouse/Trade Reporting System.</li> </ul>	<ul style="list-style-type: none"> <li>The Technological Support Group continued its ongoing work with the NSC. During the month the Group:</li> <li>Trained NSC personnel on how to use the State Registry of Licenses and Certificates database developed by Pragma.</li> <li>Completed and began operation of an internal information system for the NSC with the following modules available for use:               <ul style="list-style-type: none"> <li>Database of regulations issued by the NSC.</li> <li>Database of legal entities licensed to operate as professional participants in the marketplace.</li> </ul> </li> <li>A system designed to collect questions and comments from NSC employees for review by the legal department.</li> </ul>

**Task 2 - Blue Chip Privatization**

Defined Activity	Progress Made During the Month
1. Assist and monitor the privatization of state owned shares.	As noted for several months, the DSPP has been in a state of flux. In April, the DSPP announced a reorganization and redistribution of state owned blocks of shares to ministries and municipalities. <i>(See Attachment 2)</i>
2. Assist and involve Broker/Dealers in working w/GOK privatization.	Due to DSPP's reorganization, assistance to Broker/Dealers consisted of discussion with BDs regarding the implications for privatization.
3. Advocate share listings of blue chip companies w/KASE.	A list of companies <i>(See Attachment 3)</i> has been prepared delineating which are to be transferred to municipalities and which are to be administered by ministries in accordance with industry sector. Many of the companies transferred are expected to be less than suitable for investment. Careful analysis is required before aggressive listing efforts are undertaken.

**Task 3 - Development of the Markets**

Defined Activity	Progress Made During the Month
1. Encourage companies to list on KASE.  (continued)	As a supplement to its work on bonds, the Team completed its preparation and delivered the first <i>Central Asian Fixed Income Conference</i> . It was held in the former Parliament building and required close coordination with the Foreign Commercial Service (FCS), USAID, the NSC as well as national and regional officials. The conference was opened by U.S. Ambassador Jones and attended by over 350 participants from throughout Central Asia and Kazakhstan. The conference is expected to result in referrals and create awareness within the corporate community about the role of bonds as an alternative to equity financing. A copy of the program, a list of attendees, and responses to questionnaires is provided for reference. <i>(See Attachments 4, 5, &amp; 6)</i> . This conference culminated weeks of planning and represented the first serious effort to educate the evolving domestic institutional investors market that there were alternatives to RK treasuries and Eurobonds. Further, the conference tacitly

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Defined Activity	Progress Made During the Month
	<p>acknowledged that international investment for the near term was unlikely and that both issuers and investors should look to the domestic market for both capital and investment opportunities.</p> <p>Concurrent with conference activities, listing efforts continued. Senior management from many of the companies interested in listing was invited to attend. The team successfully completed getting 14 companies listed OTC II on the KASE. This was the culmination of months of work provided by regional and Almaty based consultants working in tandem with BD's, auditors, legal counsel, company management, KASE and NSC officials to meet listing objectives. Listing work continued with companies in the pipeline.</p> <p>On other matters, the Group:</p> <ul style="list-style-type: none"> <li>• Continued advising Vita on structuring a debt issue using a trust mechanism and spoke to several potential investors about their level of interest. Meetings were held with KIB and KBS, BDs to discuss their representing Vita for purposes of listing.</li> <li>• Advised Jety Su Gaz on the preparation of their listing documentation.</li> <li>• Listing documents for Uralsk Poliplast were reviewed and submitted to KASE</li> <li>• Listing documents for Ishim Bank were reviewed for OTC I submission to KASE.</li> </ul> <p>As of the end of the month, 63 companies or securities issues were listed on KASE broken down in the following way:</p> <ul style="list-style-type: none"> <li>• Seven "A" listed with eleven issues</li> <li>• Ten "B" listed with eighteen issues</li> <li>• Forty-six listed OTC I &amp; II with eighty-nine issues.</li> <li>• Two "B" listed stocks were delisted. One for non-payment of listing fees and the other at its own initiative. Both were placed OTC II.</li> </ul> <p>These numbers exclude companies placed by the DSPP.</p>
2. Encourage trading on KASE.	<p>The <i>Central Asian Fixed Income Conference</i> emphasized the importance of bonds in capital formation as well as the importance of KASE for transparency and price discovery. The importance of KASE was a recurrent theme in speaker presentations</p>

**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 Association of	<p>In response to the ABD vote at the end of March to disband, KASE introduced a program which sets out the internal regulatory framework for a SRO. Pragma lobbied strongly for KASE to assume SRO responsibilities and met with the President of the stock exchange to promote these ideas. KASE is also planning to establish a department for member</p>

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Defined Activity	Discussion of Progress Made During the Month
Broker/Dealers (ABD)	relations which will exercise control over members' compliance activities.
2. Assist KASE to finalize rules for market-makers/work in conjunction with Broker-Dealers.	Pragma continued to suggest that market maker commitments be done on a voluntary basis with incentives offered to B/Ds to make two sided markets, possibly by reducing transaction fees. .
3. Improve broker-dealers operational efficiency and transparency.	After the NSC accepted Pragma's recommendations to send out warnings to BDs that not complying with NSC regulations would expose them to having their licenses suspended. very few off-exchange trades occurred and a record weekly trade volume was experienced.
4. Provide assistance to the Central Depository (CD).	Assessment by the NSC indicates that the CD is capable and prepared for either possible merger or linkage. Further, NSCC review participants indicated through informal discussion that the CD was institutionally sound.

**Task 5 - Other Activities**

Defined Activity	Progress Made During the Month
1. Make the USAID web site a self-sustaining entity.	A new version of the web site was completed and testing is ongoing with the first week of May as the target date for introduction.  The draft "Terms of Reference" was reviewed and prepared for posting on <a href="http://www.kazecon.kz">www.kazecon.kz</a> ; an announcement was prepared for the financial paper <i>Panomama</i> for publication simultaneously with web site posting.
2. Chief of Party gives perspectives on SMDP to <i>Euromoney</i> Magazine	David Sheriff, Managing Editor of <i>Euromoney</i> stopped by my office asking about the objectives of our project which I provided. The result was an investment piece published in the April addition of the magazine. (See Attachment 7)

**IV. ADMINISTRATIVE ISSUES**

None

**V. PROJECT STAFFING**

The following personnel were engaged in project activities this month:

Richard Dvorin, Senior Capital Markets Advisor\*

Kevin Fogarty, Senior Legal Advisor, Head of the Legal Group\*

David Lucterhand, Chief of Party

Timothy Smith, Senior Technical Advisor

\* Richard Dvorin was on home leave for the first three weeks of April; Kevin Fogarty was on home leave the first eleven days in April.

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**List of Attachments**

- Attachment 1. Monthly Report of Kevin Fogarty for April, 1999
- Attachment 2. Official and unofficial information regarding DSPP reorganization and Resolution #405
- Attachment 3. List of companies under Resolution #405 listing companies for transfer to Oblast administrations and companies retained for RK administration
- Attachment 4. Program of the *Central Asian Fixed Income Conference*
- Attachment 5. List of Conference participants
- Attachment 6. Sample questionnaire and conference evaluation results
- Attachment 7. *Euromoney* article

# Internal Memorandum

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To: David Lucterhand  
From: Kevin Fogarty  
CC:  
Date: May 5, 1999  
**Re:** Legal Team Monthly Report for April 1999

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This is an up-dated version of the mid-month report prepared for Dan on April 16.

## Task I. Continued Assistance to the NSC

### Item 1. Drafting of regulations

#### 1) *Payment Agent Regulation (Mirgul)*

Drafting procedure: Mirgul did an initial draft of this regulation; Kevin reviewed and revised, prepared explanatory memo. Translation and delivery in May.

The NSC requested assistance in the drafting of a regulation governing the bank or similar entity responsible for paying out interest, dividends, principal, etc., on securities. No one seemed clear on what exactly this regulation is supposed to accomplish. There is, however, a feeling that getting money to investors is too important to leave unaddressed, and not so simple in a country where mailing out checks is not necessarily the best procedure. The procedure with government bonds is usually a wire transfer to the owner's account at the bank through which he bought the bonds. (Mirgul met with a bank to discuss this procedure.) We laid out some principles in the explanatory memo and organized the draft regulation accordingly. Our draft gave the payment agent some notification responsibilities in the event of default and responsibilities for preserving uncollected payments. The payment agent assistance request also raised the question of whether the NSC might have had in mind something more like the regulation of bond trustees. The explanatory memo described how this works in the US and in Poland (we have the laws of both countries on hand) and offered further assistance.

#### 2) *Revision of Licensing Rules (Ramziya, Mirgul, Oksana)*

Drafting Procedure: Oksana completed Ramziya's draft of a rule on suspension and revocation of licenses for market professionals. Kevin reviewed and revised. Translation and delivery in May.

This draft regulation is the companion piece to the license-granting rule delivered in March. It is more consequential, however, in that it introduces certain notions of due process not heretofore formally recognized in NSC procedure.

3) *Instruction on Types of Security (Natalia, Kevin)*

Drafting Procedure: Review by both Natalia and Kevin, memo from latter to former, memo from Natalia to NSC.

Natasha completed her comment memo on this matter, described in last month's report. It should have been delivered today, May 5, following my review. I wrote a supplementary memo as well which will be delivered in May as soon as it is translated.

4) *Notification of Large Transactions*

Drafting Procedure: Draft by Natalia, review by Kevin

This is a minor regulation (under the Joint Stock Company Law) that we are drafting for the NSC. The Law requires that corporations engaging in certain large transactions publish notice for their creditors. The regulation would specify the content of the notice. The NSC may also ask us, as it has in the past, for assistance in interpreting more important provisions of the law relative to large transactions.

5) *Capital Rules for Pension Asset Managers*

Drafting Procedure: Comments on NSC draft by Jamilla, review and revision by Kevin.

We are consulting with the pension reform project (IMCC) on this one before offering our own remarks. It is important that pension asset managers have substantial capital, since one of the safeguards against mismanagement is the requirement that managers failing to achieve a certain level of performance contribute the shortfall to the pension fund. It is easy to imagine a case where an under-capitalized management company cheats the fund by large amounts in affiliated-party transactions and then simply goes bankrupt.

6) *Evaluation of Shares in Redemption Offers*

Drafting Procedure: Jamilla is preparing comments on NSC draft after consultation with Pragma Corporate Finance. Kevin will review and revise.

The Joint Stock Company Law requires that companies wishing to buy back their own shares do so at the average weighted market value in the 30 days preceding the buy-back offer or at the "demand" price. This apparently is an anti-greenmail provision, with the "demand" price reference being an allusion to the redemption at the option of the shareholder that applies in certain cases and has different price rules. The point of the draft regulation should be to clear this up and to specify what on earth the average weighted market price is when there is no market for the company's shares.

7) *Placement of Shares in Closed Offerings*

Drafting Procedure: Jamilla is preparing comments on the NSC draft, which Kevin will review and revise.

Closed share offerings, roughly equivalent to private placements in the US, are exempt from registration. This draft regulation detailing the meaning of this concept is important to assure that securities that needn't be registered can avoid registration and that those that should be registered will be registered.

## **Item 2. Assist in establishing enforcement power of NSC**

### *1. Follow-up Enforcement Memo on Action Schedule and Implementation Details (Kevin, Natalia, Oksana)*

Drafting Procedure. This memo was finished and delivered in English in March but translated and delivered in Russian in April under Oksana's supervision.

The NSC was initially going to vote on the recommendations contained in the memo but then decided to get comments from its legal department first. It fears defeat in the cases recommended for enforcement action and wants to launch a series of issuer inspections to find stronger cases. Or maybe the NSC just doesn't want to do any enforcement.

#### Additional

In the beginning of April, Jamilla was at work exclusively on the bond conference, and this in fact was everyone's main focus for the first half of the month.

Jamilla also has done some research on taxes applicable to investment funds. There seem to be no pass-through provisions for either privatization funds or investment funds. Accordingly, a fund's portfolio company would pay a 30% tax on its profit, and another 15% would be removed when the fund received its dividends. When dividends from the fund itself are passed on to fund shareholders, these too would be taxed 15%. Capital gains appear to be taxed as ordinary income at each level. Interest is taxed like dividends (uniform 15% rate withheld by the payor). Jamilla also did some research concerning arbitration and assisted regional consultants with questions about national identification numbers for securities.

Mirgul has been reviewing civil procedure rules to assess the practical options available to small investors in court and has completed a memo on this. Translation is pending. Mirgul is also preparing a memo on the functioning of shareholder protection associations in Russia, with possible applications here. She also prepared a brief summary of the draft concept paper for a National Savings Plan, which is being circulated by an individual associated with HSBK and seems to be popular in governmental circles, including with the NSC chairman who has commented favorably on it in public.

Natalia prepared an informational memo for Kevin concerning privatization funds. She and Mirgul also did a short memo for Corporation Finance regarding avoidance of contracts on grounds of duress.

Oksana prepared a memo on the relationship of the antimonopoly laws to the securities markets and has provided the NSC with some laws from Russia relating to trust management and shareholder protection. She also did a memo on the legal restrictions on insurance companies as investors.

Kevin completed a draft general assessment report on the overall regulatory and legal structure for the Kazakh securities market. He sent it to Rick for comment.

## Work in the Department of State Property and Privatization

### *Official Information*

On April 12<sup>th</sup>, the RK Government issued the Resolution #405, which treats of the division of the state property into Republic's property and municipal property. The Resolution declares the fact of the division and lists the enterprises, which will be transferred to the municipal governments, but it says nothing about changes to the DSPP functions and its possible reorganization.

This week, the RK Government issued one more Resolution, in accordance with which DSPP shall be transformed into the Committee on State Property and Privatization of the RK Ministry of RK Finance, and Mr. D.R.Abulgazin, Vice-Minister of Finance, has been appointed the Committee's Chairman. The Regulation on the activities of the Committee has not been approved until now.

### *Non-official information and assumptions*

Daniyar Rustemovich Abulgazin has worked with the Ministry of Finance since 1995. In 1998 he was appointed the Vice-Minister. Prior to this, he worked at the Treasury, then as the Director of the Legal Department of the Ministry of Finance. Mr. Mynbaev, the Minister of Finance never signed any Resolutions without Abulgazin's visa. He is 28 years old.

It is likely, that after some reduction of the Committee's staff, the Committee will focus on transferring enterprises listed in Resolution #405 to akimats. It is also planned to transfer large state-owned companies to respective ministries (according to their industries). This process will take 3-4 months, and finally the Committee will have under its supervision the national companies, several state corporations, and blue chip companies. Consequently, we can expect a significant staff reduction (by 50-70%) by that time.

Changes on the level of deputies of DSPP are quite probable (*Mr. Shukputov, 1<sup>st</sup> Deputy of DSPP, and Mr. E.Dominov, 2<sup>nd</sup> Deputy of DSPP, are said to be very likely leaving their positions*). At least two candidates are rumored to take the positions – chief of a department (*upravl'eniya*) and director of a department of the Ministry of Finance.



## **Information on the Department for State Property and Privatization of the RK Ministry of Finance**

The Department for Commercial Organizations with State Participation of the RK Ministry of Finance drafted the Resolution # 405. Chief of the Department said that the criteria for the division of state property into republic's property and municipal property had been the size of companies and their significance for the economy, i.e. even if a company is in a bad shape but at the same time it has significance in Kazakhstan's scale, such a company will remain the republic's property. Small companies located in oblasts and alcohol producers will be transferred to municipalities in order to support regional budgets.

Akimats will be on top of the entire range of issues concerning privatization, sales of state packets of shares, and trust management of municipal companies.

According to Mr. Zhamankulov, functions of DSPP remained unchanged except that from now on DSPP will only deal with republic's companies. Regulation on the Committee has already been drafted and is being reviewed by the Prime Minister. Hopefully, we will have a chance to look at it next week.

The same Department will probably draft a resolution on distribution of companies between the Committee and the ministries. Republic's company, except for national companies, state corporations, and blue chips, will be distributed among ministries according to industries such companies belong to. There is an assumption that ministries will only exercise overall management of companies, and the Committee will make decisions on sales. Again, *this is only assumption: the resolution has not been drafted yet.*

The question is: who makes decisions, whom to meet with?

There is an opinion that these should be D. Abulgazin, Chairman of the Committee, Vice-Minister of Finance, or U. Jandosov. The latter is more preferable, because this is the deputy Prime Minister (Minister of Finance) who makes decisions regarding privatization and its future. According to some "observers", he is the most stable figure. In addition, Jandosov shows great interest in privatization related experience of some countries (Hungary, Czech Republic, Baltic States, etc.). Even if Jandosov himself does meet with us, he will have Abulgazin do so.

***All the above information was received from an employee of the Department (Committee) and is not official.***

P.S. Before Resolution # 405 was issued, the Department started drafting "Program for Managing State Property and Privatization for 1999-2000". Now the draft program is being finalized at the RK Ministry of Finance.

## Operations of the Department for State Property and Privatization

Last week, a decision was made to disband the Department for State Property and Privatization (*DSPP*) and to transfer the major part of state packets of shares to municipal governments, and state packets of shares of a limited number of companies - to the ministries in charge of respective industries, Ministry of Transport and Communications, and Ministry of Power, Industry, and Trade. This development was initiated by vice-minister Uraz Jandosov.

Following the disbandment of DSPP, 90% of all state packets will be transferred to municipal governments (the central government will retain not more than 10-15 companies in oblasts, and none in Almaty oblast, for example). In fact, this should mean that oblast akimats will gain more economic powers; and this raises fears that such a development will result in lack of a direct control by the State and that all decisions regarding municipal property will be made by oblast governments.

Transfer of state packets of shares of large enterprises to respective ministries. The main reason for this is that there is necessity to improve overall effectiveness and discipline, for example, those pertaining to investment obligations and dividend payments.

The Department has been selling state shares to both domestic and foreign investors without paying attention to "industrial integrity" (*which means that whenever a state share was sold, DSPP did not really care if such a sale would effect integrity of an industry*): otherwise, its privatization related activities have been well coordinated with the Government in line with DSPP's attempts to use rather legal methods in its activities aimed at attracting foreign investments.

The investment climate getting even worse, the Department, however, has been one of the guarantors in which foreign investors are interested. On the other hand, the transfer of state packets of shares over to respective ministries is intended to develop Ministry of Transport and Communications and Ministry of Industry, Power, and Trade into two "super-ministries".

Since the beginning of the year 1999, the Department for State Property and Privatization has managed to raise around Tenge 21 bln. out of privatization. In particular, one of the major investors was Tengiz-Shevroil.

**RESOLUTION # 405**  
**Of the Government of the Republic of Kazakhstan**  
**Dated 12 April 1999**

On Kinds of State Ownership of State Packets of Shares and State Participations in Organizations

For the purpose of fulfilling the Order of the President of the Republic of Kazakhstan # 5 "On Measures to Reduce Administrative Expenses and to Increase the Revenue Side of the State Budget for 1999" dated 1 February 1999, and in order to improve effectiveness of state property management and to increase revenues to local budgets, the Government of the Republic of Kazakhstan has resolved as follows:

1. The Ministry of Finance of the Republic of Kazakhstan shall ensure transfer of state packets of shares and state participations in organizations as of Attachment 1 to municipal governments following legislatively established procedures.
2. This Resolution defines the list of joint-stock companies and economic partnerships (Attachment 2) whose state packets of shares and state participations shall remain the republic's property.
3. Committee on State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan shall within one month, together with ministries and governmental agencies, and Almaty and Astana akimats, continue to identify joint-stock companies and economic partnerships that have state packets of shares and state participations and are not listed in Attachments 1 and 2 to this Resolution; also, respective proposals shall be submitted to the Government of the Republic of Kazakhstan in this regard.
4. Central executive bodies of the Government of the Republic of Kazakhstan and governmental agencies shall within one month submit to the Government their proposals regarding a way to change the kind of ownership of republic's state enterprises.
5. The Ministry of Finance of the Republic of Kazakhstan shall elaborate a way to bring resolutions, previously adopted by the Government, into correspondence with this Resolution.
6. The Ministry of Finance of the Republic of Kazakhstan shall exercise control over compliance with this Resolution.
7. This Resolution shall come into effect after it is signed.

Prime-Minister of the Republic of Kazakhstan  
N. Balgimbaev

**ПРИЛОЖЕНИЕ 1**  
к постановлению Правительства  
Республики Казахстан  
от "\_\_\_" \_\_\_\_\_ 1999 г. № \_\_\_\_\_

**ПЕРЕЧЕНЬ АКЦИОНЕРНЫХ ОБЩЕСТВ И ХОЗЯЙСТВЕННЫХ ТОВАРИЩЕСТВ, ГОСУДАРСТВЕННЫЕ  
ПАКЕТЫ АКЦИЙ И ДОЛИ КОТОРЫХ ОТНЕСЕНЫ К КОММУНАЛЬНОЙ СОБСТВЕННОСТИ**

№ п/п 1	Уникальный код 2	Наименование организации 3
<b>Акмолинская область</b>		
1	АКМ-002317	ТОО «Кристалл» . Арман
2	АКМ-002446	ОАО «ЖБК Атбасар»
3	АКМ-000300	ОАО «Керамзит»
4	АКМ-001381	ОАО «Ат-жоль»
5	АКМ-001603	ОАО «АШПУ»
6	АКМ-002181	ОАО «Ерментауский РАПС»
7	АКМ-000118	ОАО «Кургальджинский РАПС»
8	АКМ-000298	ОАО «Макинский РАПС»
9	АКМ-001582	ОАО «Стройфарфор»
10	АКМ-000999	ТОО «Сельхозтранс»
11	АКМ-002323	ТОО «Трансагросервис»
12	АКМ-001664	ОАО «Степногорское ПАТП»
13	АКМ-002236	ОАО «Агротехсервис»
14	АКМ-001440	ОАО «Сельхозтехсервис»
15	АКМ-000136	ОАО «Атбасартехсервис»
16	АКМ-000032	ОАО «Атбасар»
17	АКМ-001917	ОАО «Кайракты-2»
18	АКМ-002137	ОАО «Арман-2»
19	АКМ-000138	ОАО «Агротехника»
20	АКМ-001428	ОАО «Сапфир»
21	АКМ-001410	ОАО «Шанторг»
22	АКМ-000927	ОАО «Спутник»
23	АКМ-001618	ОАО «Реммехзавод»
24	АКМ-001611	ОАО «Завод горного оборудования»
25	АКМ-001612	ОАО «СМУ-2 Целинного горно-химического комбината»
26	АКМ-001617	ОАО «PCY Целинного горно-химического комбината»
27	АКМ-001614	ОАО «Автохозяйство Целинного горно-химического комбината»
28	АКМ-000063	ОАО «Колутон»
29	АКМ-000151	ОАО «Атбасарский КХП» филиал ТОО "Аз-Астана»
30	АКМ-001412	ОАО «Степногорскавиа»
31	АКМ-000137	ОАО «Аккультехсервис»
32	АКМ-000089	ОАО «Достык» (Атбасарский племзавод)
33	АКМ-000046	ОАО «Маман-специалист»
34	АКМ-001746	ОАО «Сельхозавто»
35	АКМ-002040	ТОО «Балкашинский РАПС»
36	АКМ-000141	ТОО «Агротехснаб»
37	АКМ-002318	ТОО «Макинский райгаз»
38	АКМ-002437	ТОО «Ерментаурайгаз»
39	АКМ-002438	ТОО «Вишневский райгаз»
40	АКМ-002436	ТОО «Жалын»
41	АКМ-002434	ТОО «Шортандинский райгаз»
42	АКМ-002153	ТОО «Бытыгай»
43	АКМ-001107	ОАО «Астраханкаагростроймонтаж»
44	АКМ-000044	ОАО «Прогресс - транспорт»
45	АКМ-002180	ОАО «Макинское ПАТП»
46	АКМ-001454	ОАО «Атбасарское ПАТП»
47	АКМ-002452	ТОО «Каскет Ерментау»
48	АКМ-002453	ОАО «Акватранс»

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50	AKM-001527	ОАО «Алексеевское ПАТП»
51	AKM-001541	ОАО «Есильавтотранс»
52	AKM-001543	ОАО «Державинскавтотранс»
53	AKM-001542	ОАО «Киймаавтотранс»
54	AKM-001988	ОАО «Ишим»
55	AKM-000161	ОАО «Есиль»
56	AKM-000283	ОАО «Комплект Державинск»
57	AKM-001547	ОАО «Тулпар» (Жанадала)
58	AKM-002451	ОАО «Темп»
59	AKM-001426	ОАО «Монтажник»
60	AKM-000129	ОАО «Кенесары»
61	AKM-002447	ОАО «Двуречный»
62	AKM-000158	ОАО «Пришимье»
63	AKM-000132	ОАО «Райагропромтехника» г.Есиль
64	AKM-000126	ОАО «Красивинское СП»
65	AKM-002467	ТОО «Курылыс»
66	AKM-002450	ТОО «Строитель-12»
67	AKM-000097	ТОО «Есиль кунарлыгы»
68	PCП-001789	ОАО «Есильское ПАТП»

г.Астана

69	AKM-000946	ОАО «Керамика»
70	AKM-001476	ТОО «Батыр»
71	AKM-000977	ОАО «Акмола-отын»
72	AKM000019	ОАО «Литмаш»
73	AKM-000875	ОАО «Целинэнергострой»
74	AKM-000919	ОАО «Атрико»
75	AKM-001425	ОАО «Силикат»
76	AKM-000309	ОАО «Целинсантехмонтаж»
77	AKM-000286	ОАО «Домостроитель»
78	AKM-000940	ОАО «Газмашаппарат»
79	AKM-001179	ОАО «Реммелиостроймаш»
80	AKM-002261	ОАО «Надежда - Цум»
81	AKM-001015	ОАО «Гордорстрой»
82	AKM-000663	ОАО «Спецавтотранспорт»
83	AKM-000871	ОАО «Акмолинская ТЭЦ-2»
84	AKM-000881	ОАО «Акмолинские тепловые сети»
85	AKM-000940	ОАО «Акмолагазмонтаж»
86	AKM-000016	ОАО «Казахсельмаш»
87	AKM-001726	ОАО «Автобусный парк № 1»
88	AKM-001062	ОАО «Акмолагорэлектротранс»
89	AKM-001090	ОАО «Акмолазооветснаб»
90	AKM-001122	ОАО «Азиятехносервис»
91	AKM-000018	ОАО «Целиноградсельмаш»
92	AKM-000031	ОАО «Береке»
93	AKM-000974	ОАО «Облплодоовощпром»
94	AKM-001411	ОАО «Акмолаэкспорттранс»
95	AKM-002020	ОАО «Пиво-безалкогольных напитков»
96	AKM-001666	ОАО «Акмолинский Камкор»
97	AKM-002251	ОАО «Акмолинское АТП-4»
98	AKM-000304	ОАО «Акмолаагострой»
99	AKM-002271	ОАО «Мясомолрыбпромторг»
100	AKM-000177	ОАО «Акмола-элеватор»
101	AKM-000316	ОАО «Акмолаагропромстрой»
102	PCП-001786	ОАО «ТЭЦ-1»
103	AKM-002443	ОАО «Агромаш»
104	AKM-002444	ОАО «Акмоластройфаянс»
105	AKM-000874	ОАО «Городские электрические сети»
106	AKM001606	ОАО «Гораагострой»
107	AKM-010234	ТОО «Клио»

108	АЛМ-000191	ОАО «Алматымелиорация»
109	АЛМ-000572	ОАО «Нур-Алем»
110	АЛМ-001351	ОАО «Эдельвейс»
111	АЛМ-000187	АОЗТ «УМР- 2»
112	АЛМ-000849	ОАО «Казмрамор»
113	АЛМ-000016	ОАО «Каргаль»
114	АЛМ-000547	ОАО «Мухаббат»
115	АЛМ-000824	ОАО «Тургенский РМЗ»
116	АЛМ-000166	ОАО «Ремстройтехника»
117	АЛМ-000581	ОАО «Связьмонтаж»
118	АЛМ-001679	ОАО «Жедел»
119	АЛМ-001553	ОАО «Капчагай АП»
120	АЛМ-001484	ОАО «Талгар АП»
121	АЛМ-002306	ОАО «Кулагер»
122	АЛМ-001485	ОАО «Узунагачский АП»
123	АЛМ-001039	ОАО «Йолувчи»
124	АЛМ-001272	ОАО «Баканас-тулпар»
125	АЛМ-001525	ОАО «Токтарбек»
126	АЛМ-000040	ОАО «Ак-булак-К»
127	АЛМ-001322	ОАО «Чилик-Тулпар»
128	АЛМ-000276	ОАО «Алматытара»
129	АЛМ-000278	ОАО «Алматытемир»
130	АЛМ-001673	ОАО «Капчагаймунайонимдери»
131	АЛМ-001085	ОАО «Камкор - 4»
132	АЛМ-001292	ОАО «Кулан»
133	АЛМ-001282	ОАО «Марал»
134	АЛМ-000046	ОАО «Капчагайбалык»
135	АЛМ-000132	ОАО «Казхлебкомплект»
136	АЛМ-000136	ОАО «Акбидай-Текес»
137	АЛМ-000933	ОАО «Ырыс»
138	АЛМ-000143	ОАО «Ырыс»
139	АЛМ-000932	ОАО «Ынтымак»
140	АЛМ-000031	ОАО «Агросервис»
141	АЛМ-001428	ОАО «Алматынский областной центр стандартизации и метрологии»
142	АЛМ-010041	ОАО «Каззооветснаб»
143	АЛМ-000067	ОАО «Племхоз им.Томаровского»
144	АЛМ-000066	ОАО «Акжал»
145	АЛМ-000065	ОАО «Жетыген»
146	АЛМ-001758	ОАО «Восход»
147	АЛМ-009872	ОАО «Ипподром»
148	АЛМ-002433	ОАО «УПП»
149	АЛМ-000764	ОАО «ПМК-130»
150	АЛМ-010038	ОАО «Фаза»
151	АЛМ-009927	ОАО «Энергия»
152	АЛМ-001191	ОАО «Чильбастау мунай онимдери»
153	АЛМ-002182	ОАО «Сункар»
154	АЛМ-001140	ОАО «Боралдай - автоколик»
155	АЛМ-001038	ОАО «Талгарская МРБ»
156	АЛМ-001488	ОАО "СП Арал"
157	АЛМ-002567	ОАО «Ак нар»
158	АЛМ-002555	ОАО «Канатжан»
159	АЛМ-000190	ОАО «Мелиорация»
160	АЛМ-000165	ОАО «Талгарский Экспериментальный литейно-механический завод»
161	АЛМ-000463	ЗАО «Санаторий "Алма-Арасан"»
162	АЛМ-008998	ОАО «Фармация»
163	АЛМ-000721	ОАО «Талдыкорганснаб»
164	АЛМ-001012	ОАО «Курылыс»
165	АЛМ-000839	ОАО «Жетысу»
166	АЛМ-000010	ОАО «Текелийский свинцово-цинковый комбинат»

167	АЛМ-001224	ОАО «Талдыкорган мунайонимдери»
168	АЛМ-001231	ОАО «Казаккумулятор»
169	АЛМ-000992	ОАО «Архарлы алтын»
170	АЛМ-000579	ОАО «Енбек»
171	АЛМ-000852	ОАО «Камкор» (Когалы )
172	АЛМ-000117	ОАО «Балхаш»
173	АЛМ-001233	ОАО «Алтын дан -Коктал»
174	АЛМ-000805	ОАО «Жемис»
175	АЛМ-000806	ОАО «Алгабас»
176	АЛМ-001243	ОАО «Алтын дан- Алажиде»
177	АЛМ-001230	ОАО «Астык Жаркент»
178	АЛМ-001245	ОАО «Астык Сарыозек»
179	АЛМ-001226	ОАО «Алакольский сахарный завод»
180	АЛМ-001242	ОАО «Аксу шекер»
181	АЛМ-000021	ОАО «Шекер»
182	АЛМ-000125	ОАО «Кулагер»
183	АЛМ-000126	ОАО «Уста»
184	АЛМ-000124	ОАО «Майтобе»
185	АЛМ-000078	ОАО «Сарыбулак»
186	АЛМ-000820	ОАО «Жондеуши Коксу»
187	АЛМ-001078	ОАО «Ак мамык»
188	АЛМ-009018	ОАО «Балык»
189	АЛМ-000079	ОАО «Кызылагаш»
190	АЛМ-000464	ОАО «Санаторий «Арасан Капал»
191	АЛМ-002531	ОАО «Панфиловское ПАТП»
192	АЛМ-002529	ОАО «Нур»
193	АЛМ-002528	ОАО «Гранит»
194	АЛМ-002561	ОАО «Текелийское ПАТП»
195		ТОО «Азия Рахим -Заде»
196	АЛМ-001303	ОАО «Жез киик»
197		ТОО «Жана жол»
198	АЛМ-000023	ОАО «Талгар-спирт»

г.Алматы

199	АЛА-000062	АООТ «Алматыгеоснабторг»
200	АЛА-000460	АООТ «Балалар алемі»
201	АЛА-000563	АООТ «СпецАТПмедфарм (Ауэзовский)»
202	АЛА-000854	АООТ «Спецдормаш»
203	АЛА-000858	АООТ «Промдорстрой»
204	АЛА-001187	АООТ «Берик тас»
205	АЛА-001298	АООТ «Спецэнергоавтоматика»
206	АЛА-001495	АООТ «Производственное объединение «Алатау»
207	АЛА-001603	АООТ «Энергозалчасть»
208	АЛА-001605	АООТ «Жибек»
209	АЛА-001628	АОЗТ «ПИАТ»
210	АЛА-002123	АООТ «Авангард»
211	АЛА-002273	АООТ «Алматытрансгентство»
212	АЛА-002557	АООТ «Газимпэкс»
213	АЛА-003872	АОЗТ «Высшая школа банковского дела»
214	АЛА-001939	ОАО «Гульден» (Биназар)
215		ОАО «Алмалы демалыс»
216		ОАО «Алматыгоргаз»
217		ОАО «Пассажирская подвесная канатная дорога "Коктобе"»
218	АЛА-000017	АООТ «Кызмет»
219	АЛА-000096	ОАО «Стенд» (Ауэзовский)
220	АЛА-000226	АООТ «Республиканская база материально-технического снабжения»
221	АЛА-000347	АООТ «Берік»
222	АЛА-000467	АО «Дархан (Московский)»
223	АЛА-000480	АО «Канат»
224	АЛА-000694	АООТ «Дом отдыха "Просвещенец"»
225	АЛА-000983	АО «Фирма «Джетысу» (АО Нар)»

226	АЛА-001102	ТОО «Казмедсервис»
227	АЛА-001218	АО «Алматытелефонстрой (Ауэзовский)»
228	АЛА-001225	АО «Управление механизации и транспорта - АО «Элеватормельстрой»
229	АЛА-001322	РСУ АООТ «Алматыгортеплокоммунэнерго»
230	АЛА-001344	АО «Алматинский вычислительный центр АК "Данекер"»
231	АЛА-001534	АООТ «Автокомбинат №1» (Ауэзовский)
232	АЛА-001695	ТОО «Казинвестстрой»
233	АЛА-001762	ТОО Галерея «Тамыр» при Государственном музее искусств им А Кастеева
234	АЛА-001763	АООТ «Казакхинторг»
235	АЛА-001768	ТОО «Казгеопоиск»
236	АЛА-001775	АОЗТ «Сары-Арка»
237	АЛА-001837	ТОО «Связьстройкомплект Тараз» при ГАК «Байланыс кuryлысьши»
238	АЛА-001850	ТОО «КИВИ»
239	АЛА-001863	АООТ «Аксай» (Алатауский)
240	АЛА-001867	ТОО «Геле»
241	АЛА-001877	ОАО «Каркара»
242	АЛА-001894	ТОО «Кенес»
243	АЛА-001933	ТОО «Научно-инженерный. ИВЦ инженерной академии Республики Казахстан»
244	АЛА-001964	ОАО «Алмагуль»
245	АЛА-002118	ЗАО «Международная Торгово- промышленная корпорация «Парасат»
246	АЛА-002155	ОАО «Арна»
247	АЛА-002191	ОАО «Казкинокомплект»
248	АЛА-002209	ТОО «Фирма Механобр-Техноген»
249	АЛА-002222	ТОО «Казакско-Российское СП «Техавтосервис-ММЗ» (Московский)
250	АЛА-002335	АООТ «Компания Фармация» (Московский)
251	АЛА-002551	АООТ «Торговый дом «Асыл»
252	АЛА-002601	ТОО «Финансово-инвестиционная компания «Мунай-финанс»
253	АЛА-002785	АООТ «Фирма «Кызмет-Тагам ГАК «Кызмет» (Московский)
254	АЛА-002944	ТОО «Шапагат»
255	АЛА-003947	ТОО «Акка-Алмас»
256	АЛА-003965	ТОО «АТХК»
257	АЛА-003991	АООТ «Изденис»
258	АЛА-004007	ТОО «Казкоммунэнерго»
259	АЛА-004023	ТОО «СП «Крамдс-Таурас»
260	АЛА-004024	ТОО «KTS»
261	АЛА-004026	ТОО «Кырой»
262	АЛА-004027	ТОО «Лама ИВЦ»
263	АЛА-004052	АООТ «Промсвязь»
264	АЛА-004055	ТОО «Разноимпортторг»
265	АЛА-004061	ТОО «СБ»
266	АЛА-004067	ТОО «СПФРК»
267	АЛА-004084	АООТ «ЦКТБ «Рух»
268	АЛА-004103	ТОО «Истык су»
269	АЛА-004104	ТОО «Кабо»
270	АЛА-004109	ТОО «Консорциум банков»
271	АЛА-004132	ТОО «Шанс»
272	АЛА-004133	ТОО «Экомоторс»
273	АЛА-004210	ТОО «Мереке»
274	АЛА-004214	ТОО «Казкоммунэнерго-монтаж»
275	АЛА-004217	АООТ «Кумис-Тау»
276	АЛА-005017	ТОО СП «Кунь-тунь»
277	АЛА-005023	ТОО СП «Казэкспосервис»
278	АЛА-005024	ТОО СП «Кам»
279	АЛА-005025	ТОО СП «Т...»



280	АЛА-005026	ТОО СП «ИД Принт» (ED PRINT)
281	АЛА-005028	ЗАО СП «Омскнефтепродукт»
282	АЛА-005030	ТОО СП «Алматранс СРЛ» (ALMATRANS SRL)
283	АЛА-005031	АООТ «Регион»
284	АЛА-000912	АООТ «Объединение юридических лиц ассоциация «КАЗРЕЧМОРФЛОТ»
285	АЛА-003011	АООТ «Алматинский институт технологии и бизнеса»
286	АЛМ-000246	АООТ «Механизированная колонна 50 АО «Средазстроймеханизация»
287	АЛА-005027	ТОО СП «Казбу Том»
288		АООТ «Агентство иностранных переводов»
289	АЛА-000283	АООТ «Авиационныйтехнический центр-405»
290	АЛА-001367	АООТ «РИВЦ»
291	АЛА-004138	АООТ «Бахус»
292	АЛА-004236	АООТ «Ликеро-водочный завод» ("Жансая")

**Актюбинская область**

293	АКТ-000059	ОАО «Аралтогай»
294	АКТ-000063	ОАО «Кус»
295	АКТ-000006	ОАО «ТЭЦ»
296	АКТ-000339	ОАО «Отын»
297	АКТ-000017	ОАО «Кирпичный завод»
298	АКТ-000029	ОАО «Кристалл»
299	АКТ-000030	ОАО «Актобе нан»
300	АКТ-000128	ОАО «406 ГА»
301	АКТ-000660	ОАО «Самоцветы»
302	АКТ-000505	ОАО «ХРСУ транспорта»
303	АКТ-000010	ОАО «ХСШСУ № 6»
304	АКТ-001004	ОАО «Международный аэропорт «Актобе»
305	АКТ-000535	ОАО «Троллейбусный парк»
306	АКТ-000737	ОАО «АТП № 1»
307	АКТ-001376	ОАО «Акжол АТЭП РОМП»
308	АКТ-000754	ТОО «Автовокзал»
309	АКТ-000767	ОАО «Автобусный парк №2»
310	АКТ-001001	ТОО «Мартукское ПАПТ»
311	АКТ-000975	ОАО «Хромтауское ПАТП»
312	АКТ-001021	ОАО «Октябрьское ПАТП»
313	АКТ-000034	ОАО «Максат» (МЯСОПРОМ)
314	АКТ-000597	ОАО «Актюбруно»
315	АКТ-000096	ОАО «Рахат»
316	АКТ-000094	ОАО «Ак-кемир» (ЭЛЕВАТОР)
317	АКТ-000107	ОАО «Алтын дэн»
318	АКТ-000098	ОАО «Астык»
319	АКТ-000578	ОАО «Кок-онис»
320	АКТ-000718	ТОО «Айкын»
321	АКТ-000745	ОАО «Жастык»
322	АКТ-000545	ОАО «Карабутак»
323	АКТ-000081	ОАО «Агроснаб»
324	АКТ-000084	ТОО «Аметист»
325	АКТ-000598	ТОО «Сушь»
326	АКТ-000169	ОАО «Береке»
327	АКТ-000631	ТОО «Ауыл Куаты»
328	АКТ-000705	ТОО «Наладчик»
329	АКТ-000067	ОАО «Ярославль»
330	АКТ-000748	ТОО «Жылу»
331	АКТ-000314	ТОО «Булак»
332	АКТ-000313	ОАО «Зейнет»
333	АКТ-000315	ТОО «Тулпар»("Ленинский комхоз")
334	АКТ-000317	ОАО «Мартукский комхоз»
335	АКТ-000601	ТОО «Кызметкер» (Шубаркудукский комхоз)
336	АКТ-000322	ОАО «Хобдинский комхоз»
337	АКТ-000498	ТОО «Актоблифт»
338	АКТ-001043	ОАО «Жаназольская нефтегазопроводочная экспедиция»

339 АКТ-000147 ТОО «Темир курлысы»  
340 АКТ-000950 ОАО «Спецавтотранспорта»  
341 АКТ-001358 ОАО «Горжилэнерго»  
342 АКТ-000326 ТОО «Ремсервис»  
343 АКТ-000822 ОАО «Акрабский комхоз»  
344 АКТ-001551 ОАО «Актюбинский научно-исследовательский геологоразведочный нефтяной институт»

345 АКТ-000270 ОАО «Полиграфия»  
346 АКТ-000484 ОАО «Алау»

#### Атырауская область

347 АТР-000413 ОАО «Индербор»  
348 АТР-000429 ОАО «Завод металлоизделий»  
349 АТР-000131 ОАО «БеренТест»  
350 АТР-000378 ОАО «Полипропилен»  
351 АТР-000005 ОАО «Завод им.Петровского»  
352 АТР-000432 ОАО «Атырауаулкuryлысы»  
353 АТР-005037 ОАО «Тенизаулкuryлысы»  
354 АТР-005036 ОАО «Енбек»  
355 АТР-000035 ОАО «Арна»  
356 АТР-000472 ОАО «Вахтострой»  
357 АТР-000307 ОАО «Атырауэнергострой»  
358 АТР-000014 ОАО «Нефтехимремстрой»  
359 АТР-000108 ОАО «Кульсарынефтестрой»  
360 АТР-000512 ОАО «Жайык-кuryлыс»  
361 АТР-000017 ОАО «Достык жоль»  
362 АТР-000740 ОАО «Автобусный парк»  
363 АТР-000039 ОАО «Мукур» (С/Х)  
364 АТР-000043 ОАО «Суюндук»  
365 АТР-000046 ОАО «Халел»  
366 АТР-000077 ОАО «Акбидай»  
367 АТР-000560 ТОО «Ырыс»  
368 АТР-000074 ОАО «Камкор»  
369 АТР-000075 ТОО «Агропромснаб»  
370 АТР-000019 ОАО «Кайнар»  
371 АТР-000320 ОАО «Тенизсаудауй»  
372 АТР-000015 ОАО «Алау»  
373 АТР-000134 ТОО «Бирлик»  
374 АТР-001057 ТОО «ОРС НОД-4»  
375 АТР-000147 ОАО «Фармация»  
376 АТР-000227 ТОО «Турмыс»  
377 АТР-000539 ОАО «Онерпаз»  
378 АТР-000253 ОАО «Гурьевснаб»  
379 АТР-000153 ОАО «Дезинфекция»  
380 АТР-001051 ЗАО «Лукойл-АНПЗ»  
381 АТР-005031 ТОО «СВЭТ»  
382 АТР-005032 СП «Индергипс»  
383 АТР-000568 ЗАО «Вестерн Эмбагеофизика»  
384 АТР-005033 ТОО «Атыраукомплексим»

#### Восточно-Казахстанская область

385 ВКО-000181 ОАО «Племзавод им.Абжанова»  
386 ВКО-003528 ОАО «Усть-Каменогорский завод нормализованных крепежных деталей»  
387 ВКО-000364 ОАО «Востоксвязьстрой»  
388 ВКО-000416 ОАО «Береке»  
389 ВКО-001501 ОАО «Первомайский механический завод»  
390 ВКО-003234 ТОО «Экспресс»  
391 ВКО-002003 ОАО «Большенарымское атп»  
392 ВКО-001865 ОАО «Жастар»  
393 ВКО-001314 ТОО «Агрокомплект»

394	ВКО-000197	ЗАО «Усть-Каменогорская птицефабрика»
395	ВКО-000417	ТОО «Галант»
396	ВКО-001937	ОАО «Курчумское атп»
397	ВКО-001593	ОАО «Сары-май»
398	ВКО-000275	ОАО «Таврический элеватор»
399	ВКО-000077	ОАО «Усть-Каменогорский молкомбинат»
400	ВКО-000030	ОАО «Актау»
401	ВКО-000261	ОАО «Предгорненский элеватор»
402	ВКО-001607	ОАО «Акжайлау (леспромхоз)»
403	ВКО-001693	ОАО «Алькор (электроприборы)»
404	ВКО-002010	ОАО «Асу-Булакское АТП»
405	ВКО-001595	ОАО «Берлик»
406	ВКО-001992	ОАО «Веспа»
407	ВКО-000376	ОАО «Востокжилстрой»
408	ВКО-001857	ОАО «Достык»
409	ВКО-001707	ОАО «Зырянский хлебозавод»
410	ВКО-001781	ОАО «Кен»
411	ВКО-001370	ОАО «Куат»
412	ВКО-001999	ОАО «Кунарлылык» (Маркакольский)
413	ВКО-001611	ОАО «Кунарлылык» (Зайсан)
414	ВКО-001612	ОАО «Кунарлылык» (Тарбагатай)
415	ВКО-000400	ОАО «Лениногорский геолог»
416	ВКО-000801	ОАО «Надежда»
417	ВКО-002112	ЗАО «ОРС-Ульба»
418	ВКО-001842	ОАО «Серебрянский гормолзавод»
419	ВКО-002017	ОАО «Самарское АТП»
420	ВКО-02997	ОАО «Таврическое агропромэнерго»
421	ВКО-002990	ОАО «Тарбагатайское агропромэнерго»
422	ВКО-002021	ОАО «Уланская база МТС»
423	ВКО-001312	ОАО «Усть-Каменогорское МРПО по МТС Агропрома»
424	ВКО-000173	ОАО «Шамшырак»
425	ВКО-000174	ОАО «Энергия»
426	ВКО-001186	ОАО «Алтайэнергоспецремонт»
427	ВКО-001985	ОАО «Автобусный парк 1»
428	ВКО-000023	ОАО «Белогорский горнообогатительный комбинат»
429	ВКО-002973	ОАО «Бытмебель»
430	ВКО-000423	ОАО «Востокторг»
431	ВКО-000075	ОАО «Ет-алтын»
432	ВКО-000014	ОАО «Иртышский полиметаллический комбинат»
433	ВКО-000122	ОАО «Комсомольская птицефабрика»
434	ВКО-000399	ОАО «Лазурит»
435	ВКО-000040	ОАО «Ламинат»
436	ВКО-001715	ОАО «Лениногорское АТЭП»
437	ВКО-000058	ОАО «Мако»
438	ВКО-000080	ОАО «Молоко»
439	ВКО-001309	ОАО «Маркакольская агропромтехника»
440	ВКО-003179	ОАО «Мебельщик - 2»
441	ВКО-000421	ОАО «Обувь»
442	ВКО-001729	ОАО «Усть-Каменогорск трансвзрывпром»
443	ВКО-000119	ОАО «Убинское»
444	ВКО-000124	ОАО «Усть-Каменогорский свинокомплекс»
445	ВКО-000085	ОАО «Зайсанбалык» (ТОО«Жибек Жолы» )
446	ВКО-000062	ТОО «Напитки» ( ТОО "Восток и К")
447	ВКО-001534	ОАО «Ремстройсервис» (МЧП "Востокремстрой" )
448	ВКО-002012	ОАО «Топаз» ( ТОО"Карат")
449	ВКО-000462	ОАО «Фармация» ( ТОО "Арна")
450	ВКО-000121	ОАО «Черемшанская птицефабрика» ( АО"УК \лебодукт" )
451	ВКО-000074	ОАО «Шыгыс-ет» ( ТОО"Конкордия")
452	ВКО-000114	ОАО «Усть-Каменогорские тепловые сети» ( ТОО "Иртыш Пауэр энд Лайт" )
453	ВКО-000088	ОАО «Бу старма-балык»
454	ВКО-001839	ОАО «Изумруд»

455	ВКО-000688	ОАО «Изыскатель»
456	ВКО-000018	ОАО «Усть-Каменогорский свинцово-цинковый комбинат»
457	ВКО-000020	ОАО «Зыряновский свинцовый комбинат»
458	ВКО-000017	ОАО «Лениногорский полиметаллический комбинат»
459	ВКО-003242	ЗАО «Мунай-сауда»
460	ВКО-003233	ТОО «Рекламно-информационное агентство 7 дней»
461	ВКО-001722	ОАО «Усть-Каменогорский автомобильный завод»
462	ВКО-003241	ЗАО «Усть-Каменогорск-мунай»
463	ВКО-001731	ОАО «Албикус»
464	ВКО-000267	ОАО «Хайрузовский хпп»
465	ВКО-001504	ТОО «Согринский машзавод» (Совместное Казахстанско-Российское предприятие)

466	ВКО-	ТОО «Промышленно-торговая компания "Аша"»
467	ВКО-001277	ОАО «Аягузская нефтебаза»
468	ВКО-002027	ТОО «Арай» (п. Ауэзова)
469	ВКО-000131	ОАО «Семей жолдары»
470	ВКО-002529	ТОО «Оптика-семей»
471	ВКО-000923	ОАО «Агрострой»
472	ВКО-000081	ОАО «Ак мол»
473	ВКО-000273	ОАО «Жангизтобе-Астык»
474	ВКО-001336	ТОО «Служба быта»
475	ВКО-000129	ОАО «Племзавод "Калбатау"»
476	ВКО-000052	ОАО «Акжол»
477	ВКО-000411	ОАО «Автоматторг»
478	ВКО-001506	ОАО «Алгынбарлау»
479	ВКО-001199	ОАО «Аягуз-Кендала»
480	ВКО-000232	ОАО «Аягузская база МТС Кендала»
481	ВКО-001266	ОАО «Семипалатинск Бекон»
482	ВКО-001907	ОАО «Тилею»
483	ВКО-001585	ОАО «Хозтовары»
484	ВКО-000190	ОАО «Шегелек»
485	ВКО-000182	ОАО «Шалабай»
486	ВКО-002399	ОАО «Айтуар»
487	ВКО-001600	ОАО «Бакырчикское ШПУ»
488	ВКО-000186	ОАО «Балапан»
489	ВКО-002123	ОАО «Онер»
490	ВКО-000187	ОАО «Кананерское»
491	ВКО-000180	ОАО «Семеновское»
492	ВКО-003126	ОАО «Семипалатинская нефтебаза»
493	ВКО-003135	ТОО «Агрохим»
494	ВКО-002151	ТОО «Акшоқы»
495	ВКО-000064	ОАО «Адиль»

Жамбылская область

496	ЖМБ-000365	ОАО «Аква»
497	ЖМБ-000378	ОАО «Арай»
498	ЖМБ-001344	ОАО «Арна»
499	ЖМБ-000378	ОАО «Арнабол-2»
500	ЖМБ-000231	ОАО «Асель»
501	ЖМБ-001950	ОАО «Жамбыл-Камкор»
502	ЖМБ-001934	ОАО «Жамбылводстрой»
503	ЖМБ-000646	ОАО «Жамбылгаз»
504	ЖМБ-001878	ОАО «Жамбылрыба»
505	ЖМБ-000844	ОАО «Жемис»
506	ЖМБ-000557	ОАО «Жондеуші»
507	ЖМБ-000591	ОАО «Казахстанец»
508	ЖМБ-001886	ОАО «Казремэнерго»
509	ЖМБ-001933	ОАО «Казтепломонтаж»
510	ЖМБ-000044	ОАО «Кант»
511	ЖМБ-000884	ОАО «Каратауское ПАТП»
512	ЖМБ-000175	ОАО «Каратауфосфорстрой»

513	ЖМБ-001940	ОАО «Каратаухимстрой»
514	ЖМБ-001942	ОАО «Киим»
515	ЖМБ-001943	ОАО «Коконис»
516	ЖМБ-000441	ОАО «Кордаймунайонимдери»
517	ЖМБ-002162	ОАО «Кунарлылык»
518	ЖМБ-001710	ОАО «Мерке мунайонимдери»
519	ЖМБ-000913	ОАО «Меркенское АТП»
520	ЖМБ-001889	ОАО «Меркурий»
521	ЖМБ-002182	ОАО «Нурлан»
522	ЖМБ-001857	ОАО «Ойтал»
523	ЖМБ-000842	ОАО «ОРС Зап. рудоуприие»
524	ЖМБ-000841	ОАО «ОРС-леспромхоз»
525	ЖМБ-002218	ОАО «ПМК-№3»
526	ЖМБ-000618	ОАО «Продснаб Акбакайского .ГОК»
527	ЖМБ-000835	ОАО «Разноимпорт»
528	ЖМБ-000605	ОАО «Сары тас»
529	ЖМБ-001936	ОАО «Сарыкемер»
530	ЖМБ-001895	ОАО «Саудакект»
531	ЖМБ-001363	ОАО «Сжиженный газ»
532	ЖМБ-010268	ОАО «Снежинка»
533	ЖМБ-000944	ОАО «Таксомоторный парк»
534	ЖМБ-000039	ОАО «Тараз-нан»
535	ЖМБ-001146	ТОО « Мрамор - коктал»
536	ЖМБ-001944	ТОО « Ак нур»
537	ЖМБ-010266	ТОО «Аспара-Инвест»
538	ЖМБ-000748	ОАО «Торгово-промышленная компания»
539	ЖМБ-002112	ОАО «Фармация»
540	ЖМБ-002261	ОАО «Шеберхана»
541	ЖМБ-000037	ОАО «Шекер»
542	ЖМБ-001233	ОАО «Шыны»
543	ЖМБ-000001	ОАО «Энергокомбинат»
544	ЖМБ-000043	ОАО «Тараз»
545	ЖМБ-001185	ОАО «Шарап»

**Западно-Казахстанская область**

546	ЗКО-000316	ОАО «Западно-Казахстанкая страховая фирма»
547	ЗКО-000416	ОАО «Жайыктеплоэнерго»
548	ЗКО-001182	ОАО «Аксайгазпромэнерго»
549	ЗКО-010054	ОАО «Аксайавтотранс»
550	ЗКО-000695	ОАО «Казбургаз»
551	ЗКО-001336	ОАО «Автобусный парк №-1»
552	ЗКО-001335	ОАО «Автобусный парк №-2»
553	ЗКО-010051	ОАО «Таскалагазификация»
554	ЗКО-001321	ОАО «СМУ»
555	ЗКО-000421	ОАО «Уральскоблгаз»
556	ЗКО-001227	ОАО «Аксайтагамдары»
557	ЗКО-000951	ОАО «Уральское АТП-1»
558	ЗКО-001280	ОАО «Семиглаво-марская нефтебаза»
559	ЗКО-001310	ЗАО СП «Баян-Отель»
560	ЗКО-000045	ОАО «Янайкинское»
561	ЗКО-000048	ОАО «Чидертинский»
562	ЗКО-000417	ОАО «Мироновское»
563	ЗКО-000047	ТОО «Жаикское»
564	ЗКО-010064	ОАО «Теба»
565	ЗКО-000110	ОАО «Теректинское» (АО "Агроремснаб" )
566	ЗКО-001323	ОАО «Батыс»
567	ЗКО-000111	ОАО «Жалпактаьское» ( АО "Агроремснаб" )
568	ЗКО-000125	ОАО «Уральский КХП»
569	ЗКО-000802	ОАО «Агротехсервис»
570	ЗКО-000924	ОАО «Агротехсервис Приуральный»
571	ЗКО-000781	ОАО «Акжаикское» ( АО Агроремснаб" )

572	ЗКО-001645	АО Алгоритм
573	ЗКО-001121	ОАО «АТП Тулпар» (п.Джангала)
574	ЗКО-000997	ОАО «АТП Аксай»
575	ЗКО-001019	ОАО «Батысторг»
576	ЗКО-001009	ОАО «Би»
577	ЗКО-010053	ОАО «Буровая компания Акжайк» (СП)
578	ЗКО-000422	ОАО «Бытовик»
579	ЗКО-001079	ОАО «Дарьинская ПМК»
580	ЗКО-001104	ОАО «Жалпактальская овцехладобойня»
581	ЗКО-001338	ОАО «Импульс»
582	ЗКО-000962	ОАО «Межавтотранс»
583	ЗКО-001629	ОАО «Местпром»
584	ЗКО-001086	ОАО «Монолит»
585	ЗКО-000228	ОАО «Орал-1»
586	ЗКО-000922	ОАО «Птица»
587	ЗКО-000025	ОАО «Рыба»
588	ЗКО-001324	ОАО «Самалыксай»
589	ЗКО-000105	ОАО «Сырымское» ( АО «Агроремснаб» )
590	ЗКО-001131	ОАО «Тайбырыл»
591	ЗКО-001632	ОАО «Торговый дом Меркурий»
592	ЗКО-000021	ОАО «Трикотажник»
593	ЗКО-001647	ОАО «Уральскбытмебель»
594	ЗКО-010082	ОАО «Уральский мясоконсервный комбинат»
595	ЗКО-001650	ОАО «Центр»
596	ЗКО-001651	ОАО «Чапаевское ХПП»
597	ЗКО-000718	ОАО «Шалкар»
598	ЗКО-001084	ОАО «Шебер»
599	ЗКО-001092	ОАО «Батыс-спирт завод»
600	ЗКО-001030	ОАО «Шабьт»

#### Карагандинская область

601	КРГ-000367	ОАО «Трест Казметаллургстрой»
602	КРГ-000117	ОАО «Абайская швейная фабрика»
603	КРГ-003312	ОАО «Автоваззапчасть»
604	КРГ-001686	ОАО «Автопарк № 2»
605	КРГ-001695	ОАО «Автопарк № 4»
606	КРГ-001375	ОАО «ЦОФ Сабурханская»
607	КРГ-000827	ОАО «Акмарал»
608	КРГ-000128	ОАО «Ак-тслкын»
609	КРГ- 001774	ОАО «Антенно-гарантийный Цех КМС»
610	КРГ-001714	ОАО «Арман» (Саранская швейная фабрика)
611	КРГ-000139	ОАО «АТП-3»
612	КРГ-000138	ОАО «АТП № 1»
613	КРГ-000118	ОАО «Батыр» (Карагандинская обувная фабрика)
614	КРГ-000467	ОАО «Вторма-К»
615	КРГ-000427	ОАО «Гаухар»
616	КРГ-001138	ОАО «Далажол»
617	КРГ-002295	ОАО «Дилар»
618	КРГ-001429	ОАО «Завод Бытовой Техники»
619	КРГ-000058	ОАО «Завод ЖБИ-5»
620	КРГ-001405	ОАО «Казцентрэнергострой»
621	КРГ-000095	ОАО «Казчерметавтоматика»
622	КРГ-000072	ОАО «Карагандашахтострой»
623	КРГ-000964	ОАО «Карагандаиндустрийпроект»
624	КРГ-000116	ОАО «Карагандаодежда»
625	КРГ-001899	ОАО «Карагандинское опытно-экспериментальное предприятие»
626	КРГ-001144	ОАО «Карбид»
627	КРГ-000059	ОАО «Каргормаш»
628	КРГ-001394	ОАО «КарЛада»
629	КРГ-001455	ОАО «Кент»
630	КРГ-000458	ОАО «Культторг»

631	КРГ-001161	ОАО «Марияш»
632	КРГ-000378	ОАО «Металлургжилстрой»
633	КРГ-000455	ОАО «Обувь»
634	КРГ-000108	ОАО «Ремстройдеталь»
635	КРГ-001715	ОАО «Саранская трикотажная фабрика»
636	КРГ-001767	ОАО «Сары-арка»
637	КРГ-000821	ОАО «Темир зат»
638	КРГ-002406	ОАО «Темиртауское ПАТП»
639	КРГ-000107	ОАО «Теплоприбор»
640	КРГ-000872	ОАО «Трамвайно-троллейбусный парк»
641	КРГ-000453	ОАО «Хозторг-Темиртау»
642	КРГ-001696	ОАО «Шахтинское АТП»
643	КРГ-002425	ОАО «Шахтинское ПАТП»
644	КРГ-002313	ОАО «Эколог»
645	КРГ-001357	ОАО «Южно-топарское рудоуправление»
646	КРГ-000030	ОАО «Карагандашахтуголь»
647	КРГ-002133	ОАО «Алга-информ»
648	КРГ-000833	ОАО «Карагандабытмебель»
649	КРГ-000062	ОАО «Карагандагипрошахт»
650	КРГ-001400	ОАО «Карагандарезинотехника»
651	КРГ-001171	ОАО «Металлист»
652	КРГ-002028	ОАО «Пионерский ремонтно-механический завод»
653	КРГ-000022	ОАО «Мехколонна "Казэлектросетьстрой"»
654	КРГ-000066	ОАО «Карагандауглестрой»
655	КРГ-000040	ДАО «Завод ЖБИ»
656	КРГ-002413	ДАО «Управление механизации и строительства»
657	КРГ-001088	ДАО «Управление производственно-технологической комплектации»
658	КРГ-000065	ДАО «ШСУ № 1»
659	КРГ-000057	ДАО «ШСУ № 10»
660	КРГ-000064	ДАО «ШСУ № 4»
661	КРГ-000032	ДАО «ШСУ № 6»
662	КРГ-000067	ДАО «ШСУ № 7»
663	КРГ-000039	ДАО «Деревообрабатывающий комбинат»
664	КРГ-002886	ОАО «Аэропорт «Сары-арка»
665	КРГ-001523	ОАО «Карэнергоспецремонт»
666	КРГ-000069	ТОО «Ленинское ШСУ»
667	КРГ-000077	ТОО «ШСМУ - 2»
668	КРГ-000074	ТОО «ШСУ-6»
669	КРГ-003585	ТОО «Строитель»
670	КРГ-000396	ТОО «Передвижная механизированная колонна»
671	КРГ-002315	ОАО «Механомонтаж»
672	КРГ-001684	ОАО «Куат»
673	КРГ-002873	ОАО «Карагандатеплоэнерго»
674	КРГ-003231	ТОО «Пресс-агентство»
675	КРГ-000087	ОАО «Казниуголь»
676	КРГ-000876	ОАО «Карагандаводоканал»
677	КРГ-000941	ОАО «Автокар»
678	КРГ-003415	ОАО «Жулдыз»
679	КРГ-000054	ОАО «Завод угольного машиностроения»
680	КРГ-001752	ТОО «Радуга»
681	КРГ-003226	ЗАО «Космонавт»
682	КРГ-007435	ТОО «Райс»
683	КРГ-000010	ОАО «ГЭС-1»
684	КРГ-001391	ОАО «НКМЗ»
685	КРГ-001392	ОАО «Машзавод»
686	КРГ-001143	ОАО «Экспериментальный завод»
687	КРГ-007437	ОАО «Карагандагипрошахт К»
688	КРГ-007433	ОАО «Гордорстрой»
689	КРГ-000189	ОАО «Бастау»
690	КРГ-000185	ОАО «Кокпекты»

691	КРГ-001286	ОАО «Кайнар»
692	КРГ-000210	ОАО «Жараспай»
693	КРГ-000168	ОАО «Карагандинец»
694	КРГ-000223	ОАО «Достык»
695	КРГ-000275	ОАО «Мичуринское ПМС»
696	КРГ-001513	ОАО «Балапан»
697	КРГ-000229	ОАО «Медео»
698	КРГ-000283	ОАО «Казыбекбийское АПЭ»
699	КРГ-000304	ОАО «Коктас»
700	КРГ-000279	ОАО «Каркаралинская РАПТ»
701	КРГ-000201	ОАО «Изенды»
702	КРГ-000282	ТОО «Агропромсервис»
703	КРГ-000289	ОАО «Бирлистик»
704	КРГ-000131	ОАО «Ет»
705	КРГ-000294	ОАО «Астык онимдери»
706	КРГ-	ТОО «Темиртау РАПТ»
707	КРГ-000140	ОАО «Шахтинский ГМЗ»
708	КРГ-001518	ОАО «Темиртауский ГМЗ»
709	КРГ-002730	ТОО «Центральный»
710	КРГ-003613	ТОО «Каймак»
711	КРГ-007454	ОАО «Завод металлоизделий»
712	КРГ-007449	ЗАО «Казахстанско-американский реабилитационный центр»
713	КРГ-007438	ОАО «Региональный акушерско-гинекологический центр»
714	КРГ-007453	ОАО «5-ый канал»
715	КРГ-007432	ДАО «ШСУ-3» ГАО "Карагандашахтогострой"
716	КРГ-007451	ДАО «Карагандашахтопроходка»
717	КРГ-007455	ДАО «Саранское ШСУ»
718	КРГ-007450	ОАО «Тентекстрой»
719	КРГ-007452	ОАО «Абайское ШСУ»
720	КРГ-000089	ОАО «Казахмарганец»
721	КРГ-001159	ОАО «Атасуруда»
722	КРГ-001402	ОАО «Акчатау кен байыту комбинаты»
723	КРГ-001135	ТОО «Родусит»
724	КРГ-001603	ТОО «Айсулту»
725	КРГ-000835	ОАО «Гарант»
726	КРГ-000088	ОАО «Каражалшахтогострой»
727	КРГ-001453	ОАО «Жайремкурылыс»
728	КРГ-003406	ОАО «Каражалтранс»
729	КРГ-002232	ОАО «Жайремавтоколик»
730	КРГ-001519	ОАО «Зенги»
731	КРГ-001272	ОАО «Жарык»
732	КРГ-000287	ОАО «Акку»
733	КРГ-003547	ОАО «Береке» (г. Балхаш)
734	КРГ-001496	ОАО «Алма»
735	КРГ-001495	ОАО «Жемис»
736	КРГ-000831	ОАО «Алаугаз»
737	КРГ-001946	ОАО «Отын»
738	КРГ-001179	ОАО «Жезказган мунай онимдери»
739	КРГ-001181	ОАО «Балхаш мунай онимдери»
740	КРГ-002126	ОАО «Агалдырь мунай онимдери»
741	КРГ-001183	ОАО «Жана-Арка мунай онимдери»
742	КРГ-001182	ОАО «Жарык мунай онимдери»
743	КРГ-002104	ОАО «Жезды мунай онимдери»
744	КРГ-001184	ОАО «Кзыл-Жар мунай онимдери»
745	КРГ-001180	ОАО «Актогай мунай онимдери»
746	КРГ-002927	ОАО «Теплосеть» (г. Жезказган)
747	КРГ-002926	ОАО «Водоканал» (г. Жезказган)
748	КРГ-003039	ОАО «Жандос»
749	КРГ-001085	ОАО «Жалгас» (Жанааркинский р-н)
750	КРГ-002788	ТОО «Айдана»



751 КРГ-000124 ОАО «Бірлік» (Ликеро-водочный завод)

**Кызылординская область**

752 КЗО-000004 ОАО «ТЭЦ»  
753 КЗО-001253 ОАО «Кызылорда Главтара»  
754 КЗО-000143 ТОО "Ел ырысы"  
755 КЗО-007428 ОАО "КМРТЦ"  
756 КЗО-000060 ОАО "Акмаржан"  
757 КЗО-000509 ОАО "Шалкинское рудоуправление"  
758 КЗО-000794 ОАО "Ынтымак"  
759 КЗО-001072 ОАО "Маршрут"  
760 КЗО-001085 ОАО "Катынас"  
761 КЗО-000421 ТОО "Теренозек сут"  
762 КЗО-000432 ОАО "Казалымунайкоймасы"  
763 КЗО-000574 ОАО "Аккайнар"  
764 КЗО-000429 ОАО "Жосалымунай"  
765 КЗО-007426 ОАО "Арна"  
766 КЗО-000054 ТОО "Жанакорганротехника"  
767 КЗО-000059 ОАО "Агропромтехника"  
768 КЗО-000064 ОАО "Бесарыкастык"

**Костанайская область**

769 КСТ-000204 ОАО «Джаркульский элеватор»  
770 КСТ-000173 ОАО «Джетыгаринский КХП»  
771 КСТ-000167 ОАО «Мелькомбинат»  
772 КСТ-010353 ОАО «Ел-Ырысы»  
773 КСТ-000217 ОАО «Достык (Торгай)»  
774 КСТ-000221 ОАО «Колос»  
775 КСТ-000220 ОАО «Сары-Арка»  
776 КСТ-000904 ОАО «Гормолзавод»  
777 КСТ-001128 ОАО «Кайнар»  
778 КСТ-001129 ОАО «Сельхозтехника (Денисовский)»  
779 КСТ-000144 ОАО «Техсервиз»  
780 ТРГ-000016 ОАО «Амантогай»  
781 КСТ-000155 ОАО «Арка»  
782 КСТ-000226 ОАО «Жарык»  
783 КСТ-000154 ОАО «Жана-Камдаушы»  
784 КСТ-001065 ОАО «Сары-Жайлау»  
785 ТРГ-000163 ОАО «Торгайагропромтехника»  
786 КСТ-000895 ОАО «Зооветснаб (Торгай)»  
787 КСТ-001167 ОАО «Тулпар (Октябрь)»  
788 КСТ-000295 ТОО «Тулпар (Аркалык)»  
789 КСТ-002152 ТОО «Курылышы»  
790 КСТ-000293 ТОО «Стройтехника»  
791 КСТ-001080 ТОО «Торгайсельстройснаб»  
792 КСТ-002153 ТОО «Уста»  
793 КСТ-000926 ОАО «АРЭН»  
794 КСТ-001360 ОАО «Кунарлылык (Торгай)»  
795 КСТ-000985 ТОО «Агат»  
796 КСТ-000032 ОАО «Алтын Су»  
797 КСТ-001100 ТОО «Заречное ГПП»  
798 КСТ-001232 ОАО «Кирпичный завод»  
799 КСТ-002127 ОАО «Жалын (Костанайотын)»  
800 КСТ-001145 ОАО «Кустанайасбест»  
801 КСТ-001111 ОАО «Рудненская ГРЭ»  
802 КСТ-000585 ТОО «Стром»  
803 КСТ-000872 ТОО «Керамика»  
804 КСТ-001314 ОАО «Местпром» (Торгай)  
805 КСТ-000995 ОАО «Железобетонстройматериалы»  
806 КСТ-000159 ОАО «Кустанайсельхозстроймонтаж»  
807 КСТ-001032 ОАО «Торгайалюминстрой»

808	КСТ-000237	ТОО «Водник»
809	КСТ-001736	ОАО «Аэропорт-Кустанай»
810	КСТ-000129	ОАО «Аркалыкавтотранс»
811	КСТ-002151	ТОО «Нуралы»
812	КСТ-000096	ОАО «Жемис (плодоовощная база)»
813	КСТ-001196	ТОО «Гарант»
814	КСТ-001199	ОАО «Сосновый бор»
815	КСТ-000778	ТОО «Железнодорожник»
816	КСТ-000602	ОАО «Кустанайспецтранс»
817	КСТ-001081	ОАО «Камкор»
818	КСТ-000800	ОАО «Табигат сийы»
819	КСТ-001525	ОАО «Торгайсауда»
820	КСТ-001336	ОАО «Швейобувьторг»
821	КСТ-000878	ОАО «Торгайпроектсервис»
822	КСТ-000949	ОАО «Кустанайский спиртоводочный завод»

#### Мангистауская область

823	МНГ-000001	ОАО «Шетпемунайонимдери»
824	МНГ-000021	ОАО «Мурагер»
825	МНГ-000023	ОАО «Казахрыбфлот»
826	МНГ-000028	ОАО «Куланды»
827	МНГ-000031	ОАО «Карагантубек»
828	МНГ-000034	ОАО «Бейнеуагропромтехника»
829	МНГ-000037	ОАО «Мангистау Кен дала»
830	МНГ-000038	ОАО «Мангистауастык»
831	МНГ-000045	ОАО «Мангистауавиа»
832	МНГ-000063	АО «Управление производственно-технической комплектации»
833	МНГ-000069	ТОО «Мангистауагропромпроект»
834	МНГ-000074	ОАО «Шетпекурылыс»
835	МНГ-000081	ОАО «Косбулак»
836	МНГ-000149	ОАО «Камкор»
837	МНГ-000160	ОАО «Шагала»
838	МНГ-000208	ОАО «Мангистау электромонтаж автоматика»
839	МНГ-000233	ОАО «Актаумунайонимдери»
840	МНГ-000234	ОАО «Таукел»
841	МНГ-000254	ОАО «Мангистау турмыс»
842	МНГ-000292	ОАО «Ак кус»
843	МНГ-000301	ОАО «Мангистауводстрой»
844	МНГ-000304	ОАО «Ак тас»
845	МНГ-000317	ОАО «Рекон»
846	МНГ-000330	АТК «Арна»
847	МНГ-000358	ОАО «Пластик»
848	МНГ-000364	ОАО «Западно-Казахстанское метрологическое управление»
849	МНГ-000377	ОАО «Жибек жолы»
850	МНГ-000385	ОАО «Денсаулык»
851	МНГ-000398	АО «Мангистаутрансaгенство»
852	МНГ-000417	ОАО «Мангистаугеология»
853	МНГ-000455	ОАО «Катынас»
854	МНГ-000469	ОАО «Монтажно-строительное управление-104»
855	МНГ-000511	ОАО «Центр малого бизнеса»
856	МНГ-000521	ТОО «Ушкын»
857	МНГ-000567	ОАО «Ремстройсервис»
858	МНГ-000573	ОАО «МААктау»
859	МНГ-000584	ОАО «Жолаушы»
860	МНГ-000694	ТОО «Ауыл»
861	МНГ-000695	ТОО «Ата мекен»
862	МНГ-000706	ОАО «Улутас»
863	МНГ-000712	ОАО «Объединенное котельное»
864	МНГ-010346	ОАО «Мангистауарнайы курылыс»
865	МНГ-010347	ОАО «Озенжондеу курылыс баскармасы»
866	МНГ-010348	ОАО «Озен коммунал сервис»

867	МНГ-010349	ОАО «Куат сервис»
868	МНГ-010350	ОАО «Су жылу жабдыктары»
869	МНГ-010351	ОАО "Электро жойлеры"
870	МНГ-010362	ТОО "Жасулан"
871	МНГ-010364	ТОО "Когез"

#### Павлодарская область

872	ПВЛ-001421	ОАО «Аккумуляторные батареи»
873	ПВЛ-000029	ОАО «ПКТИАМ»
874	ПВЛ-001675	ОАО «Павлодарэлектронмаш»
875	ПВЛ-000451	ОАО «Павлодарский кожсырьевой завод»
876	ПВЛ-010465	ЗАО «Любол» (СП)
877	ПВЛ-000559	ОАО «Стройиндустрия»
878	ПВЛ-000753	ОАО «Тон»
879	ПВЛ-000603	ОАО «Химпром»
880	ПВЛ-000017	ОАО «Экибастузкомир»
881	ПВЛ-000774	ОАО «Гарант»
882	ПВЛ-000606	ОАО «Экибастузэнергоремонт»
883	ПВЛ-001193	ОАО «Энергокотлоочистка» (Экибастуз)
884	ПВЛ-001638	ОАО «Павлодаршина»
885	ПВЛ-001275	ОАО «Павлодартехэнерго»
886	ПВЛ-000005	ОАО «Павлодарская ТЭЦ-2»
887	ПВЛ-000012	ОАО «Павлодарская ТЭЦ-3»
888	ПВЛ-000007	ОАО «Севказэнергоремонт»
889	ПВЛ-000009	ОАО «Павлодарские тепловые сети»
890	ПВЛ-007769	ОАО «РОК-1»
891	ПВЛ-010230	ОАО «Тепловик»
892	ПВЛ-000682	ОАО «Факел»
893	ПВЛ-001141	ОАО «Павлодарский фармацевтический завод»
894	ПВЛ-007771	ОАО «Торт-Кудук»
895	ПВЛ-000793	ОАО «Казэнергокабель»
896		ОАО «Теплокоммунэнерго»
897	ПВЛ-000560	ОАО «Казэнергопроект»
898	ПВЛ-000361	ОАО «Павлодаргражданпроект»
899	ПВЛ-001024	ЗАО «Баянаульское ПАТП»
900	ПВЛ-001385	ЗАО «Качирское ПАТП»
901	ПВЛ-001029	ОАО «Иртышское ПАТП»
902	ПВЛ-000815	ОАО «Аксуское ПАТП»
903	ПВЛ-001384	ЗАО «Междугородние и пригородные перевозки»
904	ПВЛ-000818	ОАО «Автобусный парк № 2»
905	ПВЛ-007772	ЗАО «Павлодарпассажир-транссервис»
906	ПВЛ-007778	ОАО «Жоламан»
907	ПВЛ-007779	ЗАО «Азия» г. Экибастуз
908	ПВЛ-007777	ОАО «Канат» г. Экибастуз
909	ПВЛ-007781	ОАО «Саяхат» г. Экибастуз
910	ПВЛ-001442	ОАО «Аксуское АТП»
911	ПВЛ-000428	ОАО «Автобаза спецмашин»
912	ПВЛ-000440	ОАО «Комплекс-сервис»
913	ПВЛ-001695	ЗАО «Горзеленстрой»
914	ПВЛ-000618	ОАО «Павлодарлифт»
915	ПВЛ-001696	ЗАО «Павлодаргорсвет»
916	ПВЛ-007770	ОАО «Коммунальщик»
917	ПВЛ-007774	ЗАО «Турмыс» г. Аксу
918	ПВЛ-007773	ОАО «Горводоканал» г. Аксу
919	ПВЛ-007775	ОАО «Горводоканал» г. Павлодар
920	ПВЛ-010214	ОАО «Горводоканал» г. Экибастуз
921	ПВЛ-001303	ОАО «КРЭХ» г. Экибастуз
922	ПВЛ-000427	ОАО «Сакура» г. Экибастуз
923	ПВЛ-001312	ОАО «Управление газового хозяйства» г. Экибастуз
924	ПВЛ-000382	ОАО «Павлодартурист»
925	ПВЛ-000988	ОАО «Комирбанк»

926	ПВЛ-000016	ОАО «Разрезстрой»
927	ПВЛ-000031	ОАО «Калкаманский завод дормаш»
928	ПВЛ-000950	ОАО «Сигран»
929	ПВЛ-000001	ОАО «Метакон»
930	ПВЛ-001431	ОАО «Аксупромжилстрой»
931	ПВЛ-001265	ОАО «СпецРемСУ» (Экибастуз)
932	ПВЛ-001131	ОАО «Аксуский хлебозавод»
933	ПВЛ-001315	ОАО «Мельзавод 13»
934	ПВЛ-001314	ОАО «Комбикормовый завод»
935	ПВЛ-000927	ОАО «Нан» г Экибастуз
936	ПВЛ-000118	ОАО «Бирлик Лебяжье»
937	ПВЛ-000115	ОАО «Железинская агропромтехника»
938	ПВЛ-000041	ОАО «Бирлик.Экибастуз»
939	ПВЛ-007856	ОАО «Фрегат»
940	ПВЛ-007857	ОАО «Агроэкспертсервис»
941	ПВЛ-000168	ОАО «Гидросервис»
942	ПВЛ-010426	ОАО «Бастау»
943	ПВЛ-000199	ОАО «Павлодарский Домостроительный комбинат»
944	ПВЛ-000529	ОАО «Экибастузшахтокурылыс»
945	ПВЛ-000538	ОАО «Асыл»
946	ПВЛ-010498	ОАО «Аксу-транссервис»
947	ПВЛ-001369	ОАО «Экибастуз АВИА»
948	ПВЛ-000635	ОАО «Автомобилист»
949	ПВЛ-000648	ОАО «Дана»
950	ПВЛ-000220	ОАО «Шыгыс»
951	ПВЛ-001122	ОАО «Торговый дом "Береке"» г.Экибастуз
952	ПВЛ-001133	ОАО «Кристалл»
953	ПВЛ-000545	ОАО «Головное предприятие агрофирмы Ермаковская»
954	ПВЛ-000067	ОАО «Авангард»
955	ПВЛ-000066	ОАО «Щербактинская птицефабрика»
956	ПВЛ-000956	ОАО «Иртышский РМЗ»
957	ПВЛ-001671	ОАО «Дружба»
958	ПВЛ-000059	ОАО «Павлодарская птицефабрика»
959	ПВЛ-000138	ОАО «Рождественский элеватор»
960	ПВЛ-000146	ОАО «Бошекульский ХПП»
961	ПВЛ-000114	ОАО «ПАРМ п Ленинский»
962	ПВЛ-000113	ОАО «Песчанский РМЗ»
963	ПВЛ-000914	ОАО «Щербактинский РМЗ»
964	ПВЛ-000107	ОАО «Кунарлылык»
965	ПВЛ-000159	ОАО «Комбинат строительных материалов»
966	ПВЛ-000605	ОАО «Управление промышленных предприятий»
967	ПВЛ-001452	ОАО «Иртыш-Лада»

Северо-Казахстанская область

968	СКО-001705	ОАО «Киялинский маслозавод»
969	СКО-003986	ОАО «Молочный союз»
970	СКО-002007	ОАО «Кокше Сут»
971	СКО-000024	ОАО «Кожевенный завод»
972	СКО-000884	ОАО «Медет»
973	СКО-001663	ОАО «Кокше бау»
974	СКО-002010	ОАО «Жихаз»
975	СКО-001776	ОАО «Опытный завод»
976	СКО-000451	ОАО «Кокшетаусельстрой 2»
977	СКО-001396	ОАО «Монолитстрой»
978	СКО-001476	ОАО «Тимирязевское АТП Агропромтранса»
979	СКО-000352	ОАО «Петропавловскавиа»
980	СКО-002073	ОАО «Боголюбовское Автотранс»
981	СКО-003094	ОАО «Троллейбусный парк»
982	СКО-003095	ОАО «Автобусный парк»
983	СКО-002035	ОАО «Щучинское ПАТП»
984	СКО-000289	ОАО «Булаевский элеватор»

985	СКО-000294	ОАО «Тахтабродский элеватор»
986	СКО-000293	ОАО «Айыртау»
987	СКО-000296	ОАО «Енбек»
988	СКО-000227	ОАО «Куйбышевское»
989	СКО-001635	ОАО «Достар»
990	СКО-000253	ОАО «Майское ХПП»
991	СКО- 000224	ТОО «Агропромкомплект»
992	СКО-000212	ОАО «Согласие»
993	СКО-001684	ОАО «Шынар»
994	СКО-001479	ОАО «Айыртауская агропромтехника»
995	СКО-001677	ОАО «Чкаловская агропромтехника»
996	СКО-001612	ОАО «Володарский РМЗ»
997	СКО-001620	ОАО «Краснополянский РМЗ»
998	СКО-001618	ОАО «Летовочное РМЗ»
999	СКО-000202	ОАО «Темир»
1000	СКО-000410	ОАО «Щучинский агрореммаш»
1001	СКО-001774	ОАО «Агропромэнерго»
1002	СКО-002049	ОАО «Энергия»
1003	СКО-000137	ОАО «Щучинская птицефабрика»
1004	СКО-001690	ОАО «Акколь»
1005	СКО-000157	ОАО «Большой изюм»
1006	СКО-000491	ОАО «Азат»
1007	СКО-001023	ОАО «Булаевская нефтебаза»
1008	СКО-001029	ОАО «Петропавловскотын»
1009	СКО-002251	ОАО «Бурабай конак уиі»
1010	СКО-003016	ОАО «Кокшетауская страховая фирма "Кокше»
1011	СКО-002280	ОАО «Кокшетауский автовокзал»
1012	СКО-000824	ОАО «Санаторий "Светлый»
1013	СКО-000825	ОАО «Дом отдыха "Зерен»
1014	СКО-000028	ОАО «Айдабульский спиртзавод»
1015	СКО-000027	ОАО «Асыл-су»

**Южно-Казахстанская область**

1016	ЮКО-000026	ОАО «Ачполиметалл»
1017	ЮКО-000039	ОАО «Карданвал»
1018	ЮКО-000899	ОАО «Шымкентские ТЭЦ»
1019	ЮКО-000013	ОАО «Шымкентская ТЭЦ - 3»
1020	ЮКО-000025	ОАО «Шымкентский свинцовый завод»
1021	ЮКО-000043	ОАО «Жихаз»
1022	ЮКО-001327	ОАО «Шымтемир»
1023	ЮКО-001079	ОАО «Техостнастка»
1024	ЮКО-000037	ОАО «ШПО Кузнечно-прессового оборудования»
1025	ЮКО-003699	ОАО «Темирбетон»
1026	ЮКО-000051	ОАО «Яссы»
1027	ЮКО-000602	ОАО «Макташы»
1028	ЮКО-003690	ОАО «Кентау Нан»
1029	ЮКО-002184	ОАО «Онтустик Нан»
1030	ЮКО-001068	ОАО «МКМ Арыс»
1031	ЮКО-000076	ОАО «Кумыш Балык»
1032	ЮКО-001639	ОАО «Сырдарья балык»
1033	ЮКО-001238	ОАО «Электрод»
1034	ЮКО-010210	ОАО «Химреактив»
1035	ЮКО-010205	ОАО «Стройпластдеталь»
1036	ЮКО-001901	ТОО «Тимур ЛТД»
1037	ЮКО-000009	ОАО «Алауаз»
1038	ЮКО-003627	ОАО «Курылышы»
1039	ЮКО-001386	ОАО «Вермикулит»
1040	ЮКО-000287	ОАО «Трест Туркестанстрой»
1041	ЮКО-000032	ОАО «Ремонтник»
1042	ЮКО-001072	ОАО «Профтехсервис»
1043	ЮКО-000022	ОАО «Шинремстрой»

1044	ЮКО-000861	ОАО «Казиветпромэкология»
1045	ЮКО-001643	ОАО «Казахстаннефтегаз»
1046	ЮКО-000027	ОАО "Цветметремонт"
1047	ЮКО-001407	ОАО «ПМК Казкаракуль»
1048	ЮКО-000244	ОАО «АСПО "Шымкентмелиорация»
1049	ЮКО-001210	ОАО «Туркестантау темиржолы»
1050	ЮКО-000258	ОАО «Аэропорт "Шымкент"»
1051	ЮКО-001493	ЗАО «Шымкентское АТП»
1052	ЮКО-003355	ОАО «Ак Бозат»
1053	ЮКО-003356	ОАО «Автобус-сервис»
1054	ЮКО-003503	ОАО «Шымкентский автобусный парк № 4»
1055	ЮКО-003349	ОАО «Авторемонтник»
1056	ЮКО-003260	ОАО «Шымкентский автобусный парк № 5»
1057	ЮКО-000082	ОАО «Дармене»
1058	ЮКО-000099	ОАО «Коксарай»
1059	ЮКО-004028	ОАО «Туркестанская РАПТ»
1060	ЮКО-003696	ОАО «Махтааральская РАПТ»
1061	ЮКО-003417	ОАО «Кировская сельхозхимия»
1062	ЮКО-000161	ОАО «Жетысайагросервис»
1063	ЮКО-001526	ОАО «Казыгуртское ремонтное предприятие»
1064	ЮКО-001729	ОАО «Наргиза»
1065	ЮКО-001307	ЗАО «Мелкооптовая база»
1066	ЮКО-000106	ОАО «Шылгаубай»
1067	ЮКО-000885	ОАО «Достык»
1068	ЮКО-000936	ОАО «Жылу»
1069	ЮКО-001305	ТОО «Центр малого бизнеса "Комек"»
1070	ЮКО-001221	ОАО «Ел колиги»
1071	ЮКО-003973	ОАО «Сузак мунайонимдери»
1072	ЮКО-000460	ТОО «Сеним»
1073	ЮКО-003527	ТОО «Альянс»
1074	ЮКО-003411	ОАО «Шымкентгаз»
1075	ЮКО-003686	ОАО «Шымкенткаракуль»
1076	ЮКО-010228	ОАО «Южгаз»
1077	ЮКО-010312	ОАО «Шымкент-тепло»
1078	ЮКО-003692	ОАО «Модуль»

ПЕРЕЧЕНЬ АКЦИОНЕРНЫХ ОБЩЕСТВ И ХОЗЯЙСТВЕННЫХ ТОВАРИЩЕСТВ, ГОСУДАРСТВЕННЫЕ ПАКЕТ  
АКЦИЙ И ДОЛИ КОТОРЫХ ОТНЕСЕНЫ К РЕСПУБЛИКАНСКОЙ СОБСТВЕННОСТИ

№ п/п	Уникальный код	Наименование организации
1	2	3
<b>Акмолинская область</b>		
1.	АКМ-000012	ОАО «Казахалтын»
2.	АКМ-001573	ОАО «Целинный Горно-химический комбинат»
3.	АКМ-000127	ОАО «Комсомольский ремонтно-механический завод»
4.	АКМ-001433	ОАО «Биомедпрепарат»
5.	АКМ-000017	ОАО «Макинский завод поршневых колец»
6.	АКМ-001105	ОАО «Юбилейный»
7.	АКМ-000702	ОАО «Акмолаасыл»
8.	АКМ-000090	ОАО «Племзавод Балкашинский»
9.	АКМ-002294	ОАО «Красноярское»
10.	АКМ-001921	ОАО «Прогресс»
11.	АКМ-002442	ОАО «Аминокислоты»
12.	АКМ-000346	ОАО «Степгеология»
13.	АКМ-002441	ОАО «Биопрепарат»
<b>г.Астана</b>		
14.	АКМ-002482	ОАО «Акмолинская нефтебаза»
15.	АКМ 000947	ОАО «Акмолинская распределительная сетевая компания» (АРЭК)
16.	АКМ-002143	ОАО «Аэропорт-Акмола»
17.	АКМ-000251	ОАО «Акмолавиа»
18.	АКМ-002445	ОАО «Акмоласельмаш»
19.		ЗАО «Индустриальный парк»
20.		ЗАО «Фонд финансовой поддержки сельского хозяйства»
21.	АКМ-010257	ТОО «Авиакомпания Целина»
<b>Алматинская область</b>		
22.	АЛМ-000195	ОАО «Бурундайавиа»
23.	АЛМ-000051	ОАО «Госплемзавод им.Кастек-батыра»
24.	АЛМ-002562	ОАО «Талдыкорганская распределительная электросетевая компания»
25.	АЛМ-009007	ОАО «Талдыкорганская акционерная транспортно-электросетевая компания» («ТАТЭК»)
26.	АЛМ-009010	ОАО «Талдыкорганский РЭС»
27.	АЛМ-009012	ОАО «Саркандский РЭС»
28.	АЛМ-009011	ОАО «Сарыозекский РЭС»
29.	АЛМ-009014	ОАО «Уштобинский РЭС»
30.	АЛМ-009016	ОАО «Жаркентский РЭС»
31.	АЛМ-009015	ОАО «Коксуский РЭС»
32.	АЛМ-009008	ОАО «Карабулакский РЭС»
33.	АЛМ-009017	ОАО «Текелийский РЭС»
34.	АЛМ-009009	ОАО «Аксуский РЭС»

35. АЛМ-009013 ОАО «Алакольский РЭС»
36. АЛМ-000196 ОАО «Авиакомпания "Жетысу"»
37. АЛМ-000580 ОАО «Алматы»
38. АЛМ-000082 ОАО «Асыл»
- г. Алматы
39. АЛА-000080 ОАО «Фирма Казтехэнерго»
40. АЛА-000083 ОАО «Алматинский электромеханический завод»
41. АЛА-000461 ОАО «Торговый дом "Зангар"»
42. АЛА-001873 ОАО «Аэропорт-Алматы»
43. АЛА-002281 ОАО СП «Электромаш»
44. АЛА-004223 ОАО СП "Белкамит" ("Гидромаш")
45. ЗАО «Научно-исследовательский институт транспорта»
46. АЛА-000056 ОАО «Акционерный Народный Банк Республики Казахстан»
47. АЛА-000068 ОАО «Казремэнерго»
48. АЛА-000079 ОАО «Казахский НИИ Энергетики имени академика Чокина»
49. АЛА-000095 ОАО «Найза» (Ауэзовский)
50. АЛА-000099 ОАО «Станкостроительный завод»
51. АЛА-000100 АООТ «Алматинский ювелирный завод»
52. АЛА-000220 ОАО «Казахское НПО Механизации и электрификации сельского хозяйства» (НПО Казсельхозмеханизация)
53. АЛА-000256 АООТ «Ырысты-АЭВРЗ» (Ауэзовский)
54. АЛА-000289 ОАО «Академия гражданской авиации»
55. АЛА-000407 ОАО «Алматыавтоматика»
56. АЛА-000409 ОАО «Казахстанский дорожный НИИ»
57. АЛА-000439 АООТ «Поисково-съёмочная экспедиция Изденис»
58. АЛА-000758 ОАО «Казэнергоремонт»
59. АЛА-000855 ОАО «Каздорпроект»
60. АЛА-000869 ОАО «Постоянно-действующие курсы повышения квалификации кадров Министерства финансов Республики Казахстан»
61. АЛА-000949 ОАО ПО «Казремэнерго»
62. АЛА-001011 ОАО «Казахстанский Научно-исследовательский - Проектно-конструкторский и Изыскательский институт»
63. АЛА-001116 ОАО «Пансионат "Ак-булак"»
64. АЛА-001211 ОАО «Республиканский информационно-компьютерный центр»
65. АЛА-001232 ОАО «Электромонтаж»
66. АЛА-001236 УПТК АО «Электромонтаж»
67. АЛА-001293 АООТ «Научно-производственный центр Мунай»
68. АЛА-001308 ОАО «Казниицветмет»
69. АЛА-001310 ОАО «Алматинский опытно-экспериментальный завод» (Московский)
70. АЛА-001499 ОАО «Казахский Радиотехнический завод»
71. АЛА-001508 ОАО АБ «Центркредит»
72. АЛА-001523 ОАО «Казэнергопромбанк»
73. АЛА-001638 АООТ «Алматыметрострой»
74. АЛА-001698 ТОО «Джаулы-Кезень при Тянь-Шанской высокогорной научной станции Физинститута РОСАН»
75. АЛА-001702 ОАО «Алматинский завод «Электробытприбор»
76. АЛА-001782 ТОО «Лайтас» при Объединении Стройинвест Концерна Казахстанстрой»
77. АЛА-001810 ТОО «Универсальная брокерская фирма «Брок-фаст»
78. АЛА-001952 ОАО «НИИ «Институт транспорта» (Алатауский)



79. АЛА-002010 АОЗТ «Сайман»
80. АЛА-002248 ОАО «Акционерный Центральный Азиатский Банк»
81. АЛА-002303 ТОО «Малос Государственное УНПП «Онер» при НТЦ «Легпром»
82. АЛА-002355 ОАО "Компания по автомобилестроению и авторемонтному производству «Желдірме»
83. АЛА-002423 ОАО «Национальный центр по радиоэлектронике и связи Республики Казахстан»
84. АЛА-002612 АООТ «Казцветметремонт» (Московский)
85. АЛА-002681 АК «Зан газеті «Юридическая газета»
86. АЛА-002765 ОАО «Казакхтелеком»
87. АЛА-002820 АБ «Аверсбанк»
88. АЛА-002864 СМУ АООТ «Алматыметрострой» (Московский)
89. АЛА-002890 АОЗТ «Казахстанский центр поддержки и развития предпринимательства»
90. АЛА-002993 АОЗТ «Продовольственная контрактная корпорация»
91. АЛА-003120 АООТ «Транснациональная компания «Казхром»
92. АЛА-003130 АОЗТ «Казахстанские телекоммуникации»
93. АЛА-003144 ТОО «Алматинский высший индустриально-экономический колледж»
94. АЛА-003256 ОАО «Агентство по реорганизации и ликвидации предприятий»
95. АЛА-003834 ОАО "ННК "Казахойл"
96. АЛА-003949 ТОО «АК-Лгд»
97. АЛА-004142 ЗАО «Эксимбанк Казахстан»
98. АЛА-004203 ОАО «Мунай-Импэкс»
99. АЛА-004234 ОАО "Казакхелефильм"
100. АЛА-005022 АОЗТ (НКТН) "Казтрансойл"
101. АЛА-005032 ОАО «Транспетролум»
102. АЛА-005033 ЗАО «Государственный накопительный пенсионный фонд»
103. АЛА-005035 ЗАО «Эйр Казахстан»
104. АЛА-005039 АООТ «Казахстанская компания по управлению электрическими сетями ("KEGOC") »
105. АЛА-000359 ОАО «Научно-техническая ассоциация АН Республики Казахстан «Айтан»
106. АЛА-000389 ОАО «Республиканское ПЭО Национального Агентства по делам печати и массовой информации Республики Казахстан»
107. АЛА-002940 ТОО «Еженедельный вестник» (Газета «КРУИЗ Т & М»)
108. НАК «Казатомпром»
109. ЗАО «Национальная компания Шелковый путь -Казахстан»
110. АООТ «Асыл»
111. ЗАО «Агентство Хабар»
112. ЗАО «ХОЗУ»
113. ЗАО «Казахинстрах»
114. ЗАО «Национальная инвестиционная финансовая акционерная компания "НСБК-групп»
115. ЗАО «Национальная морская судоходная компания Казмортрансфлот»
116. ЗАО «Фонд развития малого предпринимательства»
117. ОАО «Онiм»
118. ЗАО «Жетi жаргы»
119. ЗАО «Алматинский институт экономики и статистики»
120. ЗАО «Национальный центр по радиоэлектронике и связи»
121. ЗАО «Национальная юридическая служба Республики Казахстан»
122. АО «Агентство воздушных сообщений»

123. ЗАО «Центр межбанковских и финансовых телекоммуникаций»

**Актюбинская область**

124. АКТ-001378 ОАО «Актурбо»  
125. АКТ-001534 ОАО «Вертолетная компания "Евро-Азия -Эйр"»  
126. АКТ-001006 ОАО «Актюбэнерго»  
127. АКТ-000009 ОАО «Донской ГОК»  
128. АКТ-000516 ОАО «Феррохром»  
129. АКТ-000580 ОАО «Актюбемунайгаз»  
130. АКТ-000234 ОАО «Актюбрентген»  
131. АКТ-000012 ОАО «Юбилейный»  
132. АКТ-000667 ОАО «Актюбавиа»

133. АКТ-000061 ОАО «Актобе»

**Атырауская область**

134. АТР-000984 ОАО «Атырауская РЭК»  
135. АТР-000321 ОАО «Каспиймунайавтоматика»  
136. АТР-000554 ОАО «Шельф»  
137. АТР-000697 ЗАО «Атма-Аэропорт Атырау и перевозки»  
138. АТР-000013 ОАО «Атырауский нефтеперерабатывающий завод»  
139. АТР-000008 ОАО «Каспиймунайбайланыс»  
140. АТР-000308 ОАО «Эмбамунайгеофизика»  
141. АТР-000910 ОАО «Атырауаэропорты»  
142. АТР-000921 ОАО «Атырауауежоль»  
143. АТР-000095 ОАО «Атырауавиа»  
144. АТР-000045 ОАО «Есбол»  
145. АТР-000252 ОАО «Атырау»

**Восточно-Казахстанская область**

146. ВКО-000342 ОАО «Востокавиа»  
147. ВКО-000817 ОАО «Восточно-Казахстанское Речное Пароходство»  
148. ВКО-000036 ОАО «Завод пневмоавтоматики»  
149. ВКО-000024 ОАО «Иртышский химико-металлургический завод»  
150. ВКО-001658 ОАО «Керамика»  
151. ВКО-002784 ОАО «Бухтарминская ГЭС»  
152. ВКО-002900 ОАО «Усть-Каменогорская ГЭС»  
153. ВКО-000919 ОАО «Востокнефтепродукт»  
154. ВКО-002972 ОАО «Авиакомпания "Ульба"»  
155. ВКО-002456 ОАО «Казцинк»  
156. ВКО-001231 ОАО «Региональная Энергетическая Компания Алтайэнерго»  
157. ВКО-001505 ОАО «Серебрянский завод неорганических продуктов»  
158. ВКО-000025 ОАО «Усть-Каменогорский титаномагний комбинат»  
159. ВКО-000019 ОАО «Жезкентский ГОК»  
160. ВКО-000008 ОАО «Шульбинская ГЭС»  
161. ВКО-001554 ОАО «Семипалатинские РЭС»  
162. ВКО-000341 ОАО «Семейавиа»  
163. ВКО-001764 ОАО «Семипалатинский машиностроительный завод»  
164. ВКО-000935 ЗАО «Восток» -племобъединение»  
165. ВКО-000183 ОАО «Ертіс»

**Жамбылская область**

166. ЖМБ-001466 ОАО «Авиакомпания "Крылья Тараза"»  
167. ЖМБ-000754 ОАО «Акбакайский ГОК»  
168. ЖМБ-000459 ОАО «Асылдандыру»  
169. ЖМБ-000962 ОАО «Жамбылская распределительная электросетевая компания»  
170. ЖМБ-010057 ОАО «Казфосфор»  
171. ЖМБ-001871 ОАО «Каратау (г.Жанатас)»  
172. ЖМБ-001890 ОАО «Когершин»  
173. ЖМБ-010265 ОАО «Коктал»

- 174. ЖМБ-000013 ОАО «Нодфос»
- 175. ЖМБ-000073 ОАО «Племзавод Мерке»
- 176. ЖМБ-000699 ОАО «Промтранс "АХК Каратау"»
- 177. ЖМБ-000012 ОАО «Суперфосфатный завод»
- 178. ЖМБ-001952 ОАО «Талас»
- 179. ЖМБ-000739 ОАО «Тогызкент»
- 180. ЖМБ-000011 ОАО «Химпром»

**Западно-Казахстанская область**

- 181. ЗКО-010049 ОАО «Республиканская компания "Казахгаз"»
- 182. ЗКО-000316 ОАО «Западно-Казахстанская распределительная электросетевая компания "Уральскэнерго"»
- 183. ЗКО-010050 ТОО «Комтел» (СП)
- 184. ЗКО-001080 ОАО «Карачаганакгазпром»
- 185. ЗКО-000177 ОАО «Акжол»
- 186. ЗКО-001292 ОАО «Батыстрансгаз»
- 187. ЗКО-000897 ОАО «Омега»
- 188. ЗКО-000873 ОАО «Металлист»
- 189. ЗКО-000882 ОАО «Зенит»
- 190. ЗКО-010063 ОАО «Гидроприбор»
- 191. ЗКО-001470 ОАО «Акжайык»
- 192. ЗКО-000726 ОАО «Племзавод Шагатай»
- 193. ЗКО-000725 ОАО «Брлик (Джангала)»
- 194. ЗКО-000027 ОАО «Племзавод Анката»

**Карагандинская область**

- 195. КРГ-001358 ГАО «Кармет»
- 196. КРГ-000337 ОАО «Карагандаавиа»
- 197. КРГ-000099 ОАО «Карагайлинский ГОК»
- 198. КРГ-002308 ОАО «Шубаркольский разрез»
- 199. КРГ-002704 ОАО «Шубаркольское ПТУ»
- 200. КРГ-002979 ОАО «Карагандинская распределительная электросетевая компания»
- 201. КРГ-000008 ОАО «Литейно-механический завод»
- 202. КРГ-000931 ОАО «Тан»
- 203. КРГ-007439 ТОО «Абайские электросети»
- 204. КРГ-000014 ОАО «Жезказганская распределительная электросетевая компания»
- 205. КРГ-002960 ОАО «Жездинские электросети»
- 206. КРГ-002965 ОАО «Улытауские электросети»
- 207. КРГ-002957 ОАО «Жанааркинские электросети»
- 208. КРГ-002959 ОАО «Ерканат»
- 209. КРГ-002966 ОАО «Актогайские электросети»
- 210. КРГ-002948 ОАО «Кайрат»
- 211. КРГ-000101 ОАО «Корпорация "Казахмыс"»
- 212. КРГ-000339 ОАО «Жезказган Эйр»
- 213. КРГ-000154 ОАО «Женис»
- 214. КРГ-002915 ОАО «Горэлектросеть (г. Жезказган)»

**Кызылординская область**

- 215. КЗО-000003 ОАО «Кызылординская РЭК»
- 216. КЗО-000116 ОАО «Сыр Сункары»
- 217. КЗО-000279 ОАО «Асыл туким»
- 218. КЗО-000028 ОАО «Куланды»

**Костанайская область**

- 219. КСТ-001227 ОАО «Сулуколь»
- 220. КСТ-001126 ОАО «Племптица»
- 221. КСТ-000103 ОАО «Селекция»

222.	КСТ-000104	ОАО «Торгай-Кызыл-Козы»
223.	КСТ-000018	ОАО «Кустанайдизель»
224.	КСТ-000005	ОАО «Костанайская распределительная электросетевая компания»
225.	КСТ-000009	ОАО «Лисаковский горно-обогатительный комбинат»
226.	КСТ-000010	ОАО «Соколовско-Сарбайское Горнообогатительное Производственное Объединение»
227.	КСТ-000011	ОАО «Южные электрические сети»
228.	КСТ-000048	ОАО «Москалевское» («Кен шалгын»)
229.	КСТ-001158	ОАО «Торгайавиа»

#### Мангистауская область

230.	МНГ-000004	ОАО «Мангистаумунайгаз»
231.	МНГ-000020	ОАО «АКПО»
232.	МНГ-000168	ТОО «Тулик»
233.	МНГ-000223	ОАО «Мангистауская РЭК»
234.	МНГ-000527	ОАО «Каскор»
235.	МНГ-010363	ОАО «Мангистауская Промышленная Компания»
236.	МНГ-000693	ОАО «Кзылордапромгеофизика»

#### Павлодарская область

237.	ПВЛ- 000600	ОАО «Павлодарский нефтеперерабатывающий завод»
238.	ПВЛ- 000022	ОАО «Алюминий Казахстана»
239.	ПВЛ-000021	ОАО «ГОК Майкаинзолото»
240.	ПВЛ-000010	ОАО «Евразийская энергетическая корпорация»
241.	ПВЛ-001629	ОАО «Павлодарская РЭК»
242.	ПВЛ-000604	ОАО «Павлодартрактор»
243.	ПВЛ-000718	ОАО «Майкубен-Вест»
244.	ПВЛ-000617	ОАО «Экибастузская ГРЭС-2»
245.	ПВЛ-001374	ОАО «Павлодарские РЭС»
246.	ПВЛ-001376	ОАО «Баянаульские РЭС»
247.	ПВЛ-001378	ОАО «Железинские РЭС»
248.	ПВЛ-001379	ОАО «Майские РЭС»
249.	ПВЛ-001375	ОАО «Иртышские РЭС»
250.	ПВЛ-001377	ОАО «Лебяжинские РЭС»
251.	ПВЛ-001380	ОАО «Аксуские "Горэлектросети"»
252.	ПВЛ-001240	ОАО «Горэлектросеть г.Экибастуз»
253.	ПВЛ-001382	ОАО «Качирские РЭС»
254.	ПВЛ-001381	ОАО «Щербактинские РЭС»
255.	ПВЛ-001372	ОАО «Успенские РЭС»
256.	ПВЛ-001371	ОАО «Актогайские РЭС»
257.	ПВЛ-000718	ОАО «Майкубенский разрез»
258.	ПВЛ-	ЗАО СП«Веснет»
259.	ПВЛ-000175	ОАО «Иртыш-АВИА»
260.	ПВЛ-000417	ОАО «Речной порт»
261.	ПВЛ-000557	ОАО «Байланыс»
262.	ПВЛ-000053	ОАО «Племзавод Бескарагай»
263.	ПВЛ-000070	ОАО «Племзавод Песчанский»
264.	ПВЛ-007855	ЗАО «Ертис»
265.	ПВЛ-000071	ТОО «Дос-Ай» - («Локус»)

#### Северо-Казахстанская область

266.	СКО-002362	ОАО «ПО Завод им.С.М.Кирова»
267.	СКО-002363	ОАО «ПЗТМ» (Петропавловский завод тяжелого машиностроения)
268.	СКО-002361	ОАО «ЗИМ» (Завод Исполнительных Механизмов)
269.	СКО-002364	ОАО «ЗИКСТО» (Завод им. Куйбышева)
270.	СКО-001778	ОАО «Наука Восток»
271.	СКО-001777	ОАО «Тыныс»

272. СКО-000013 ОАО «Кокшетауская распределительная электросетевая компания»  
273. СКО-001463 ОАО «Васильковский ГОК»  
274. СКО-000014 ОАО «П Э И М» (Петропавловский завод электроизоляционных материалов)  
275. СКО-000351 ОАО «Авиакомпания «Кокшетау»  
276. СКО-002356 ОАО «Султан»  
277. СКО-000155 ОАО «Элита-Север»  
278. СКО-000204 ОАО «Кулагер»  
279. СКО-000110 ОАО «Узынкол»

280. СКО-000154 ОАО «Алабота»

**Южно-Казахстанская область**

281. ЮКО-000031 ОАО «Фосфор»  
282. ЮКО-000080 ОАО «Химфарм»  
283. ЮКО-010272 ОАО «Туркестанэнерго»  
284. ЮКО-010230 ОАО «Шардаринская гидроэлектростанция»  
285. ЮКО-007860 ОАО «Онтустик газ»  
286. ЮКО-000014 ОАО «Южно - Казахстанская распределительная электросетевая компания»  
287. ЮКО-000258 ОАО «Шымкентавиа»  
288. ЮКО-000101 ОАО «Куююк»  
289. ЮКО-000098 ОАО «Ходжатугай»  
290. ЮКРО-000138 ОАО «Шымкентасыл»

(As of April 13, 1999)

**CENTRAL ASIAN FIXED INCOME CONFERENCE ON CORPORATE, EUROBOND,  
and MUNICIPAL ISSUANCE**

*A Central Asian Conference*

*co-sponsored by the National Securities Commission of the Republic of Kazakhstan, the United States Agency for International Development (USAID) and the Special American Business Internship Training Program (SABIT) of the Foreign Commercial Service (FCS).*

**Date:** April 14 & 15, 1999

**Place:** Former Parliament Building, Almaty

**Attendees:** Government officials involved in market development, market professionals, issuers and potential issuers of bonds, and SABIT alumni from the five Central Asian countries.

**Purpose:** As stock markets continue to struggle under the shadow of the Russian crisis, interest has been growing in corporate bonds as an attractive financial instrument. The conference will explore the theoretical and practical aspects of corporate, municipal and Eurobond issuance. For instance, the economic basis for bonds, the necessary legal framework, methods of issuing bonds, and means of minimizing risk of default. The conference will provide an opportunity for government officials, market professionals and potential issuers to share information and perspectives regarding this newly developing financial instrument.

**CONFERENCE CHAIRPERSON: GALINA SHALGIMBAYEVA, Commissioner,  
National Securities Commission of the Republic of Kazakhstan**

Wednesday, April 14

9:00 – 9:30 Registration and Coffee

9:30 – 10:00 Introductory Remarks  
*Deputy Prime Minister & Minister of Finance, Republic of Kazakhstan, Uraz Jandosov (Tentative), US Ambassador to Kazakhstan, Richard H. Jones, Chairman, National Securities Commission, Republic of Kazakhstan, Azamat Joldasbekov*

**OVERVIEW OF THE BOND MARKET**

10:00 – 10:45 Session 1: Debt Markets and Their Role in the International Capital Markets: Prospects for Issuance in Kazakhstan.  
*Grigori Marchenko, President, Deutsche Bank Securities*

10:45 – 10:55 Q&A

10:55 – 11:05 Coffee and Convenience Break

Wednesday, April 14  
*Continued*

11:05 – 11:50      Session 2: Debt Vs Equity – The Economic Case for Issuance; Comparative Advantages and Disadvantages for Attracting Capital, Managing Currency Risk, Issuing Asset Backed Securities.  
*Robert Devane, Managing Director, Renegade Capital, Former Department Head, Fixed Income and Trading, Troika Dialog, Moscow*

11:50 – 12:00      Q&A

**STRUCTURING AND SELLING THE ISSUE**

12:00 – 12:45      Session 3: The Structure and Features of a Bond Issue: How the Secondary Markets Work, Pricing, Placing and Trading the Issue.  
*Robert Devane, Managing Director, Renegade Capital, Former Department Head, Fixed Income and Trading, Troika Dialog, Moscow*

12:45 – 12:55      Q&A

12:55– 14:00      Lunch

14:00 – 14:45      Session 4: The Deal Process: Preparing for the Rating and Issuance Process. Selecting a Financial Advisor and Why They Are Important, Associated Costs of Issuance, Who gets paid and How.  
*Jeffrey Fritzingler, Senior Vice President, Lehman Brothers, New York*

14:45 – 14:55      Q&A

14:55 – 15:25      Session 5: Corporate Bonds: Preparing for an International Issue  
*Aigul Nurieva, Director, Structured Finance Department, Halyk Savings Bank, Almaty*

15:25 – 15:35      Q&A

**CREDIT RATINGS: WHAT THEY MEAN**

15:35 – 16:20      Session 6: Role of Risk Ratings; Overview of ratings in Transition Economies. Prospects for Rating Issues in Kazakhstan, What the Ratings Mean. How to Get One, What They Cost.  
*Alexei Novikov, Director General, Rating Service "Economical Analysis, Moscow"*

16:20 – 16:30      Q&A

16:30 – 16:45      Coffee and Convenience Break

Wednesday, April 14  
*Continued*

16:45 – 17:30                      Session 7: Preparing Financial Statements, Standards of Information Disclosure for Corporate, Eurobond and Municipal Issuance, Associated Costs.  
*Jim Duncan, Price Waterhouse Coopers / Azamat Akhmerov, Senior Advisor, Deloitte & Touche*

17:30 – 17:40                      Q&A

**LEGAL AND REGULATORY CONSIDERATIONS**

17:40 – 18:10                      Session 8: Legal and Regulatory Framework for Issuance/Default and Bankruptcy: Creditor's Rights.  
*Yuri Vladimirovich Maltsev, Partner, White & Case*

18:10 – 18:30                      Session 9: The Kazakhstani Model for Bond Market Development – Existing Practices and Perspectives  
*Galina Shalgimbayeva, Commissioner, National Securities Commission*

18:30 – 18:45                      Q&A

18:45 – 21:00                      Cocktail Reception, Former Parliament Building

Thursday, April 15

8:30 – 9:00                          Registration and Coffee

**MUNICIPAL AND EUROBOND ISSUANCE**

9:00 – 9:45                          Session 10: An Introduction to Municipal Bonds-Developing an Issue Plan, Estimating Project Costs. Sources of Payment for Coupon and Principal, Budget Reserves, The Role of Investment Banks. Applying Credit Analysis in Issue structuring, Use of Proceeds.  
*Henry Von Blumenthal, Managing Director, Denholm Hall Limited, London & Moscow*

9:45 – 9:55                          Q&A



Thursday, April 15

*Continued*

9:55 – 10:40            Session 11: The Main Stages of a Municipal Bond Issue: Decision Making, Targeted Use of Proceeds, Selecting a Legal Advisor and Underwriter, Marketing, Attracting Institutional Investors, Accounting Requirements, Remuneration Fees, Disclosure of Information.  
*Henry von Blumenthal, Managing Director, Denholm Hall Limited, London & Moscow*

10:40 – 10:50            Q&A

10:50 – 11:05            Coffee and Convenience break

11:05 – 11:50            Session 12: An Introduction to Eurobonds-Current Status of the Market, Currency Choices, Bringing an Issue to Market: What's Involved.  
*Zhanara Kolobayeva, Deputy Head, Structured Finance Department, ABN AMRO Bank / Adil Massalimov, Associate Director, Fixed Income Sales, Deutsche Bank, London*

11:50 – 12:00            Q&A

#### **BONDS FROM THE BUYER'S PERSPECTIVE**

12:00 – 12:45            Session 13: Corporate Bonds: Viewpoint of the Foreign Investor, What They Look For in Making a Decision to Invest. Market Impact When Choosing a Financial Advisor. The Relative Importance of Trading Liquidity, Marketing Considerations.  
*Adil Massalimov, Associate Director, Fixed Income Sales, Deutsche Bank, London*

12:45 – 12:55            Q&A

12:55 – 14:00            Lunch

#### **CONSIDERATIONS FOR DOMESTIC ISSUANCE IN KAZAKHSTAN**

14:00 – 14:30            Session 14: Corporate and Municipal Bonds as a means for Economic Revival.  
*Arsen B. Kanafin, Securities advisor to Prime Minister Balgimbaev*

14:30 – 15:00            Session 15: Taxation, and Accounting – Issues and Answers.  
*Zhannat S. Makazhanova PhD, Member, Expert Council, Department of Accounting and Audit Methodology of the Ministry of Finance & General Manager, Metallinvest*

Thursday, April 15  
*Continued*

15:00 – 15:25      Session 16: Scope of the Domestic Market in Kazakhstan, Obstacles and Opportunities for Issuance.

*Damir Karasaev, Acting President, Kazakhstan Stock Exchange*

15:25 – 15:55      Session 17: Considerations for Domestic Investment

*Dimitry I. Zherybyatyev, Vice president, Zhetysu Asset management*

#### **CASE STUDIES**

15:55 – 16:10      Coffee and Convenience Break

16:10 – 16:40      Case Study Number 1: KazTransOil: Practical Experiences.

*Company Management, Viktor Kyshpanakov, Executive Director, KIB Asset Management, Timur Issataev, Resident Director, ING Barings, Almaty*

16:40 – 17:10      Case Study Number 2: The KazKommertsBank Placement: Practical Experiences.

*Eldar Abdrazakov, Director, Investment Banking Department*

#### **Discussion Groups**

17:10 – 18:15      Room 1: Legal, Taxation, and Accounting.

*Representatives from Price Waterhouse Coopers, Deloitte & Touche, White & Case*

Room 2: Selling the Issue.

*Representatives from Deutsche Bank, KBS, Robert Devane*

Room 3: Getting a Rating.

*Representatives from Economic Analysis Rating Service*

18:15 – 18:30      Transport to Hotel Dostek

18:30 – 21:30      Banquet, Hotel Dostyk

### Groups of the conference participants:

##	Group	Number of participants
1	The President of Kazakhstan administration	1
2	Prime-Minister Chancellery	1
3	Investment Agency	2
4	Strategic planning and reforms Agency	1
5	National Bank of Kazakhstan	2
6	National Securities Commission of Kazakhstan	37
7	State standard Agency of Kazakhstan	1
8	National pension agency	1
9	Strategic planning and reforms department of the Almaty	1
10	Almaty city and Almaty region akimats	7
11	Manghistau region akimat	2
12	North Kazakhstan akimat	1
13	Asatana akimat	1
14	Professional participants of securities market	65
15	Issuers	29
16	SABIT alumni from Kazakhstan	3
17	SABIT alumni from Uzbekistan	4
18	SABIT alumni from Kyrgyzstan	6
19	Kyrgyzstan representatives	22
20	Auditors	5
21	Law firms	5
22	Banks	14
23	Foreign investment funds	9
24	Media	16
25	Training centers and business ashools	12
26	Russian embassy	2
27	Other companies	3
28	Individuals	3
29	US AID projects (CARANA, pension reforms project)	3
	<i>TOTAL</i>	269

Number of SABIT alumni's who took part in closing banquet

30

*Questionnaire*  
Fixed Income Conference participant

1. Full name

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2. The company you represent

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3. Title

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4. Type of company ownership

- State agency;     - State company;     - Open JSC;     - Closed JSC;     - LLP;

- other - \_\_\_\_\_

5. Mailing address

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6. Telephone numbers

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7. Fax, e-mail

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8. How interesting was the theme of the conference?

- Very interesting;     - interesting;     -not interesting;

9. Which presentations did you like the most?  
(list session number or speaker name)

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10. Which presentations did you like the least  
(list session number or speaker name)

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11. On a five point scale, how would you grade the conference overall?

5 - very good; 4 - good; 3 - satisfactory; 2 - bad; 1 - very bad

- a) Technical Facilities (microphones, projectors)
- b) Translation
- c) Transportation
- d) Food
- e) Hotel

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g) Conference materials

h) Presentations of topics:

- "Overview of the bond market"
- "Structuring and placing the issues"
- "Credit ratings – what they mean?"
- "Legal and regulating aspects"
- "Issue of municipal bonds and eurobonds"
- "Bonds from the buyer's perspective"
- "Questions and problems of domestic issues in Kazakhstan"

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12. Information received at the conference can help you:

- to solve problems related to issue;     - to prepare legal documents;     - in scientific work;
- information is useless;    - other \_\_\_\_\_

13. Does the conference help you to establish new useful business contacts?

- YES;     - NO;

14. Remarks. What could be done better on your opinion?

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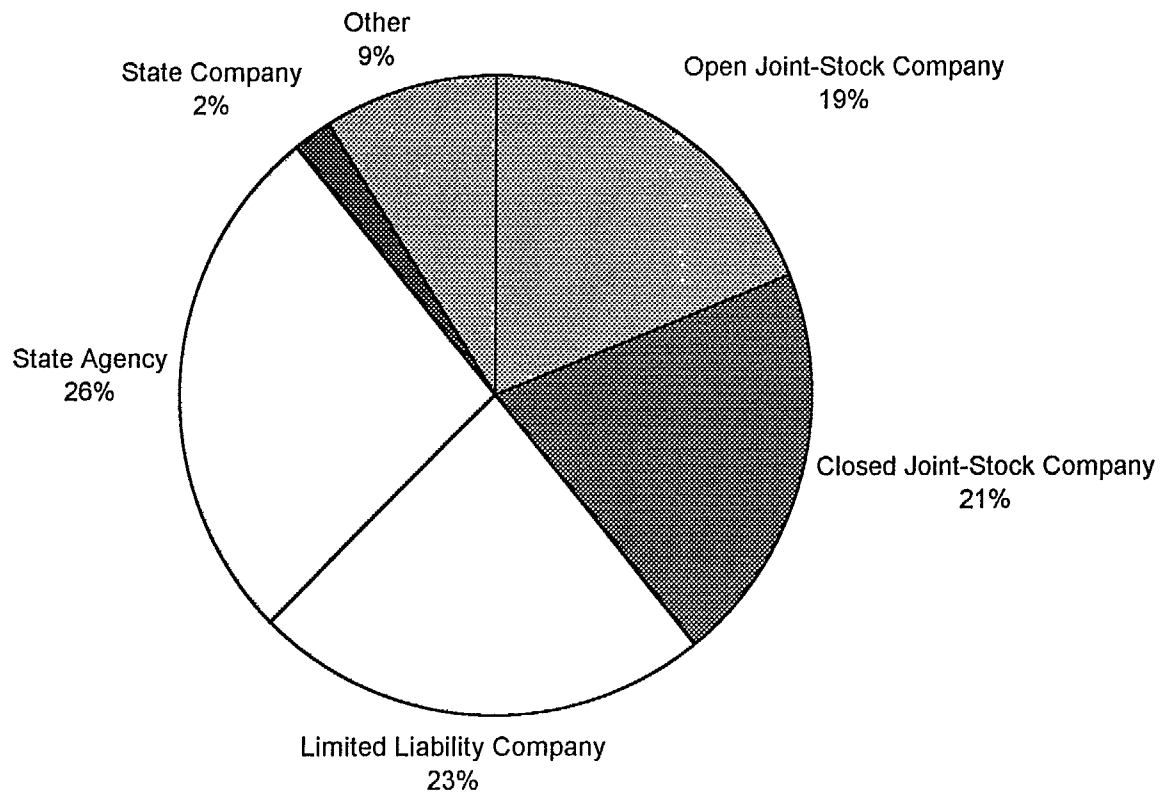
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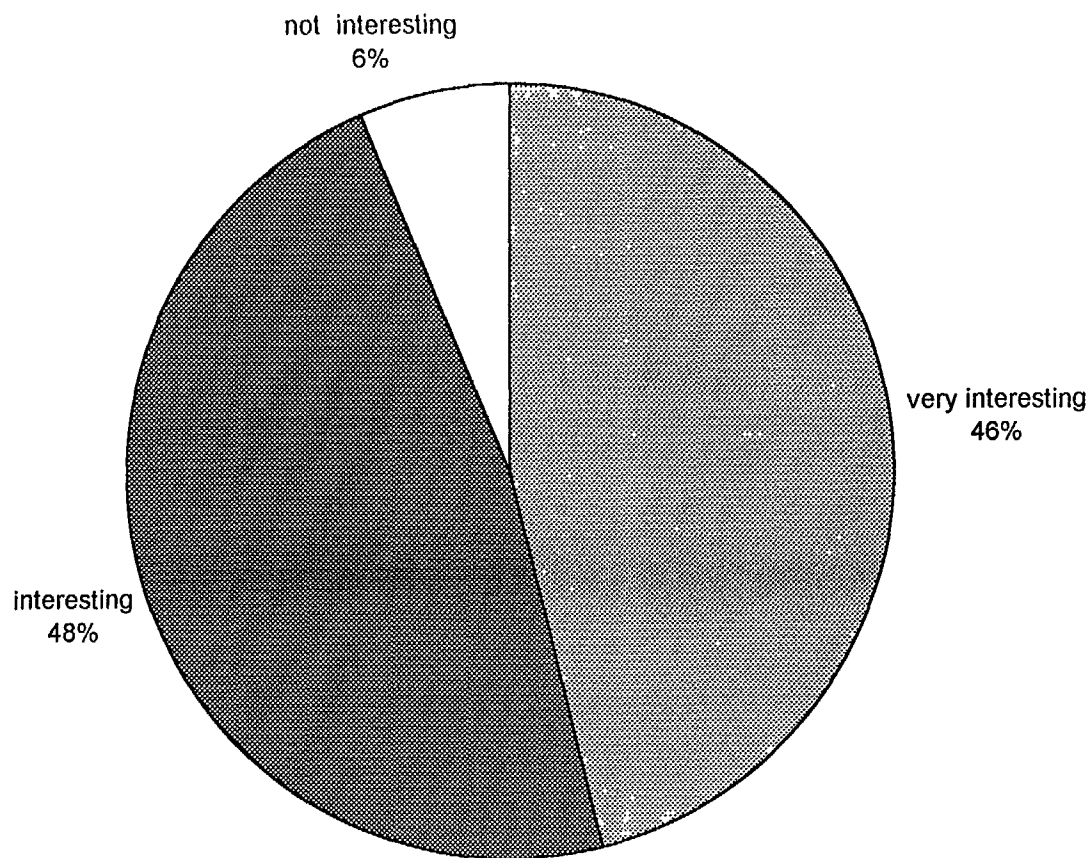
*How would you grade the conference overall?*

5 Very good	52%
4 Good	39%
3 Satisfactory	9%
2 Bad	0%
1 Very bad	0%
<hr/>	
Average	4.4

Breakdown of the Conference participants by types of ownership

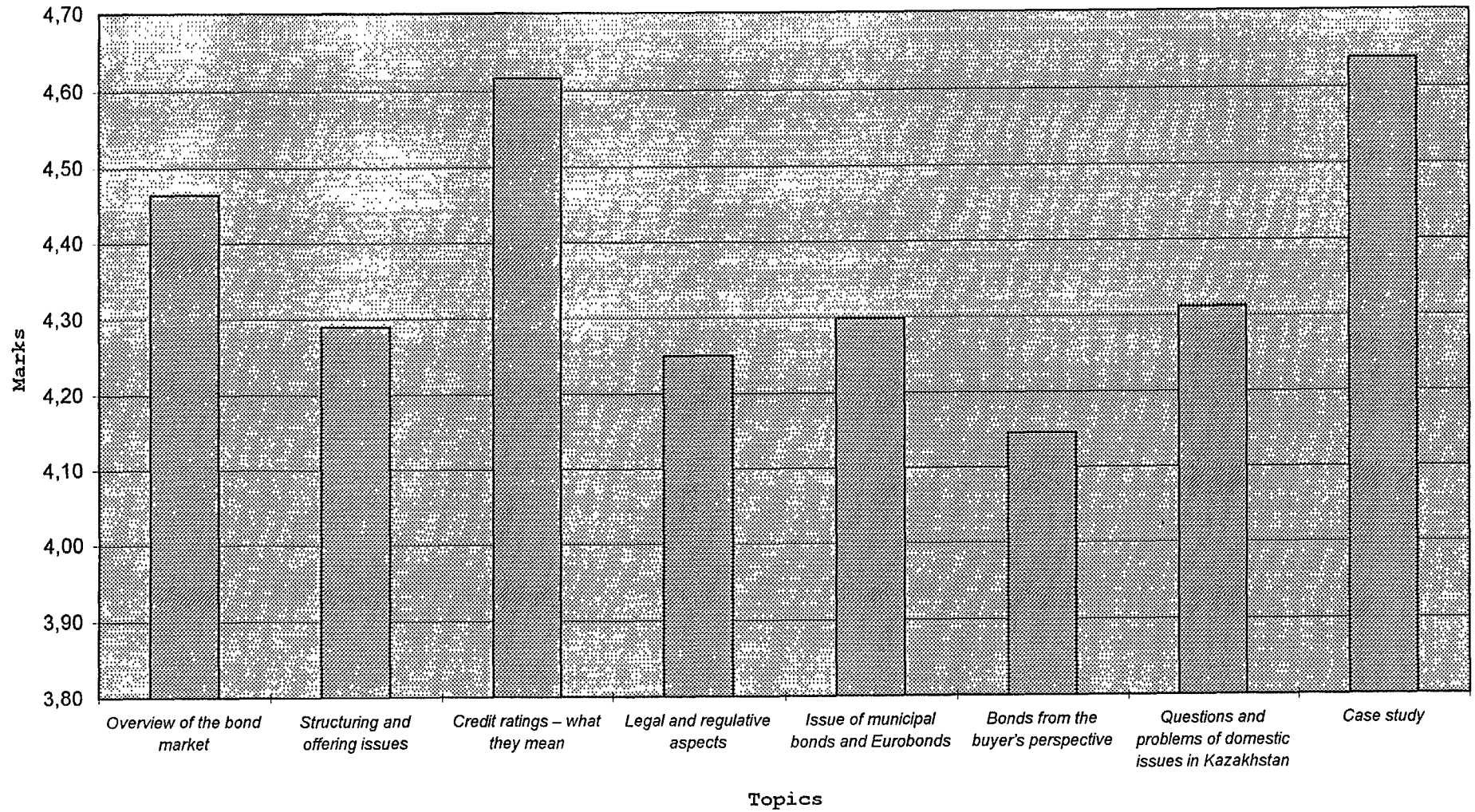


How interesting was the theme of the Conference?

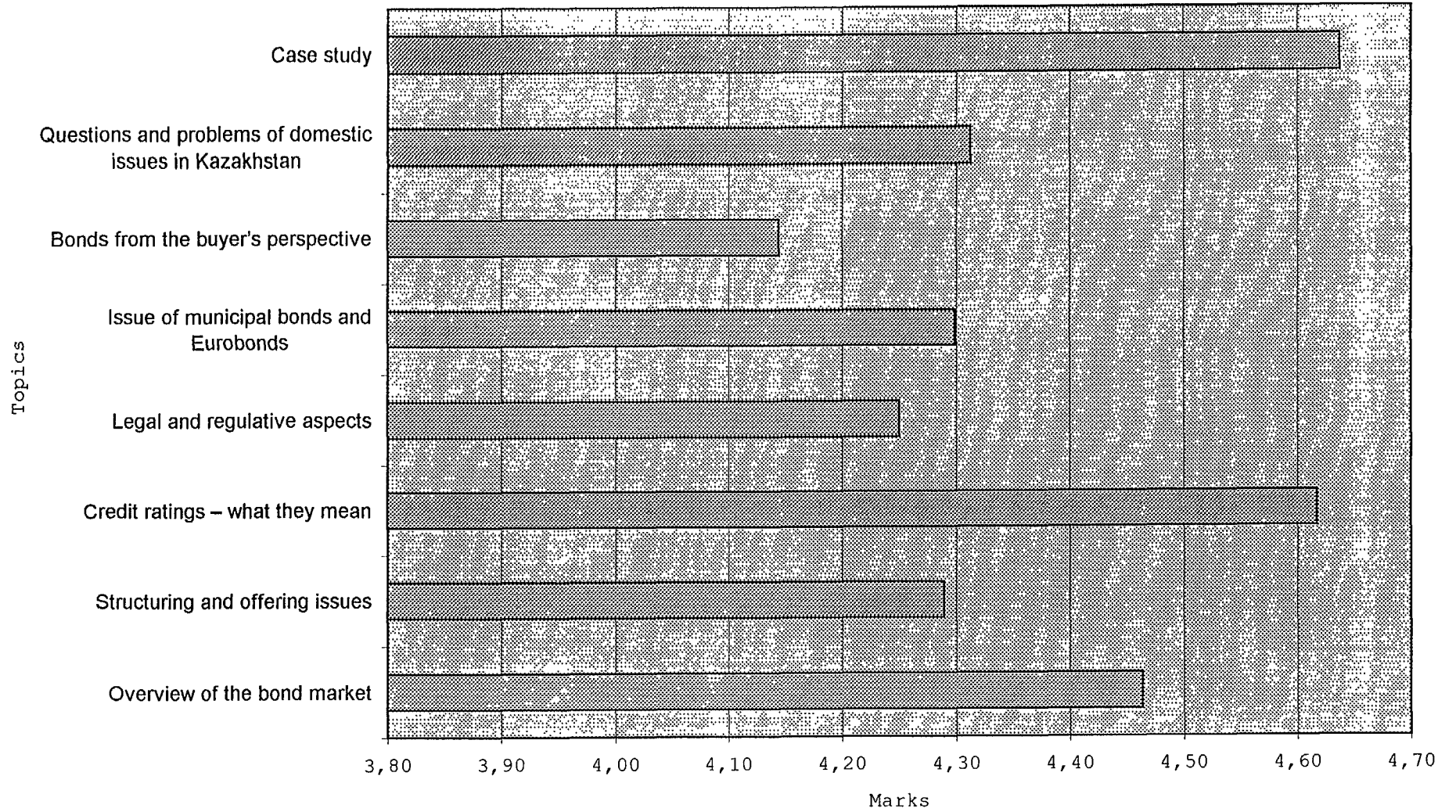




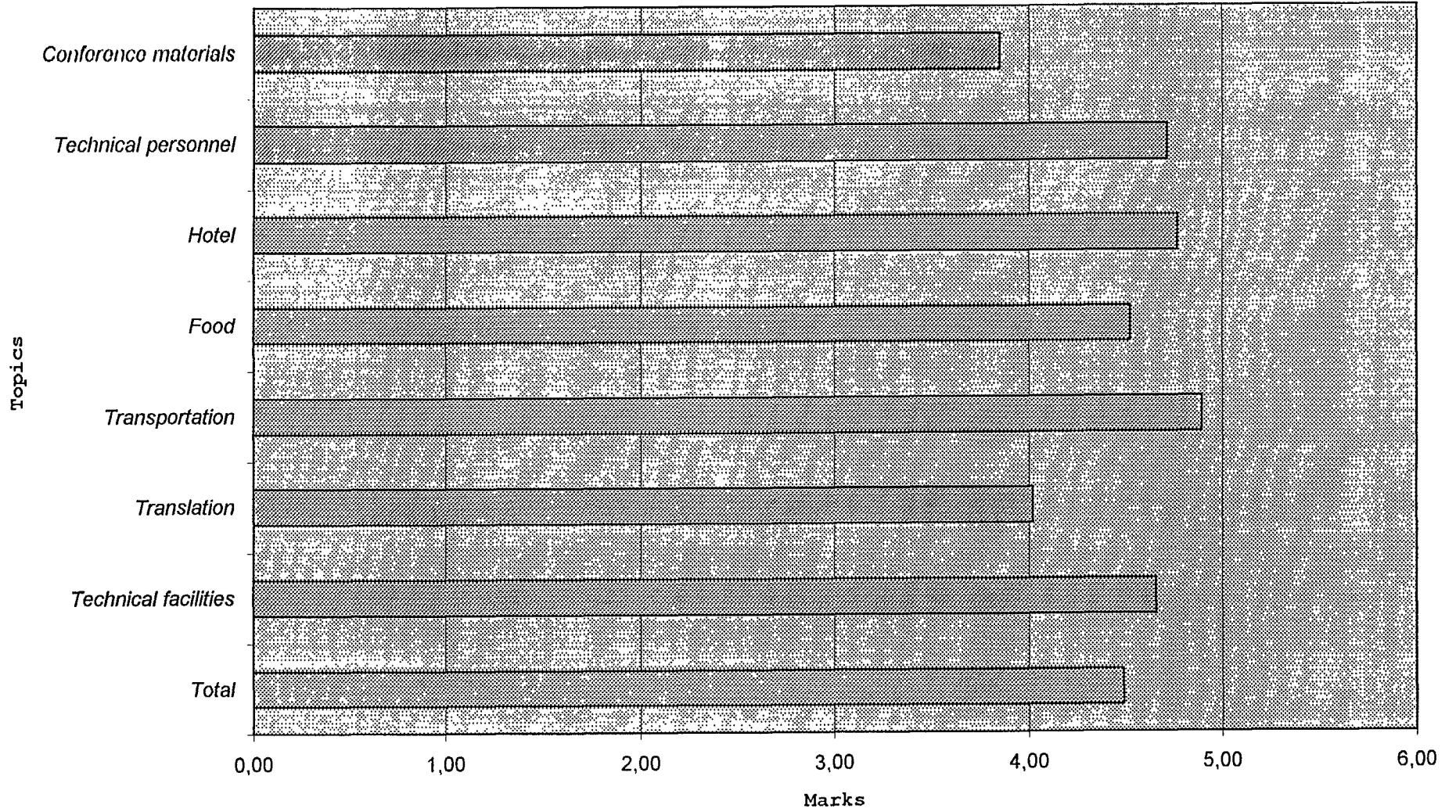
## Presentations of Topics



## Presentations of Topics

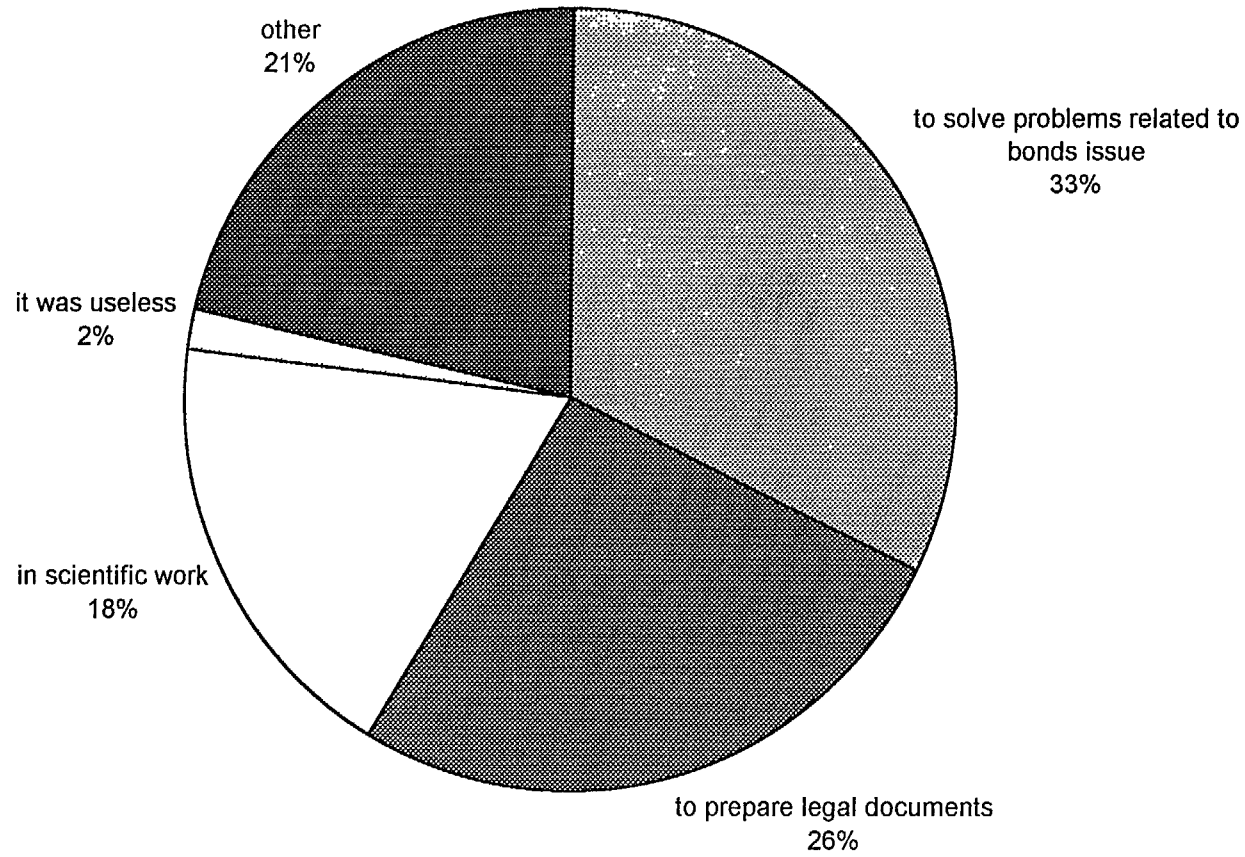


### Marks received for organizing the Conference



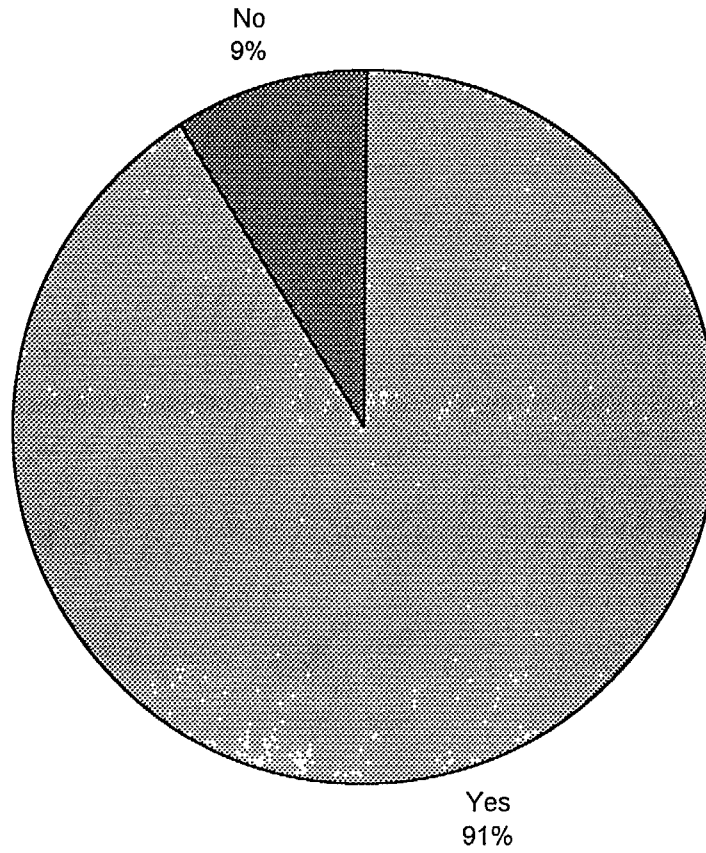
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*Information received at the Conference can help:*



SS

Had this information helped you to make new business contacts?



56



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# From little acorns

**A puny equity market, a handful of government bonds and a stalled privatization programme. What on earth could interest portfolio investors here? The answer is the long-term view. Kazakhstan, surrounded by basket cases, is trying to sell itself as a safe-haven for medium and long-term investment. By David Shirreff**

Aiteke Bi 67 in Almaty, a C-block building which once housed the ministry of justice, is the nerve-centre of Kazakh capitalism. On the top floor is the National Securities Commission (NSC). The ground floor and basement contain the Kazakhstan Stock Exchange (KASE), and AfineX, the foreign currency exchange, with which it has recently merged for the second time; and the central securities depository. Sandwiched between all this are roomfuls of advisers working on projects funded by the US Agency for International Development (USAID).

US taxpayers will be happy to learn that their tax dollars are still at work nurturing grass-roots capitalism in Kazakhstan. Grown men and women raised on Wall Street and the Chicago pits are devoting their lives to fostering a securities market, with the full paraphernalia of pension funds, joint stock company law, asset-backed securities, compliance and collateral management.

Despite a stock market turnover of almost zero – thanks to last year's Russia crisis – the work goes on. One hot project is a bond issue for Vita, a sunflower oil producer, 150% collateralized with warehoused oil stocks, discounted to yield 19%, in dollars. Total proceeds will be less than \$100,000.

"Size isn't important," insists David Lucterhand, adviser with Pragma Corporation, sub-contracted by USAID. He hopes this, among other issues, will be a curtain-raiser for a Central Asian

bond conference on April 14 and 15 at the Dostyk Hotel, the sumptuous former communist party guest-house in leafy Almaty.

Lucterhand, who cut his teeth at the Chicago Board of Trade, is talking to 15 companies about securitization, and has a target list of 16 more candidates. "We're convincing them of the virtues of hiring a financial adviser," he says. Five full-time attorneys are putting together the framework for a transparent market. Lucterhand bursts with enthusiasm for capital markets, democracy and the American way. That is the not-so-hidden agenda: the spreading of US-style democracy, which bothers some Kazakhs, although they appreciate the good intent.

"The Americans are pushing for formal signs of democracy," sighs Grigori Marchenko, president of DB Securities (Kazakhstan). "So we create political parties, non-governmental organizations, all that bullshit just to get US money." The key is to develop proper markets, he says. The rule of law and establishing a proper court system is more important than paying lip-service to democracy: "If people are making enough money, they can start political parties and the government can't push them around."

Marchenko, as deputy governor of the National Bank of Kazakhstan (the central bank), then chairman of the NSC, before quitting for the private sector in October 1997, is famed as one of the architects of the country's financial reform. But the US and German-educated technocrat is bitter about excessive US influence: "For the first three years [of the Confederation of Independent States (CIS) after the collapse of the Soviet Union] we got no advice on the German or Japanese model. East Asia was also discredited. It was USAID and the World Bank: the Anglo-Saxon model all the way. Intellectually we were too weak to fight with them." Kazakhstan "has been the darling of the Bretton Woods institutions", says Timur Issatayev who worked at the IMF before joining ING Barings in Almaty.

The result has been a market based on the 1933 US Securities Exchange Act. "We fought a lot with USAID, rewriting it in relation to Kazakhstan," recalls Nurdin Damitov, until last year deputy chairman of the NSC, now director of Kazakhstan's Agency for Investment, and a Columbia University law graduate. Millions of dollars of US money were wasted on the first dream,



Aiteki Bi 67 – nerve-centre of Kazakh capitalism

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to build a pan-Central Asian Stock Exchange, then when neighbouring countries proved beyond the pale, downsizing the project, divorcing currency trading (on Afnex) from securities trading (on the Kazakhstan Stock Exchange) then this January deciding to merge them again.

The volumes are puny. Last year the fully electronic KASE turned over Kt9 million (\$100,000) a day in equities, Kt90 million a day in government bonds, while Afnex averaged \$5 million a day in currency trading. In January and February the volumes went even lower. "The equity market is nearly dead," says Issatayev, representative of ING Barings in Almaty. ING was about to apply for a banking licence last summer, before the Russia crisis hit. Russia's devaluation and debt moratorium last August 17 caused panic among investors in other former Soviet states regardless of their economic fundamentals. Kazakhstan is still suffering from that panic.

Some optimists see it as a blessing in disguise. It has forced Kazakhstan to scale down its ambitions, particularly its budget (a 25% cut last year, followed by another 10% cut in January), and to grow its capital markets from its own resources.

Given its macroeconomic conditions, and the fact that it is surrounded by states with close to triple-digit inflation and flooded with their cheap, low-quality goods, this landlocked country is doing almost everything right. It has upset the World Trade Organization by banning certain imports from Kyrgyzstan and Russia. But how do you protect your economy from dumping and devaluation when you kept inflation to 1.9% last year and your currency lost only 10% against the dollar?

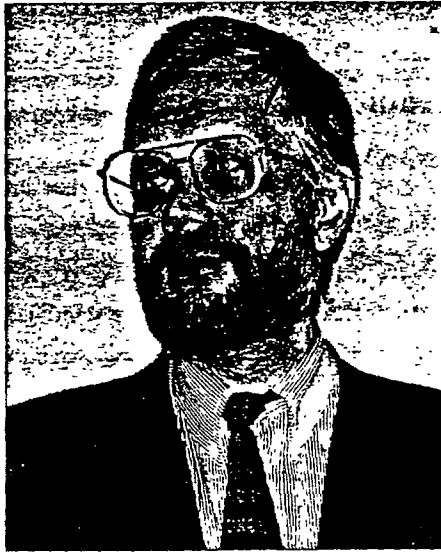
Marchenko, who often takes the one-hour flight to the new desert capital Astana to advise the government, recommends more of the same this year: a crawling devaluation against the dollar of around 15% - "more than 30% would undermine confidence" - and selective use of import tariffs to protect certain sectors from destruction and unemployment. The danger is low-quality dumping. "You should allow quality goods to come in," says Marchenko.

Although Kazakhstan is rich in resources - oil, gas, chrome, bauxite, uranium and gold - shipping the stuff out is a physical and political nightmare. Russia holds Kazakh exporters to ransom on transport and pipeline tariffs. (Kazakh trucks pay four times as

much as Russian trucks to use Russian roads.)

Faced with these hardships, Kazakhstan has persevered with the Chile-style reform started by Marchenko. Jewel in the crown is its pension reform. This produced \$280 million of savings last year all invested in the securities markets, and is likely to swell to \$750 million this year and \$1.5 billion at the end of year three, say the

optimists. Although that hardly represents a single portfolio rebalancing act in New York or London, it is big news in this land of 15 million people, with average per capita income of \$1,500. The pension reform requires 10% of every person's monthly salary to be invested in a choice of 13 managed pension funds. If you don't choose, your contribution goes into a state fund managed by the National Bank. The major Kazakh companies and some small ones have managed pension funds. Kazkommertsbank, the country's second biggest and best-run bank, for example, has the pension funds of Kazakhtelecom, Air Kazakhstan, and of its own employees. It has also managed a fund Umit. ABN Amro Bank Kazakhstan, a joint venture with Kazkommertsbank and the International Finance Corporation man-



Marchenko: for markets and the rule of law

ages seven funds, which deputy general manager Michiel de Bruijn admits are the smallest "but they are the best performers", he boasts. The funds are 95% invested in government or National Bank securities. They may invest only 25% of their assets in corporate securities, and in fact only one fund so far has made an equity investment.

There is only around Kt64 billion (\$710 million) of government securities available and that stock is diminishing as the government continues to squeeze the money supply. Of that debt about half is

illiquid 10-year ministry of finance debt to the National Bank, which the National Bank has tried to securitize. It is used occasionally for repo operations, but the most tradable debt is one- to three-month treasury notes, or even shorter-term National Bank bills, discounted to yield 25%.

Last year Marchenko and others saw a way to add to the tradable domestic stock by listing the Republic of Kazakhstan's two

Eurobonds on the KASE. After the Russia crisis these bonds were temporarily yielding 50% - a real bargain for those bullish on Kazakh risk. ABN Amro, Deutsche Bank and others repatriated about \$100 million of these bonds and sold them to the pension funds, making good money as the yield improved to around 11%.

***"ABN Amro, Deutsche and others repatriated Kazakh Eurobonds and sold them to the pension funds"***

## What crisis?

Banks worldwide took a pasting from the Russian crisis, but not the banks in Kazakhstan. Why? Because they'd been through a Russian crisis two years earlier and they knew what to expect. Tveruniversalbank, one of the premier Russian banks of the day, collapsed in July 1996. It had been the main correspondent bank for rouble trade not only with Kazakh banks, but also with the National Bank of Kazakhstan. Kazakh banks ended up losing a mere \$6 million in the fiasco, although their customers lost more. The Interbank Currency Exchange in Almaty also lost \$180,000 in positions with Tveruniversal.

It was a timely shock. By August 1998, when the Russia crisis hit, Kazakh banks had few rouble positions and only well-covered dollar positions with Russian banks. They had also been warned by the National Bank to get out of Russian treasury bonds – GKO's.

The Kazakh banking sector is tightly controlled by the National Bank. After the central bank let Kramds-Bank go down in October 1996 there has been no nonsense about moral hazard, although the government did later step in and merge two ailing banks, Promstroi and the Kazakh branch of the Soviet Vnesheconombank, to form Bank TuranAlem in January 1997. It was privatized in March 1998. The banking sector is divided into two tiers. Tier one banks must undergo an external audit by a big-five accounting firm, and their BIS ratio had to be at least 10% by January this year. Tier two must conform to these standards by the end of the year. Many of Kazakhstan's 70-or-so smaller banks will be closed, merged, or reduced to credit cooperatives.

The three main banks, Halyk Savings Bank, Kazkommertsbank, and Bank TuranAlem account for 70% of the deposit base. Only Halyk Bank is still state-owned, but the state intends to reduce its 80% stake further.

Kazkommerts is the star bank, having formed three useful joint ventures in its early days. ABN Amro Kazkommerts is a profitable bank, in which Kazkommerts and the International Finance Corporation (IFC) each have a minority stake. Kazkommerts bought out the share of Turkish broker Global

In February Kazkommertsbank also listed its \$100 million Eurobond on the KASE but it can't start trading until the central bank grants a licence. The National Bank is expected to put a limit on how much of a pension fund can be invested in Eurobonds, although the NSC is talking of listing more Eurobonds, such as those of the World Bank and EBRD.

The pension funds are desperate to diversify. But the government's "blue-chip" privatization programme has stalled; it is listing

Securities in their joint venture Global Kazkommerts Securities in October 1997. Now Kazkommerts Securities is going it alone as the major broker-dealer in Almaty. Global continues, but is shrinking its Kazakh presence. Kazkommertsbank also sold its share in Kazakhstan-Ziraat International to Turkey's Ziraat Bankasi. "We're a very opportunistic bank," says Kazkommerts board member Oleg Kononenko. Kazkommerts recently pulled out of a leasing venture with the IFC. "But the ABN Amro Bank is a strategic investment which we'll have forever," Kononenko says.

Bank TuranAlem has a tiny capital of \$50 million but is extremely profitable, with a 40% return on equity last year. Moreover it isn't over-leveraged, having a BIS ratio of 19%, the highest among Kazakh banks. It is part of Astana Holding, the biggest industrial group in the country, is the chief corporate bank and second in retail after Halyk Bank. Before the Russian crisis there were plans to issue global or American depositary receipts, and participation by the IFC or the EBRD has been discussed, says TuranAlem chairman Erzhan Tatishev.

ABN Amro has had a presence in Kazakhstan since 1994. Now it has competition from Citibank, Société Générale, Deutsche Bank and HSBC, which recently opened subsidiaries. Citibank and SG are going for corporate and trade business, but HSBC is also tackling retail and securities custody. Deutsche has gone for a broker-dealership, DB Securities, as well as a banking subsidiary and reports to London not Frankfurt. "We see a lot of potential in developing low-tech industries where the country can compete," says Timur Dzhankobaev, vice-president for corporate finance. He indicates areas such as foodstuffs and beverages "which are dominated by imports". Dzhankobaev was a board member at Kazkommertsbank before running the joint venture Kazkommerts-Ziraat International. Locals say the market is already has too many foreign banks. The National Bank had a rule that foreign bank equity should not exceed 25% of all the banks' equity capital, but that threshold has already been breached.

small and medium-size enterprises piecemeal on the KASE, and the stock of equities so far is a mere \$28 million.

Hence the interest in developing a corporate bond market – Kazakh investors have more appetite for debt than equity.

So far, only five corporate bonds are known to have been issued. "Maybe some were issued before 1995, but those were registered with the ministry of finance and the files may have been lost," says chairman of the NSC Azamat Joldasbekov. "We found two such



issues recently.”

These are very cautious attempts at securitization. NSC executive director Galina Shalgimbayeva mentions four recent bond issues: a K75 million toe-in-the-water by Farvarter, and another by Arai, both of the Kustanai region, then a K750 million follow-up by Farvarter, and a K1100 million issue by Vita of Almaty – “but these haven’t been fully placed”, she says.

A better hope seems to be plans for dollarized bond issues by oil transport company Kaztransoil, the national power grid, and the state railways. Again, the sizes are puny. ING and local broker-dealer KIB Asset Management (a subsidiary of Kazakhstan International Bank) are planning a \$3 million to \$3.5 million six-month domestic bond issue for Kaztransoil, which is at the limit of what the market can take – the original plan was \$10 million. It would be discounted to yield around 15% in dollars, but all accounting and settlement would be in the local currency, the tenge. The tax authorities have been persuaded to count the accrual as a capital gain. “We thought of tying it to client receivables or a local bank guarantee,” says ING’s Issatayev, “but the pension funds don’t seem that sensitive [to credit].” According to other experiences local banks are demanding 6% up-front for a guarantee in tenge, mainly because of the central bank’s squeeze on the tenge money supply.

To be eligible for pension funds a security must be on the A list at the KASE, rather than the B list. (There is also a misleadingly named OTC (over-the-counter) list for the smallest companies.) An A listing requires two years of audit to international accounting standards (IAS) and a minimum corporate net worth of \$10 million. USAID representatives are trying to get that threshold reduced to \$5 million. They are also excited about starting a municipal and project-linked bond market. Muni bonds are likely to be discussed at the April bond conference. But the municipalities (oblasts) are often a law unto themselves. Getting them to sign and stick to agreements on repayments and use of funds could be difficult.

Kazakhstan’s financial regulation tends to be extremely tough after the free-for-all of earlier years. For example, Shalgimbayeva at the NSC is agonizing over another proposed bond issue by a grain-growers’ cooperative, sweetened with warrants to buy grain. “We are reluctant to get into commodity regulation,” she says. In 1996 Kazkommertsbank dreamt up a scheme whereby grain farmers issued bills of exchange (veksels) on their future grain harvest receivables against Kazkommerts credit for fuel and spare parts. “It was highly profitable for Kazkommerts but harmful to agriculture,” recalls one source, since the farmers couldn’t pay and the ministry of finance had guaranteed the bills. Agriculture is an ailing sector in Kazakhstan. Farmers can’t get credit, particularly

since they can’t pledge land as collateral. It is a common view that agriculture in Kazakhstan should shrink to a sustainable level, but that runs counter to received ideas of economic advancement. The World Bank is pouring more money into Kazakh agriculture than it can absorb, says at least one agronomist.

In 1997 and early 1998 Kazakh borrowers were carving themselves a nice little niche in the international capital markets. The republic had issued a total of \$550 million of Eurobonds. Kazkommertsbank had placed American and global depositary receipts and Eurobonds totaling \$100 million, and Halyk Savings Bank (the country’s biggest) had done three share issues placing 20% of its equity and had successfully roadshowed a \$100 million Eurobond to be led by Lehman Brothers. Then the Russia crisis hit. Halyk pulled its Eurobond.

Since then, access to international creditors has been limited. Ispat Karmet steel works managed to put together a \$100 million syndicated credit with the help of the European Bank for Reconstruction & Development (EBRD). Kazkommertsbank and Bank TuranAlem are discussing club loans. “We’re talking about paying 6% over Libor for one-year money,” laments Oleg Kononenko, board member of

*“The key issue is  
the civil service:  
it’s cheaper to bribe  
than to pay taxes”*

Kazkommertsbank. “We used to pay that for three-year money.”

Various investment banks are trying to persuade the republic to revisit the Eurobond market. JP Morgan has the original mandate, but ABN Amro, for one, believes it has identified investor demand. However, the sticking point may be the price. Kazakhstan is used to paying around 11% for its dollars. Current price indications are around 13%.

Dollarization of the entire Kazakh economy is a possible route to take, although Marchenko warns that to dollarize too early could destroy uncompetitive sectors and cause widespread unemployment. Most prices, salaries, rents are already reckoned in dollars, even if the accounting is done in tenge. Although drivers, restaurateurs, interior decorators aren’t supposed to accept dollars they frequently do. Some casual workers insist on them.

Marchenko flew to Astana on March 12 to discuss this year’s exchange rate policy and argued for the crawling peg. “Dollarization is not viable short-term. We would be totally non-competitive with Russian and Ukrainian producers.” A 6,000-kilometre border is difficult to police, he points out. But “with currency blocs en vogue”, he believes dollarization might be an option in three to five years.

Kazakhstan could follow the Chilean model (pension reform), or that of Panama (dollarization). For Marchenko so far it’s been the Chilean. “We’ve had the triangular approach,” he says: pension reform, capital markets and privatization. “If you take away privatization it doesn’t work.” Unfortunately that has been the experi-

ence in Kazakhstan. A voucher privatization of smaller state assets ended in a collapse of the privatization funds. Then a privatization of larger, "blue-chip" companies stalled because of poor interest in the paltry 2% to 5% stakes on offer. Another big stumbling-block, as in Russia, is the lack of title to land ownership. Marchenko argued for a big sell-off in 1997 "when we would have got prices 10 to 15 times higher than today". Even today it would be worth selling these assets for around \$3 billion to \$3.5 billion. "You don't need that much money to meet the budget deficit, and buying assets cheap is what brings the feelgood factor," Marchenko says.

Although some 80% of Kazakhstan's oil and gas industry is already in foreign hands, the experience of foreign investors in other sectors has been marred by disputes. They mostly concern pricing or production levels and demonstrate the importance of drawing up watertight contracts in the first place. A minister's signature doesn't mean much if the minister is replaced; if more than one ministry is involved in an agreement then each ministry must sign it; an agreement with central government can't assume the assent of the regional governor - all must be bound in.

In the early gold-rush days, when the government and investors

were in a hurry to sign and get into production, many of these pitfalls were overlooked. Now that turnover is low, western investors are sometimes looked on as a pool of cash to make up revenue. Tax inspectors are subjecting businesses to "low-level harassment", say some investors. One bank which hesitated to pay an unclear tax bill had its accounts frozen, to the detriment of depositors and its entire business. A proper salary is the way to reduce corruption, says Marchenko: "The key issue is the civil service: it's cheaper to bribe than pay taxes."

Various foreign owner-operators of power stations and other industrial plant have fallen foul of agreements they believed had been tried and tested several years ago. AES Corporation of the US which owns the biggest power station in the country, Ekibastuz, has 17 lawyers trying to reach a negotiated settlement with the government on power purchase agreements. International arbitration won't necessarily help in these cases, although Kazakhstan is a signatory of the New York convention. "How would you get paid?" asks a lawyer rhetorically, "You don't resolve things by arbitration but by negotiation."

Tractebel of Belgium, which owns Almaty Power Consolidated,

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also has an ongoing tax dispute. World Wide Minerals of Canada is also fighting the government for what it regards as a breach of contract worth \$220 million, concerning extraction of uranium concentrate at Stepnogorsk.

Perhaps the most bitter dispute is that between the government and Trans-World group of the UK, which owns – or thought it owned through a joint venture – a ferro-alloy and ferro-chrome works, various mining operations and an aluminium smelter in Kazakhstan. The Kazakh supreme court on January 27 awarded \$200 million damages against Trans-World. Although this seems capricious, Kazakh sources say that the TW group didn't meet taxation and various other obligations. The whole affair is damaging to Kazakhstan's investment climate and, says one disinterested lawyer, "there are questions raised about the way in which the supreme court's decision was achieved". Kazakhstan courts "are not terribly transparent", says another. "Kazakhstan does what it likes, and judicial reform is not going to happen."

In his office in Astana, director of the Agency for Investment Nurdin Damitov admits: "The courts are sometimes not effective and sometimes not fair. It's a problem of the whole system in Kazakhstan." The agency exists to intervene with ministries and other government departments in favour of the foreign investor and to negotiate tax breaks. But struck in Astana – whose temperature varies from minus 40 in winter to plus 40 in summer – the agency is generally remote from any dispute. It's also mostly concerned with new investments, not old agreements that are beginning to fall apart. "All the clients with problems," says an Almaty-based lawyer, "don't go to the Agency for Investment to solve them." He identifies as the main cause of disputes "a lot of tension between the regional and central governments".

President Nursultan Nazarbayev, re-elected in January to a third five-year term, has lent an ear to investors' complaints. Last September he convened a foreign investment council (FIC) attended by foreign captains of industry with major investors in Kazakhstan. On the Kazakh side were Nazarbayev and senior ministers. "The agenda and the papers were controlled by foreign investors," says one participant. The FIC established several working groups including ones on legal issues, taxation, and how to improve Kazakhstan's investment image, which will report initial findings this month. A second FIC meeting is scheduled for June 2, three weeks before prime minister Nurlan Balgimbayev chairs a Kazakh investment conference in London.

Image building is perhaps the most important but least tangible task of the FIC. Kazakhstan has a job persuading foreign investors that it is different from all its neighbours, and that its dependence on trade with Russia has dramatically diminished. "Less than a

quarter of our exports go to Russia now," says Marchenko. "We have far bigger trade with the EU, although it's true more than half our imports are Russian."

The stability of Kazakhstan is often overlooked, perhaps because, on paper, it's a less democratic country than even Russia or Ukraine. Few Kazakhs, apart from the followers of deposed former prime minister Akezhan Khazegeldin, seem too concerned by this. "Economic efficiency is more important today than social justice," says a Kazakh banker. The new element in Kazakh society is a swathe of young, mostly foreign-educated, technocrats who occupy top agency and ministerial posts. Many of them did a stint at the National Bank of Kazakhstan, which has a reputation for effectiveness and integrity. Many are also close to the private sector, in fact some of them have links to major Kazakh industrial groups. Minister of energy and trade Mukhtar Ablyazov, used to run Astana Holding, which among other things owns Bank TuranAlem. Finance minister Uraz Jandosov, former National Bank governor, is said to be close to Kazkommertsbank, the centre of another industrial grouping, "although that may be simply because it's intelligently and successfully run", suggests one source.

The link between big business and government may leave foreign investors uncomfortable, but most learn to live with it. Attempts to win influence in the corridors of power are fraught with difficulty for the outsider. "It's a hornet's nest," says one western lawyer. "Investors spend a huge amount of management time dealing with government corruption and interference. For example, government ministers interfering with the judicial process." Some investors conclude that you have to cheat to get ahead.

Those with a long-term view of Kazakhstan are bullish about its future, because they believe it is doing everything it can to stabilize its economy. One such is Martyn Nicholls, resident representative in Almaty of the EBRD who admires the toughness of the government's budget cuts and its pessimistic forecasts for the years ahead. "Where else do we have direct access to the president?" says Nicholls. "This is a country where we can make a difference." The EBRD helped set up the Foreign Investment Council and more than doubled its operations in Kazakhstan in the 12 months to June 1998 to around \$550 million of lending and investment.

At the micro level, the EBRD has an investment fund designed to commit no more than €5 million at a time to private-sector projects. Its average investment is around €2 million. "We have great trouble identifying good projects," says Michael Waxman-Lenz, who has run the so-called GIMV Kazakhstan Postprivatization Fund for three years. About a third of the fund's €33 million has been invested, with another 10% approved. Joint venture partner GIMV of Belgium chipped in €3 million. Often the investment is

***"The courts are sometimes not effective and sometimes not fair. It's a problem of the whole system here"***

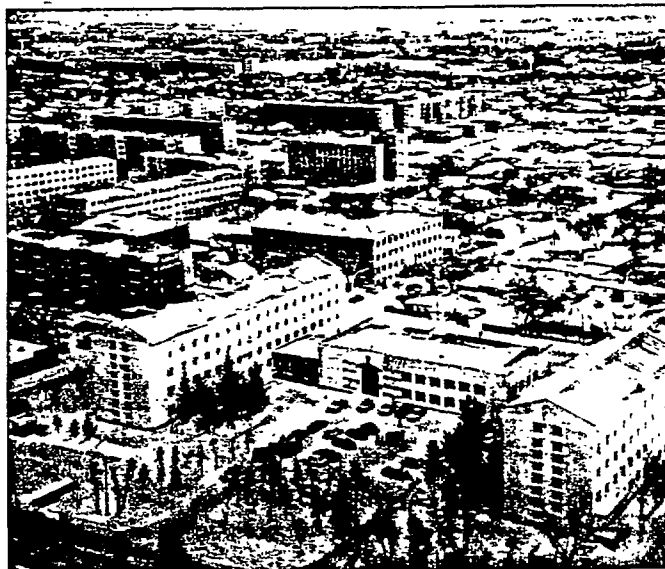
accompanied by an EBRD loan "which gives us additional creditor rights, and serves as an early warning system on likely problems," says Waxman-Lenz. More and more he is looking at joint ventures with some input from foreign management, since local management skills don't suffice.

US government money set up a \$150 million Central Asian American Enterprise Fund, covering five central Asian countries, which has invested around \$30 million in Kazakhstan. The fund's chief investment officer John Owens praises Kazakhstan's efforts to develop a legal and regulatory framework for investment: "Investors have more flexibility here for creating debt with equity features, loans with warrants or options, than in other central Asian republics." One of the objectives of the US funds in former iron curtain countries is to attract parallel investment. Owens believes such money wouldn't want to target specific central Asian countries today, but "it might be possible to raise a sector-specific fund", he says. He's planning to launch at least three sectoral funds in the region this year, but won't say which sectors he has in mind.

Of the totally private funds only two, AIG Silk Road Fund and Kazakhstan Investment Fund (KIF) have resident managers in Kazakhstan. "We've made no equity investments since October 1998," says Javier del Ser who runs KIF. It has 47 equity investments in Kazakhstan totalling around \$32 million, of which the biggest is a stake in Almaty Power. Another \$8 million is invested in debt instruments, but not Kazakh T-bills. One opportunistic investment was in Kazakh government debt held by "a nervous bank", del Ser won't say which. KIF bought a \$5 million participation in a syndicated loan at a yield of 30% and it was paid off by the ministry of finance in mid-March.

AIG Silk Road Fund has \$70 million to invest in eight central Asian countries. Scott Foushee who runs the fund won't say how much has been invested in Kazakhstan over the fund's 18-month life. "The environment is worse than a year ago, because of the oil price and the Russia crisis," he says. Investment in securities is hardly an option for this pure equity fund, but it has invested in one Kazakh company listed as an OTC stock, Foushee says.

In the basement of Aiteke Bi 67, in what looks like a lecture hall, a handful of dealers sit in rows at their screens. From 10.15am until 11.00am they trade currencies, mostly dollar against tenge although Deutschmarks and euros are also quoted. From 10.30 until 11.15 is the time for futures, although since mid-February no-one has been prepared to make a market. Most of the time the National Bank is the only seller of dollars, and the NBK deals from a remote terminal. There is no reason why dealers should come to the exchange, since it's entirely electronic. But the terminals were established there when communications were bad, even within Almaty: telephone connections still frequently go dead in mid-conversation. But banks are also able to deal foreign exchange over-the-counter. Perhaps their only reason for using the exchange is to buy dollars from the NBK which seldom deals interbank.



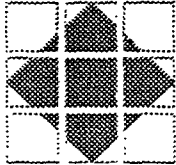
Astana, the new capital, where public service "is like a drug"

At 11.30 it's the turn of the stock market and the bank dealers hand over to the securities brokers. Equities are traded only for an hour. But government securities and corporate bonds (such as they are) are traded until 18.00. Repos are also traded. Since banks insist on taking collateral for interbank lending, the repo market substitutes for a short-term money market.

USAID advisers persuaded the ministry of justice to outlaw all trading of securities off the exchange, in the interests of a transparent market. Even if deals are agreed on the telephone, the bids and offers must be entered electronically for all to see. The only exceptions are share deals comprising fewer than 50 shares.

In March the NSC spotted that \$2.5 million of equity trades involving three broker-dealers had been transacted off-exchange. The NSC is also pursuing two enforcement actions, one is the case of a broker absconding with customer proceeds, the second is a company's failure to pay a dividend which shareholders had voted.

Despite the low level of capital markets activity, investors keep calling, says Madina Dushimova, director of research at Kazkommerts Securities. She finds her biggest task is explaining why Kazakhstan is different. That's made more difficult because government officials, who should be giving the same explanation, are mostly in the new capital Astana. Astana was inaugurated in a grand ceremony last June. Finding officials' telephone numbers is still a problem. Despite the extremes of heat and cold, some of the new technocrats like the challenge and the austerity. Even government ministers need to get permission to leave Astana for the fleshpots of Almaty. "In Astana you just work," says a US-educated young technocrat. "It's a kind of fraternity, although we don't really mix with the locals - apart from my driver of course. State service is like a drug."



**The Pragma Corporation**  
**USAID Securities Market Development Project**  
**Monthly Report**  
**(For the period ending May 31, 1999)**

For the  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	David Lucterhand
COTR USAID/CAR	Rick Gurley

ALMATY, KAZAKHSTAN

**The Pragma Corporation**  
**USAID Securities Market Development Project**  
**Monthly Report**  
**(For the period ending May 31, 1999)**

**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 May 1999.

- DRAFT ASSESSMENT OF SECURITIES MARKET LEGAL AND REGULATORY STRUCTURE DELIVERED
- NEW PRESIDENT OF KASE APPROVED BY MEMBERSHIP
- PARTICIPATION IN WORLD BANK CONFERENCE, REPUBLIC OF KYRGYZSTAN
- DRAFTING OF REGULATIONS FOR NSC CONTINUES
- POST CONFERENCE RESULTS; OBLASTS MANGYSTAU AND PAVLODAR REQUEST TECHNICAL ASSISTANCE.
- ATTENDED CONFERENCE FOR FINANCIAL PROFESSIONALS

**II. PROJECT DESCRIPTION**

The Pragma Team works with the National Securities Commission ("NSC"), the Kazakhstan Stock Exchange ("KASE"), broker-dealers and the Central Depository in developing Kazakhstan's securities market. To further these goals, the Pragma Team has been working under a MOU between USAID and the NSC. Pragma also has been working with KASE under the auspices of a 1998 Memorandum of Understanding which established the goals and ground rules for cooperation. While these MOUs have expired, Pragma, KASE and NSC continue to cooperate in accordance with the pre-existing agreements.

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 its completion date. The priorities of the Project for this period are noted in the boxes below in section 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.

Although the Central Asian Fixed Income Conference was technically "over", many administrative issues remained throughout May. Administratively, thank you notes had to be written to speakers, participants, and to the directors of conference and banquet facilities used during the conference. Transportation costs (surface and air), translators and final hotel bills

had to be paid. AV tapes had to be reviewed and edited for inclusion onto the web site, and speeches transcribed. Lastly, electronic files for inclusion in the proceedings were prepared. Most important, the second aspect of post-conference activity centered on responding to requests for technical assistance from corporations and municipalities that had representatives in attendance. This included responding to requests from the Oblasts of Mangystau and Pavlodar for technical assistance in structuring and issuing municipal debt (*See Attachment 1*).

In other developments, the regional consultant in Uralsk, working with Privatization Investment Funds (PIF), succeeded in getting nine blocks of shares listed OTC II from the PIF's portfolio. This complemented efforts made in April when fourteen blocks of shares were listed. Efforts continued with Vita, the food processor and distributor of vegetable oils, to structure an issue on the basis of an asset repurchase agreement. However, the consultant working with them reported that they were planning a private placement which was contrary to our signed protocol of intentions with them. Consequently, a letter was sent reminding them that our assistance was predicated on their doing an issue through KASE.

During the month, several meetings were held with broker-dealers regarding the need for reduced net worth requirements for "A" listed securities; the rationale being that there are many well run companies that are profitable but with limited access to capital. This is because pension funds are the only real domestic institutional investors in Kazakhstan but are limited to investing in "A" listed securities. Lowering the net-worth threshold while maintaining and possibly strengthening the other listing requirements could result in more companies being listed "A". The result would be more middle market companies having access to less expensive investment capital. After consultation with KASE, the corporate finance group began a comparative analysis of listing requirements for other exchanges globally in preparation for recommending new listing guidelines.

As of May, a total of thirty-four companies that had been advised by Pragma are now listed OTC II. Training for NSC and KASE staff began the last week in May. This training is expected to continue for three additional weeks each Monday, Wednesday and Friday. The objective is to expose staff to SRO issues surrounding regulatory matters and surveillance procedures. In April, the abrupt resignation of the KASE President left the exchange with its Vice President, Damir Karaseav, acting as president. In May, the membership formally approved him as the new President of KASE. In response to the need for alternative products, KASE worked closely with KazKommertsBank to introduce Deposit Certificates. These financial instruments had short maturities, offered yields similar to corporate securities of equal credit quality, and would be denominated in U.S. dollars. The Certificates, however, did not appear this month as they ran afoul of currency regulations.

Relative to the NSC: Chairman Joldasbekov convened an inter-agency meeting to discuss ways of streamlining the reporting from pension funds to the Commission. The meeting involved senior and technical staff members from the NSC, the Central Depository, The Pension Reform Project, and Pragma. As a result, an inter-agency group was formed to coordinate technical matters and problem resolution to implement the new reporting system. Pragma's technical team estimates that it will take approximately three months to write the software, and test the systems, and make relevant changes. On legal matters, the rigorous schedule of drafting regulations and commentary on existing or proposed regulations continued. A list of specific regulatory drafts and comments is attached. And, finally, the anticipated draft summary and assessment of the legal and regulatory structure for the Kazakh securities market was completed and submitted to USAID. (*See Attachment 2*)

Support for the [www.kazecon.kz](http://www.kazecon.kz) continued with a new web site design and structure completed and ready for testing. Additionally, a Request for Proposal (RFP) for the privatization of the web site was posted on the web site and announced in the business paper *Panorama*.

On other matters: the transformation of DSPP into the Committee for State Property and Privatization (CSPP) continued. We expect that a plan clarifying privatization will be issued by the committee sometime in June; two members of the corporate finance team participated in an Asian Development Bank Asset Management seminar and passed exams, thereby receiving certificates of proficiency in the principles of asset management (*See Attachment 3*); lastly two Senior Advisors and the Chief of Party attended the Capital Markets Development conference in Bishkek, Kyrgyzstan organized by The World Bank. Each delivered an address related to their areas of specialty.

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

#### Task 1 - Continued Assistance to the NSC

Defined Activity	Progress Made During the Month
1. Draft regulations.	<ul style="list-style-type: none"> <li>• The Team's Legal Group continued its work on various laws and regulations noted below:</li> <li>• <i>Capital Rules for Pension Fund Managers</i>-Delivered comments on the NSC draft rule which governs the capital/financial norms for pension fund asset management companies. This rule governs the finances of the management companies themselves, not their investment of pension assets.</li> <li>• <i>Evaluation of Shares in Redemption Offers</i>: Comments are being developed on the NSC draft which addresses the provision within the Joint Stock Company Law that requires companies wanting to buy back their shares to do so at the average weighted market value of the preceding thirty days. The commentary focused on the meaning of "average weighted price" when there is no market for the company's shares.</li> <li>• <i>Placement of Shares in Closed Offerings</i>: Comments were delivered on the NSC's draft instruction detailing when securities are exempt from registration (roughly equivalent to a private placement in the U.S.)</li> <li>• <i>Draft Rule on Custodial Activity</i>: NSC has requested that we draft a new regulation on custody to replace the existing one. The regulation governing custodians should assure that custodial assets are readily identifiable at all times, with appropriate audit trails and internal controls in place.</li> <li>• <i>Regulation for Registrars of Closed Joint Stock Companies</i>: Comments are being developed for the NSC which address issues such as: the legal consequences of deviating from proscribed procedures; and when should registrars decline to register transfers in a closed company if the number of shareholders would exceed 100.</li> <li>• <i>NSC Draft Revision of Reporting Requirements for Professional Participants in the Securities Markets</i>: Comments are being developed on draft regulation which cover the monthly or quarterly reports to be made to the NSC by broker dealers, exchanges, custodians, the central depository, and registrars.</li> </ul>



Defined Activity	Progress Made During the Month
	<ul style="list-style-type: none"> <li>NSC Draft Rules for Pension Asset Management Company Internal Procedures: Comments are being developed which address the internal regulations of asset managers such as investment criteria and selection process, organization and job descriptions, order forms and other documentation, settlement procedures and risk control, control of confidentiality, data integrity, and conflicts of interest.</li> </ul>
<p>2. Assist in establishing enforcement power of NSC.</p>	<p>Comments were delivered to the NSC addressing remedies for securities law violations. This included changes to the Administrative Code which would allow it to impose fines for certain violations. This was in response to highly inflexible NSC remedies for violations especially as it pertained to issuers. (See Attachment 4)</p>
<p>3. Assist NSC in moving off-exchange trading to KASE.</p>	<p>Virtually all off-exchange trading through broker-dealers has been eliminated.</p>
<p>4. Establish NSC Data Warehouse/Trade Reporting System.</p>	<p>The Technological Support Group continued its ongoing work with the NSC. During the month the Group:</p> <p>Continued working on the NSC reporting system for managers of pension fund assets by:</p> <ul style="list-style-type: none"> <li>Meeting with custodian banks to analyze systems used to collect information from pension funds with the purpose of minimizing collection efforts while analyzing the data required by NSC.</li> <li>Conducted negotiations with KASE and the CD to develop unified lists of issuers, currencies, professional participants, equities and bonds.</li> </ul> <p>Continued work on the internal NSC information system by:</p> <ul style="list-style-type: none"> <li>Developing a database of persons with qualifying certificates.</li> <li>Training NSC to use the system.</li> <li>Began development of the Registry of Government Securities issues by Min Fin and the National Bank through which the NSC assigns NSINs</li> </ul> <p>Other:</p> <ul style="list-style-type: none"> <li>Completed graphic design for the NSC web site. The design has been submitted to the NSC Directorate for approval.</li> <li>Continued technical support for <a href="http://www.kazecon.kz">www.kazecon.kz</a> web site</li> </ul>

**Task 2 - Blue Chip Privatization**

Defined Activity	Progress Made During the Month
1. Assist and monitor the privatization of state owned shares.	Our regional consultant in Astana is in continuous contact with DSPP committee members involved in the transformation to CSPP.
2. Assist and involve Broker/Dealers in working w/GOK privatization.	Discussion with broker-dealers regarding the implications for privatization continued while the conversion of the DSPP to C (Committee) SPP is underway.
3. Advocate share listings of blue chip companies w/KASE.	The CSPP reorganization is still underway. This should result in a regulation that codifies the change in privatization procedures. We expect to see a reference in the regulation requiring the use of KASE for the sale of specific state owned shares.

**Task 3 - Development of the Markets**

Defined Activity	Progress Made During the Month
1. Encourage companies to list on KASE.	<p>The team successfully completed getting nine companies listed OTC II on KASE. This combined with the previous month's activity resulted in 23 companies or packets of shares being listed in two months. One company "Bolshoy Dom" was listed OTC I.</p> <p>On other matters, the Group:</p> <ul style="list-style-type: none"> <li>• Continued advising Vita on structuring a debt issue using a sale and asset repurchase agreement. Management was advised that our assistance was predicated on Vita using KASE for sale of their bonds even if the bonds no matter how few the buyers.</li> <li>• Reviewed the prospectus of Jety Su Gaz before its submission to the NSC.</li> <li>• Held meetings with Deputy Akims in Pavlodar, Astana, and Almaty to establish contact and to determine their plans for issuing municipal bonds. This was all part of post fixed-income conference activity.</li> <li>• Advised Center Credit Bank on the listing process.</li> <li>• Analyzed PromInvest PIF portfolio's list of share blocks for possible sale through KASE.</li> <li>• Established initial contact with "PS Agro Pak", "Inkom Mebel," "ShymkentPivo."</li> <li>• Signed a Protocol of Understanding (POI) with KIIK, a printing company to assist them in listing OTC I or "B" to issue bonds.</li> </ul> <p>As of the end of the month, 74 companies or securities issues were listed on KASE broken down in the following way:</p> <ul style="list-style-type: none"> <li>• Seven "A" listed with eleven issues.</li> <li>• Ten "B" listed with eighteen issues.</li> <li>• Fifty-seven listed OTC I &amp; II with seventy-one issues.</li> </ul> <p>These numbers exclude companies placed by the DSPP.</p>

Defined Activity	Progress Made During the Month
<p>2. Encourage trading on KASE.</p>	<p>1. The corporate finance group began collecting information on the listing requirements of other global exchanges as the first of a series of steps to compare listing requirements worldwide. This review is expected to result in set of recommendations to both KASE and NSC that they both reconsider current requirements in light of reduced blue chip privatizations.</p> <p>2. Continued work on upgrading ten companies from OTC II to OTC I. Discussions were held with broker-dealers to increase their interest in quoting bids and offers in these securities.</p> <p>3. Assisted KASE in their introduction of Deposit Certificates as investment instruments by surveying insurance companies for indications of interest.</p> <p>4. Continued listing efforts</p>

**Task 4 – Continued Assistance to KASE and the Central Depository**

Defined Activity	Discussion of Progress Made During the Month
<p>1. Support KASE in accepting the SRO responsibilities of the Association of Broker/Dealers (ABD)</p>	<p>Meetings were held with NSC Commissioner Shalgimbaeva to confirm the NSC's commitment to continue the transfer of SRO responsibilities to KASE. This was confirmed and reference to it is included in the overall 1999 NSC work plan. Further recommendations were made to KASE to take over more SRO duties from the NSC including a certification program for individuals working as Professional Participants of the Securities Market, and for KASE to act more on behalf of its members.</p>
<p>2. Assist KASE to finalize rules for market-makers/work in conjunction with Broker-Dealers.</p>	<p>Trade activity was analyzed through May with the purpose of identifying issues which could be recommended to BD's for market making. Proposals for KASE implementing procedures and incentives for market making were discussed with Damir Karasaev, President of KASE.</p>
<p>3. Improve broker-dealers operational efficiency and transparency.</p>	<p>Pragma is paying for the new enforcement officer at KASE. She has prepared a work plan and is participating in our formal training sessions for SROs.</p>
<p>4. Provide assistance to the Central Depository (CD).</p>	<p>Technical discussions were held with KASE and the CD related to unifying lists of issuers, currencies, professional participants, equities, and bonds. The objective will be to develop a common standard for use in the system.</p>

**Task 5 - Other Activities**

Defined Activity	Progress Made During the Month
1. Make the USAID web site a self-sustaining entity.	<p>The Request for Proposal (RFP) for privatization of the web site were posted on <a href="http://www.kazcccon.kz">www.kazcccon.kz</a> and announced in the business newspaper-<i>Panorama</i>.</p> <p>A new version of the <a href="http://www.kazecon.kz">www.kazecon.kz</a> web site was completed. Testing, which required on site visits to the web site server, was delayed in order not to interfere with the posting of the RFP on the web site. (See Attachment 5 )</p>
<p>Chief of Party and Senior Capital Markets Advisor present papers at World Bank sponsored conference in Bishkek</p> <p>Senior Capital Markets Advisor presents paper on the status of the securities markets in Kazakhstan</p>	<p>David Lucterhand, Rick Dvorin, and Tim Smith participated in a Capital Markets Development conference May 18-19 in Bishkek. In attendance were senior governmental officials, representatives from USAID, World Bank, The National Bank of the Kyrgyz Republic, The National Commission for the Securities Market, and the Kyrgyz stock exchange.</p> <p>Lucterhand presented a paper on <u>The Role of International Accounting Standards in Building Market Liquidity</u>; Dvorin presented a paper on <u>Capital Market Instruments &amp; Infrastructure: Underpinnings of an Efficient Securities Market</u> and Smith, a paper on <u>The Role of Computer Systems in Creating an Efficient Market</u>. (See Attachment 6)</p> <p>Rick Dvorin made a presentation to the Asian Development Bank Pension Reform Project stressing opportunities for pension fund investment.</p>

**IV. ADMINISTRATIVE ISSUES**

None

**V. PROJECT STAFFING**

The following personnel were engaged in project activities this month:

Richard Dvorin, Senior Capital Markets Advisor

Kevin Fogarty, Senior Legal Advisor

David Lucterhand, Chief of Party

Timothy Smith, Senior Technical Advisor

**USAID SECURITIES MARKET DEVELOPMENT PROJECT**

**Monthly Report for April 1999**

**List of Attachments**

- Attachment 1. Letter from the Akim of Mangystau Oblast
- Attachment 2. RK Securities Market Legal Summary and Assessment
- Attachment 3. Asian Development Bank Seminar Program
- Attachment 4. Monthly Report of Kevin Fogarty for April, 1999
- Attachment 5. Web Site Privatization RFP
- Attachment 6. Capital Markets Development Conference, Bishkek, May 18-19

# DRAFT SUMMARY AND ASSESSMENT OF LEGAL AND REGULATORY STRUCTURE FOR KAZAKH SECURITIES MARKET

By Kevin Fogarty

Pragma Corp.

7 May 1999

This assessment of securities law and regulation in Kazakhstan begins with two descriptive sections covering the structure of the legal system and the basic statutes relevant to the jurisdiction of the National Securities Commission. These are followed by section 3, discussing needs for improvement, and a brief section 4 summarizing the conclusions of section 3.

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## 1. STRUCTURE OF THE LEGAL SYSTEM

The country's highest law is the constitution. Below this are "constitutional laws" and equivalent presidential decrees. These are largely procedural and jurisdictional in nature, such as the decree on the presidency and the decree on the parliament.

Most statutory law can be found in codes, laws and equivalent presidential decrees. This includes, for example, the Administrative Code, the Civil Code, the Criminal Code, the Code of Civil Procedure, the Code of Criminal Procedure, the Joint Stock Company Law, the Securities Market Law, the Bankruptcy Law and the Decree on Licensed Activities. These laws and decrees are of equivalent authority, and in case of conflict, the more recent enactment prevails.

Various types of presidential, parliamentary and agency regulations come at the next level, and the decisions of municipal authorities come below these.

The National Securities Commission operates pursuant to the Law on Securities Markets. Its rulemaking authority is subject to substantive compliance with that law as well as with equivalent and higher laws. Before a Commission regulation is registered and takes effect, the Ministry of Justice must find that it is consistent with these laws. There are no other procedural requirements for adoption of regulations, except the Commission's own internal requirements. These do not include mandatory public notice and comment, although proposed regulations will sometimes be circulated to interested parties outside the Commission.

Administrative agencies listed in the Administrative Code may impose fines subject to the Code's procedures and to judicial review. The Commission is not listed there. However, as described below, the Commission may apply to a court to impose fines or order forfeiture to the state of unlawful income from unlicensed activity. Injunctions against further violation also appear to be available. The Commission itself may, subject to judicial review, suspend or revoke licenses pursuant to the Securities Market Law and the Decree on Licensed Activities. These do not specify procedural requirements, and the Commission as yet has few formal requirements of its own. In addition, the Commission has less well-defined powers to resort to a court on behalf of investors and other market participants.

## **2. BASIC STATUTES**

### **2.1 The Joint Stock Company Law**

Kazakhstan's Joint Stock Company Law ("JSC Law") follows the general structure of the Russian joint stock company law. It provides for "closed" companies, "open" companies and "open public" companies. Closed companies must have 100 or fewer shareholders. A closed company may distribute its shares only in closed offerings, and shareholders may only sell their shares subject to preemptive purchase rights on behalf of other shareholders and the company. Companies without such alienation restrictions are open companies and may have any number of shareholders. In both open and closed companies, existing shareholders have preemptive rights to purchase new issues of shares (or securities convertible to shares) in proportion to existing holdings. An open company quoted on an organized market, having 500 or more shareholders and meeting a

minimum asset test becomes an open public company. All joint stock companies are subject to minimum capital requirements.

Among other things, charters may provide for limitations on shares or votes for one holder as well as for "golden" shares with veto power on specified subjects but no vote, no dividend and no place in the calculation of charter capital. Common shares may be of only one class, although voting preferred shares are possible. Preferred shares in general may not exceed 25% of the company's authorized charter capital. Bearer shares are prohibited. Subject to certain qualifications, shares may be distributed at market or nominal value and paid for in cash or in kind. Shares have no dividend or voting rights before paid in full to the company.

Share redemptions are permissible subject to market pricing, solvency, minimum capital and equal access restrictions. Redemptions may not exceed 25% of shares and pay-out may not exceed 10% of equity. Redemption at not less than nominal value may be demanded by shareholders in certain cases involving major corporate changes. Redemptions are pro rata where they otherwise would exceed limitations. Certain redemption restrictions are voidable in certain circumstances.

The law also regulates offers and responses involving large share acquisitions and requires acquirers of 30% of voting shares to offer to buy the rest. There are information requirements applicable to persons acquiring more than 5% of the shares in a public company.

Companies may issue options and warrants on their own securities, but the distinctions and restrictions relating to these are confused. There is also confusion regarding restrictions on the "conversion price" of convertible securities.

Open companies with 500 or more shareholders must retain independent registrars to keep securities registers. Other companies must at least have an internal NSC-certified specialist. Public companies must use an independent registrar or the central depository. Registers for securities other than shares must always be kept by an independent registrar.

Securities may be issued in certificate form unless they are traded on an organized market or unless they are shares of a company required to retain an independent registrar. The JSC Law also contains various requirements applicable to registrars and nominal holders. Securities are generally subject to pledge.

Companies in default on their obligations to the state may be required to issue new equity to the state, which will publicly offer it for resale. Disclosure requirements in this context are unclear.

The shareholders meeting is the company's highest body. The shareholders meeting elects and terminates directors and audit committee members and votes on various important matters, including the annual dividend and large transactions. Charter amendments, changes of form, reorganizations and liquidations require two-thirds of



issued voting shares. Besides the company bodies, a person or group holding 5% of the voting shares may call a shareholders meeting.

Notice of meetings may be by publication unless there are 100 or less shareholders or the shareholder requests and agrees to pay for individual written notice. Selective notice is prohibited. A quorum is 50%, and, failing that, a follow-up meeting with a 40% quorum (25% for companies with over 10,000 shareholders) may be called. Proxy voting is available, except as to decisions where the charter provides otherwise. There is one vote per share except for cumulative voting in elections.

The board of directors is the general management body, elected annually. Although apparently the charter may give some of the board's functions to the shareholders meeting, it may not delegate them to the executive body. Except for its chairman, members of the executive body may not be on the board of directors in an open company. At least half the members of a public company's board must be independent directors. Directors of open companies must be elected by cumulative voting; this is optional for closed companies.

Daily management is by the executive body. It may be one or several persons and is appointed and dismissed by the directors.

A company may also have an audit committee of one to three persons elected and dismissed by the shareholders meeting. Its members must be shareholders or professional auditors and may not be members of the board or executive body. It may conduct an audit on its own initiative or on the request of the shareholders meeting, the board or holders of 10% of the shares. It must audit the annual financial reports, which may not be approved by the general meeting without the committee's report or, for a public company, the auditor's.

Members of the board, the executive body and the audit committee ("officers") must act conscientiously in the company's best interests. They are liable to the company for lapses and may be sued by it on authorization from the shareholders meeting. They are similarly liable to creditors in cases of involuntary liquidation for company obligations that the company cannot meet. Shareholders are authorized to challenge company decisions in court and to "appeal to state bodies" for protection of their rights.

Transactions involving 25% or more of the company's book value or securities (10% for public companies) and other transactions designated in the charter are large transactions. They are subject to safeguards as to market value, shareholder approval, creditor notice and redemption rights.

Special procedures also apply to most transactions in which the counterparty or its representative or, in the case of a legal entity counterparty or representative, its affiliated persons, are officers, affiliated holders of 10% of the voting shares (5% for public companies), their families or affiliated persons of the company. These include notice requirements, market value requirements and approval by disinterested board members

(disinterested independent board members for public companies) or disinterested shareholders where there are no disinterested board members. Approval may be by disinterested shareholders where the transaction value exceeds 5% of asset book value or 5% of voting securities.

Large transactions or interested party transactions may be judicially invalidated if required procedures are not followed.

All companies must have an annual report. The audit requirement is ambiguous. Audits at any time may be demanded by holders of 10% of paid shares, or, as to annual reports, by any shareholder at his own expense. Open companies must publish in the press an annual balance sheet and income statement. Public companies must do this quarterly. They are also required to file notice regarding material events.

Reorganizations are subject to shareholder approval (except for small acquisitions) noted above as well as to various informational requirements and creditor rights. Liquidation may be voluntary or involuntary. Creditor claims are satisfied first, followed by redemption claims, preferred dividends, preferred nominal value, and residual shareholder claims.

The Kazakh Civil Code also provides for juridical entities other than joint stock companies, such as limited partnerships.

As the discussion above indicates, certain matters treated in the joint stock company law are or are closely related to what Americans think of as securities law. Thus the definitions of closed, private and open offerings and which of these require registration are treated in the JSC Law, as well as in securities law. The JSC Law also defines a public company and requires that trades in the shares of such companies settle through the central depository or an independent registrar, besides establishing special corporate governance rules for such companies. It requires open companies to file reports of share distributions, establishes tender offer requirements, large holder disclosure requirements, certain registry and registrar requirements, dematerialization requirements for shares traded on an organized market, and various disclosure requirements, including a basic continuous reporting requirement for public companies.

A number of references to the "authorized body," meaning the National Securities Commission, also appear in the JSC Law. The "authorized body" draws up the list of press organs wherein publication will be deemed adequate to satisfy the law's publication requirements. It establishes procedures for a company's offer of pre-emptive rights to new share issues. It must be notified of various events, and it regulates settlement procedures for trades in shares of public companies. The JSC Law also requires that reports of share distributions be approved by the authorized body before the money raised can be released. The authorized body assigns issue identification numbers for all share issues whether distributed publicly or privately. It hears appeals relating to share redemptions, regulates disclosure relating to tender offers and large acquisitions, regulates bond issues, reports on international bond issues, issues registry regulations for

public companies, certifies registry specialists, and registers and reports on shares sold to cover debt to state.

At the same time, the JSC Law defers to the Securities Market Law on certain corporate matters, including the distribution of meeting notices and proxies to beneficial owners of shares held in nominee name.

## 2.2 The Securities Market Law

The Securities Market Law (“SML”) broadly sketches the scope of the law and the meaning of various terms and concepts that it uses. It directs the president to establish a regulatory body (the National Securities Commission) and subjects securities issues to registration requirements. Most financial organizations must register all issues. However, for other joint stock companies, all “initial” issues of shares are exempt, as are private and closed issues. The offering restrictions and requirements for equity issues by entities other than joint stock companies are hazy. All non-state debt securities must be registered, and there is no statutory exception for limited offerings. State securities are exempt from registration.

Registration procedures and requirements are determined by NSC regulation. The NSC may deny, suspend or cancel an offering if the registration materials are false. Cancellation entails return of funds, at the NSC’s suit if necessary. Issuers must publish information on a new issue in the mass media within 30 days after registration and must provide investors an opportunity to review the prospectus prior to purchase.

Great store is placed by the report of issue and placement. Issuers must report on the progress of the distribution each six months while it continues and one month after it ends. Public companies must file and publish quarterly financial reports with distribution information. Failure to file the report, or filing a false one, can result in the issue’s cancellation. As noted above, the JSC Law forbids utilization of funds until such a report is filed. Beyond this, the issuer’s post-distribution disclosure requirements are limited to stock exchange quarterly report requirements and the periodic reporting requirements imposed on public companies by the JSC Law.

The SML enumerates and describes various professional activities and authorizes the NSC to license them, and to impose qualification, financial responsibility, disclosure and ethical standards. Broker-dealers are forbidden from entering transactions detrimental to their clients, and there is a ragged prohibition on insider trading. Non-financial activities cannot be combined with securities professions. Banks’ securities activities appear subject to both the NSC and the banking authority. Licensing of trade clearing facilities is committed to the NSC and the central bank jointly. Custodians are defined solely as banks, their custodial activity is subject to regulation by both the central bank and the NSC, but they are licensed by the NSC. The law also addresses depositories, registrars and portfolio managers. Registrars are required to be independent of issuers. There is also an article regulating manufacture and import of securities certificates.

Stock exchanges are also regulated. They are required to be non-profit, self-regulatory, closed joint stock companies independent of state bodies, formed by professional market participants, engaged exclusively in stock exchange business, which includes trade in "financial instruments" and ancillary trade processing, but does not include commodity trading. An exchange must have a "floor" and carry out various trade-related functions. It must have at least ten members. The members need not be shareholders. Shareholders have equal votes in decisions by the exchange's "supreme managing body." Although the NSC has some regulatory power over the exchange, there is no express provision for appeal of exchange decisions. Exchange trading rules are subject to NSC approval. Dual listings are banned. Issuers of admitted securities are subject to quarterly and other disclosure requirements.

Regulation of organized OTC trading is somewhat less detailed, but the OTC trading organization must also be a non-profit, closed company with the same number of votes in the supreme management body for each shareholder, and be exclusively engaged in its business. The self-regulatory character of the OTC organization has been blurred somewhat by recent amendments to the securities law. The organization's trading rules must be approved by the NSC. As with exchanges, there is no explicit right to appeal sanctions or denials of access.

Finally, the law addresses self-regulatory organizations. These must be non-profit associations of professional market participants. As with exchanges and OTC trading organizations, SROs must pursue certain objectives and are subject to certain internal governance requirements and licensing requirements. Their rules must receive NSC approval, but again there is no right of appeal from actions against members.

The NSC's powers include broad rule-making authority (subject to approval), authority to deny, suspend or cancel issue registrations and distributions, the right to deny, suspend or revoke professional licenses and even to control professional fees. The NSC can inspect issuers and market professionals, and thereafter issue compliance orders and suspend securities transfers.

These powers and the Commission's functions are elaborated in greater detail in the Regulation on the NSC, but the Regulation also seems more to suggest certain merit regulation powers for the NSC, at least as to new types of securities and foreign securities. The regulation also gives the NSC power to "request and receive" information from various state agencies as well as from "other bodies and organizations and physical persons" pertinent to "their" activities on the securities market. It also makes the NSC an arbitration tribunal. And it allows the NSC to go to court to protect the legal interests of market participants.

The Commission's structure is also established in the Regulation. The NSC has seven commissioners, including the chairman, a presidential representative, a cabinet representative, a National Bank representative and three executive directors. The President appoints and dismisses all members except the cabinet and Bank representatives. The executive director members he appoints and dismisses on the

chairman's recommendation. The chairman and three executive directors, who head NSC divisions, are responsible for executive management of the NSC.

### **2.3 The Law on Registration of Transactions in Securities**

The Law on Registration of Transactions in Securities ("Registry Law") establishes the basic structure for registration of securities ownership and its transfer. The Registry Law recognizes issuers, and, if licensed, broker-dealers, custodians, the central depository and registrars as eligible to register title and its transfer. Nominal holders register on their own books the ownership rights (and encumbrances) held in their name on behalf of their customers. They are not regarded as owners themselves, however, and their creditors have no claim against the nominally held securities.

Securities entitlements are distributed through the nominal owners to their customer accounts. Nominal owners may be required to furnish customer identification information to registrars, the central depository or the issuer, unless otherwise directed by the customer. This apparently is to facilitate distribution of information as to shareholder meetings and the like. Nominal holders are required to segregate accounting for customer and proprietary positions.

Registrars record the names of nominal and direct holders of a security. The central depository records the nominal and proprietary holdings of the broker-dealers and custodians who are its participants. Transfers among those owning through a single nominal holder are not supposed to be reflected on the depository's books, although in fact they sometimes are.

Besides registering transfers and encumbrances, nominal holders are required to make reports to their clients.

Registrars are prohibited from engaging in other securities market businesses. However, the JSC Law permits the central depository to keep the registry for a public company. An issuer may have no more than one registrar. An issuer may not interfere with the registrar, "unless it is done for the purpose of exercising control over the authenticity of information in the registry." The Registry Law does not define registrar independence, although the JSC Law, the SML and registrar regulations do set such requirements (see above). The Registry Law regulates termination of a registrar's contract and requires public disclosure of a change in registrars. Registrars must submit any changes in their constituent documents that relate to securities market activities to the NSC to review for legal compliance. The NSC also may cap registrar fees.

Custodians are defined generally as those providing nominal holder services. They may not be affiliated with their clients. The law sets out various topics a custodial contract should cover but focuses more on scope and form than content. Custodians must be licensed by both the central bank and the NSC. The NSC, however, regulates their custodial activities per se. Amendments to custodians' constituent documents must be submitted to the NSC to review for compliance with the custodian's license.

Broker-dealer custody agreements are likewise regulated as to scope and form with few requirements as to content. Broker-dealers who amend their constituent documents must submit these to the NSC for review for compliance with the license.

The central depository appears to be contemplated as a monopoly organization, although this is not stated in so many words. It is required to be in closed joint stock company form with any profits restricted to internal development and distribution forbidden. Its customers are its depositors: custodians and broker-dealers who are nominal holders. The central depository may not refuse services to custodians or to broker-dealers licensed as nominal holders. However, the Registry Law does not state the legitimate grounds for denial of access nor make provision for its review or appeal.

Besides various activities relating to nominal holdings, the central depository is authorized to dematerialize securities, clear transactions, provide consulting, information and other activities consistent with law and to create "transfer agents." These last are not transfer agents in the American sense, but seem to be merely offices or authorized agents of the depository who forward transfer orders on behalf of depositors and confirmations and other information on behalf of the depository. The depository may not engage in manufacturing, trade, or insurance or participate in corporate equity.

The central depository's clearing activities are licensed by the central bank. Money-side settlement is made by order to the "settlement institution," and securities are settled at the central depository.

Most details of central depository operation are governed by its Code of Rules, which must be approved by the NSC.

The Registry Law also governs documentation required for securities transfers (written orders from all sides, unless unilateral); record extracts indicating securities holdings; and commercial secrecy. Account information is designated as a commercial secret. An extremely odd provision governs its release in case of legal violations "by securities market subjects." In that case, a commercial secret can be disclosed to "persons indicated by the account owner in his will" (he has broader authority to authorize disclosure while alive), "to courts and notaries dealing with estate cases," and to the NSC. If such disclosure is all subject to the existence of a legal violation by a securities market subject, it is both irrational and habitually violated.

#### **2.4 The Law on Investment Funds**

The Investment Fund Law ("IFL") establishes regulated investment funds, both mutual funds and closed-end. Mutual funds, apparently, may have either daily or "interval" redemptions. Both mutual and closed-end funds are structured as open joint stock companies and are subject to diversification requirements and various other portfolio restrictions. The IFL regulates any juridical entity that publicly distributes its own securities for the purpose of raising funds for diversified investment in securities.

Investment funds are expressly authorized to participate in the management of portfolio companies. Investment funds are also permitted to establish branches but not subsidiaries.

Capital requirements are stated in terms of the "authorized fund" a concept pre-dating the existing JSC Law. It probably should be read as corresponding to paid-in rather than authorized capital. The requirement for closed-end funds was about \$210,000 and for mutual funds about \$350,000, at exchange rates prevailing in early 1999.

A fund must adopt an investment declaration and follow the investment policies therein. A mutual fund's investment declaration must provide that no security will be purchased that cannot be sold within 10 days at no more than a 10% discount.

The shareholders meeting must approve amendments to the investment declaration, as well as the portfolio manager's contract; changes thereto, the custodian and registrar contracts and the board's compensation. The fund's board adopts the contract with the portfolio manager, custodian and registrar. Fund officials and employees may not be officials or employees of the portfolio manager, custodian, registrar or any other securities market firm. There is no restriction on connections among the portfolio manager, custodian and registrar themselves.

Funds may issue no securities but registered common shares. Redemption of mutual fund shares is based on net asset value. The law requires redemption prices to be calculated at the end of the business day on which a redemption request is received. But it also says the price may be established at the end of an accounting period, which may not be less than 60 days. Apparently, these are alternatives. Shares may be sold at prices based on net asset value. A fund may not spend more than 10% of its net assets per year on expenses associated with asset management and shareholder services.

An investment fund is subject to borrowing limits. Also, it may not invest more than 10%-20% of its net assets in securities of a single issuer (there is no exception for state securities); purchase securities of affiliated persons or of its custodian or registrar; make loans, do repos, buy on margin, sell short, issue guarantees, pledge securities exceeding 10% of net assets, invest in other funds, transact in fund property with affiliated persons, run pyramid schemes, promise yields, allow golden shares or engage in trade other than securities. Mutual funds may not own more than 15% of one issuer's securities.

Each fund must have an external licensed portfolio manager, which may not be a bank and may not perform any other type of securities market business. A portfolio manager may not manage two funds with similar investment policies. Fund officials as well as the portfolio manager and its officials are liable for violations that damage the fund. Portfolio managers are required to make reports to the fund's board. Their compensation may not exceed 5% of net assets. It may be based upon net assets, net asset growth, profit "or otherwise."

“Affiliated persons” are very narrowly defined. For a fund, they are the portfolio manager and his affiliated persons, fund officials, founders, and 5% shareholders. A manager’s affiliated persons are its officials, owners and management clients.

The NSC regulates funds and their managers. Amendments to fund investment declarations, registrar, custodial and management contracts and various other required documents must be submitted to the NSC. Funds also must file quarterly reports.

There is a prohibition against publishing false information about a fund and a general prohibition on publishing information about a fund prior to its licensing.

Each fund must have a sole, unaffiliated custodian, an unaffiliated auditor and an unaffiliated registrar.

## **2.5 The Law on Pension Provision**

The Law on Pension Provision (“Pension Law”) is important to capital markets because investment in securities is one of the alternatives permitted for pension funds, and these funds constitute the major source of domestic investment capital.

In general, pension fund companies (“pension funds”) are regulated by a division of the Labor Ministry, while pension fund asset management companies (“pension asset managers”) and pension asset custodians are regulated by the NSC.

The state receives compulsory contributions from employers. Employees pay compulsory contributions to pension funds. Employees may elect to direct their payments to a state or a non-state pension fund, but if no election is made the money goes to the state pension fund. Both employers and employees may also make voluntary contributions to pension funds. Contributors are entitled to information concerning pension funds to the extent provided in Ministry regulations.

Employer compulsory contributions help to finance the state pension benefits administered through the State Center on Benefit Payment. Benefit payments from the Center are legal entitlements of the “defined benefit” type. The amount and pay-out of benefits from a pension fund varies with fund performance and the pension contract. Eligibility for benefit payments differs somewhat between compulsory and voluntary contributions to pension funds.

All pension funds and pension asset management companies are licensed and subject to various prudential norms, qualifications, restrictions and reporting requirements. Beneficiaries are supposed to be permitted to switch funds twice a year. Pension funds must have sole bank custodians for their assets. Custodians oversee the asset allocation requirements for non-state pension funds.

State pension funds are founded and guaranteed by the state. They may invest only in state securities, state-bank deposits and securities of international financial institutions.



Both state and non-state pension funds are organized as closed joint-stock companies. Non-state pension funds may be open (participation by anyone) or corporate (for employees of founder or shareholder organizations). However, no entity may have direct or indirect ownership or management of more than 25% of the votes in an open non-state fund, without regulatory authorization. Entities that are state-owned in whole or in part require regulatory permission to participate in ownership of a non-state fund.

Shareholders of corporate pension funds are jointly liable for reimbursing any decrease in the real value of fund assets. In a similar vein, pension asset managers are required by the "average weighted yield" regulation to meet minimum performance standards.

Specifically, they must achieve the lesser of (a) half the average weighted yield for all funds, or (b) two points less than the average weighted yield. If they fall short of the minimum, they must pay in the difference.

Pension fund officials are subject to certain statutory disqualifications relating to education, criminal history and involvement in bankruptcies. They must also pass a qualifying exam.

The pension fund collects contributions, pays benefits, publishes reports on its finances and activities and keeps track of who is entitled to what. It contracts portfolio management to a pension asset manager. Pension funds may not engage in trade or insurance, pledge pension assets or issue securities other than shares. Non-state funds may not issue golden shares.

Subject to appeal, the Ministry of Labor may issue binding orders for correction of violations, propose dismissal of officials to fund shareholders, suspend or revoke licenses and impose other defined penalties. Reorganization of non-state pension funds is subject to regulatory approval. In the event of the pension fund company's liquidation, pension assets (assets from which benefits are paid) are not subject to claims of the fund's creditors. Pension assets are distinguished from the fund company's equity, which is formed from shareholder capital contributions and commissions on pension contributions and investment earnings. Commissions are subject to regulatory limits.

Beneficiary information is confidential, subject to certain exceptions relating to investigations, legal proceedings and taxes.

Pension asset managers must be organized as closed joint stock companies and be licensed by the NSC. The manager's assets must be segregated from those under management. Its fees formerly were subject to NSC limits, but this provision of the law was recently dropped. The asset manager's officials are subject to disqualification based on education, criminal history and previous involvement with bankruptcies. They also must hold certificates from the NSC.

Pension asset managers are compensated based on assets under management, as defined in NSC regulations. NSC regulations base fees on performance and, as noted above, the average weighted yield rule. Pension asset management contracts are subject to trust

principles, of which the law currently has none. There is no restriction on managing multiple pension funds comparable to the investment-goal restriction in the IFL.

Pension asset management companies are also subject to a variety of capital, debt and investment restrictions, which appear to apply to themselves and their proprietary assets as well as to managed assets. Management companies may not issue any securities but shares, take loans from banks except under limited conditions, lend money, do repos, buy on margin, sell fund securities short, make guaranties or pledges, promise returns or engage in non-financial business. Broker-dealers may, subject to NSC regulations, act as asset management companies.

The management companies also are prohibited from buying the securities of or entering transactions with affiliated persons. Until recently, "affiliated persons" seemed only to be those where one had some type of legal power over the other. Thus, as with investment funds, it was possible that interposing even one entity might break the affiliation. The somewhat broader definition found in the Securities Market Law has lately been adopted for the pension law, but even it does not cover connections through family ties. Note also that if a person is affiliated with the pension fund itself but not with the manager, there are no specific investment restrictions. Furthermore, the Pension Law was recently amended to allow transactions over organized markets with affiliated persons.

The NSC is authorized to establish prudential rules for pension asset managers, as well as diversification and risk-reduction rules for managed assets. In case of mismanagement, the NSC can sue for termination the contract or reimbursement of losses.

Under current regulations, the NSC requires that pension assets of non-state pension funds be invested solely in (1) state securities (at least 50%); (2) securities of international financial organizations (no more than 10%); (3) deposits in "level 2" banks (no more than 40%); or (4) corporate securities on the stock exchange "A" list (not more than 30%). There are also ceilings on deposits in a single bank and on ownership of securities of a single non-state issuer. Pension asset managers may not make bank deposits of either pension money or proprietary funds unless the deposits pay interest comparable to the yield on state securities, within limits set by the NSC. Under the Pension Law itself, pension funds may invest only in financial instruments.

The Pension Law also has special provisions for pensions of military and state security personnel.

### **3. MAJOR NEEDS FOR IMPROVEMENT**

#### **3.1 Corporate Governance**



Although we have recommended many pages of changes to the JSC Law, the legal framework for internal governance of the joint stock company is basically sound. What the reality will be is a matter of the practical remedies available to address abuse.

**Practical limits on shareholder remedies.** Civil procedure provides for no class action. Proxy fights are so far unknown, and hostile takeovers are likewise uncommon. Appraisal rights are limited to narrow circumstances. Even here the shareholder will not receive more than the par value of his shares, although we have recommended that this be changed. The shareholder's other "exit option," sale in the secondary market, is diminished by the fact that there barely is a secondary market.

Too much depends, therefore, upon the existence of shareholders having the wherewithal to challenge bad management and upon the enforcement efforts that the NSC is able to bring on behalf of shareholders generally.

Although the class action is foreign to the legal tradition here, it is hard to imagine any legal reform that would be a more effective enforcement device.

**Proxies.** It is also worth noting that little use seems to be made of proxies, without which it is difficult to have meaningful shareholder participation in the governance of a publicly held company. We have recommended greater NSC rule-making power in this area to facilitate the proper development of proxy use and solicitation. We are also assisting in writing regulations under existing law. See also the discussion below of antifraud rules.

**Tender offers.** The JSC Law provides for tender offers. However, there is at present an NSC rule requiring broker-dealers to conduct securities transactions only through the stock exchange. This rule or stock exchange procedures need to be adapted to accommodate tender offers and the special requirements applicable to them.

**Debt for equity.** There is confusion over whether the Civil Code prohibits debt for equity swaps. This needs to be clarified. There is no good reason why bona fide debts should not be eligible to use in payment for equity. We emphasize "bona fide."

**Periodic reporting.** To be a public company and subject to related periodic reporting requirements, an issuer must meet a minimum asset test, have 500 shareholders and be quoted on an organized market. We already have recommended changing the 500 "shareholder" requirement to 500 securities owners. Since more corporate transparency would improve corporate governance of widely held issuers, and in order not to confer a secrecy advantage on issuers who avoid the securities market, and because such a relatively large volume of trades apparently occurs in unbrokered transaction outside the organized market (see further below), it would also be advisable to subject to periodic reporting any issuer meeting the assets and 500 owners tests, regardless of quotation on an organized market.

Good corporate governance also requires that there be minimal judicial interference with the unbiased exercise of management's honest business judgment. More experience than

we now have will be useful in determining whether inexpert judicial attempts to enforce the “unbiased” and “honest” portion of this formula might in the future require a more explicit statement of the business judgment rule.

### **3.2 Corporate Disclosure and Public Trading**

The legal framework here is less adequate or at least less clear. There are eight serious gaps. First, the registration exemption for “closed” offerings of joint stock company shares is too elastic. Second, the resale restrictions on JSC shares acquired in closed offerings are too tight. Third, with respect to securities other than JSC shares, the law does not provide for exemption of limited offerings nor for restrictions on secondary offerings nor for periodic reporting. Fourth, the notion of integrating closely related offerings is undeveloped. Fifth, remedies are vague, as is liability for inducing or aiding and abetting violations. Sixth, there are no general antifraud rules. Seventh, the NSC does not maintain a facility for making issuer reports and other public information available to the public. Eighth, fraudulent financial reporting is endemic.

**Closed offerings.** Closed share issues are those confined to existing shareholders and a pre-determined set of persons. Resale is permitted when the shares become registered, subject to regulatory exceptions. Private share offerings are those sold to qualified investors and which may only be resold to such investors.

The definition of closed offering is too elastic because, although a closed share issue may not be resold without registration, its initial placement need only be confined to existing shareholders and “a pre-determined set of set of persons.” There is no specific limitation as to the size, sophistication or access to information of such a group. Read broadly enough, this exemption could effectively gut the registration requirement. We have recommended statutory amendments to allow the NSC to refine the “closed” offering definition, among others. Even in the absence of statutory amendments, the NSC could attempt to do this by regulation.

**Resale of “closed offer” shares.** JSC shares acquired in a closed offering may not be resold until the issue is registered, apparently not even in a second closed offering nor even to a single sophisticated investor who is already a shareholder. The NSC may make exceptions, but the phrasing of the law suggests that the exceptions are to the right to resell even with registration. The wording is presumably a drafting error but needs correction.

**Securities other than JSC shares.** The closed and private offering definitions, the related resale restrictions and the periodic reporting requirements are found in the JSC Law and apply only to shares of joint stock companies. Equity securities of other entities and debt or hybrid securities of any entity apparently require registration no matter how limited the offering. This might be ameliorated by regulations reducing the registration requirements of these offerings to little more than a notice filing. In this case, however, investors would be left with insufficient information in the event of public distribution

via resales. There is no law restricting resale of unregistered issues or requiring periodic reporting unless JSC shares are involved. We have recommended regulatory exemptions for closed and private offerings of bonds (and would do so for most other securities), subject to resale restrictions and periodic reporting obligations should the security become widely held. A firmer statutory foundation for this type of regulation would be desirable, however.

**Integration.** The third problem is integration. Even if closed offerings were more carefully defined, it might be possible to evade the definition by staging a series of related offerings or simultaneous offerings of affiliated joint stock companies. Here too we have recommended that the NSC be given regulatory power to deal with such possibilities. In the meantime, we should support aggressive use of existing regulatory power.

Certain other difficulties with the disclosure regime can probably be addressed under existing regulatory authority. These include inadequate disclosure requirements as to management conflicts of interest. We already have recommended regulations in this area. The most surprising problem to a foreigner, but one that should be easily repaired, is the lack of NSC facilities for disseminating filed disclosure to the public. Today a person requesting a prospectus copy from the NSC is likely to be told to go ask the issuer.

**Remedies.** The problem of remedies is multi-faceted. In the case of failure to register an issue, the issue is simply invalid. This may imply a private right of rescission and seems to preclude registration of transactions in the issue. As to private actions, the absence of the class action is again a practical impediment to recovery. Moreover, it is not clear whether a finding of invalidity by the NSC is prerequisite to these remedies. Although if the NSC does declare an issue invalid, for any reason, rescission appears to be required. In addition, the NSC may be able to sue for an injunction against the issuer, but this is not specifically spelled out. We have recommended clarification here. There is no criminal liability for failure to register a securities issue, and here too we have recommended legislative change.

In the case of materially misleading registration materials, SML article 18.5 says that an issuer and its officials are liable for misstatements in an issue registration to the extent "stipulated by current legislation," a translated phrase which we understand to include NSC rules. Outside auditors are not mentioned. The SML provides that underwriters or other market professionals have a general liability for causing loss to clients, in accordance with general law, but nothing more specific is said. Liability for persons who are not issuers or securities market professionals is ill-defined, as is the whole realm of liability for aiders and abettors and other secondary violators.

The NSC can suspend and ultimately invalidate a securities issue based on misleading issuer disclosure. This entails rescission, as noted above. Issuer liability to purchasers in the secondary market is not clear. It might arise, however, under SML article 22.6, which makes an issuer liable for misinformation in a prospectus "as well as information concerning the issuer's business and securities...in accordance with legislation." again, a

term which appears to include NSC regulations. Officials, however, are apparently liable only administratively and criminally. At present administrative fines are tiny.

**Antifraud rules.** The SML lacks general antifraud provisions. This doesn't make fraud legal, of course, but it does cast doubt on the NSC's jurisdiction over securities fraud cases and compromises its ability to define and prohibit deceptive and fraudulent practices peculiar to the securities market. The broker-dealer rules have anti-manipulation provisions, but a broader authority is desirable. Antifraud rule-making authority might also be useful with respect to establishing consequences for fraud in proxy statements or other corporate governance contexts.

It could also be useful in dealing with sales campaigns. Although investors are entitled by law to an "opportunity" to review the prospectus prior purchase, there is no prospectus delivery requirement per se. There is also no requirement that written sales materials be accompanied by a prospectus or any restriction on the use of broadcasting or other mass advertising for promotion of a securities issue. The NSC may, however, invalidate an issue if the sales campaign accompanying its placement contains information "inconsistent" with the prospectus. But this may not cover deceptive secondary market sales campaigns; and issue invalidation is a blunt remedy in any case. In practice, mass media sales campaigns have not yet been a problem, but this may be only a matter of time. The NSC has raised this issue in the past but has not so far been successful in obtaining reform.

**Dissemination.** The NSC has no equivalent of the "public reference room" at the American SEC where investors may obtain copies of prospectuses, reports and other public documents. Investors seeking a prospectus copy from the NSC are likely to be referred to the issuer.

**"Cooked books."** There is a very widespread practice of concealing revenues in financial statements in order to avoid taxation and/or create embezzlement opportunities for corporate insiders. Moreover, the effects of conversion to international accounting principles often result in a huge increase in tax liability, further increasing the incentives to cheat. This profoundly undermines the credibility of any market where the debt or equity of companies is traded, not to mention the ethical difficulties created for contractors trying to assist Kazakh companies. Primarily, this is an enforcement issue. However, Pragma has also sought to stimulate discussion on tax reforms that might ameliorate this problem. The general corporate tax rate of 30% is not excessive by international standards, but some accommodation needs to be made to the particular circumstances of this country.

Finally, we should note that with the expected merger of Kyrgistan's stock exchange into the one in Almaty, it will be necessary to work out provisions for reconciliation of disclosure regimes, among other things.

### 3.3 Insider Trading

The law has provisions prohibiting insider trading. It needs to be fleshed out by regulations that will address specific areas of practical importance such as manager-worker transactions. In this connection, it might be wise to begin by requiring any issuer with substantial employee share ownership to have copies of its annual reports and similar information available at its plants and offices and to make sure employees know this.

The SML may require revision to authorize such a rule-making, but revision of its insider trading provisions is desirable for other reasons as well. For example, there is a prohibition on tipping but apparently none against trading by tippees. There may also be a need to distinguish between small closely held issuers and others, which is not now done.

Similarly, the liability resulting from an illegal insider trade is not spelled out. Civil liability for insider trading is to be "in accordance with legislation of the Republic..." Again, this term may be intended to include NSC rules, of which there are as yet none on the subject.

### 3.4 Broker-Dealer Regulation

The broker-dealer regulations cover most of the important points: licensing, competence, capital, record-keeping, segregation of customer accounts, conflicts of interest, best execution, etc. A few matters are worth noting, however.

**Disqualifications.** There are educational and competency requirements for broker-dealer personnel, but there are no disqualifications for persons with a history of law-breaking. We have suggested adding these in the licensing regulation, but clear statutory authorization for such disqualification would be desirable. Moreover, the disqualification should extend not merely to the professional employees of the firm but to its principal owners and others who may have effective control over it.

**Internal supervision and compliance.** There are few clear requirements for broker-dealers to establish internal procedures to assure compliance with the law or regulations.

**Reports to NSC.** Broker-dealers must report trades weekly and capital quarterly. Other than that they don't report much to the NSC. We have recommended that certain information provided in a broker-dealer license application also be reported if it changes after the license is granted. The NSC says that it is working on a central information registry for broker-dealers and their licensed employees. However, with no requirement that employee dismissals and hires be reported, it is difficult to see how this can be done. An annual financial report to the NSC also would be useful.

**Customer reports.** There are no minimum requirements as to transaction confirmations or periodic account statements.

**Broker-dealer sales practices.** The regulatory provisions regarding avoidance and disclosure of conflicts of interest are a bit ragged, but at least the subject is covered. The SML itself contains no express "know-your-customer" rule, no rule that trade recommendations be suitable in light of the known facts regarding the customer's needs and objectives and no rule that there be a reasonable basis in fact for any investment recommendation. These might be inferable from general requirements about serving the customer's interests. However, the specifics are left to SRO regulation. The now dormant broker-dealer association had such rules and the Kazakhstan Stock Exchange (KASE) is expected to adopt them, although its authority to do so is not free from doubt. See the discussion of self-regulation in section 3.7 below.

Likewise, the dealer's best execution responsibilities when acting as principal are somewhat vague in the NSC regulations and are unaccompanied by obligations to disclose price or market conditions. The broker-dealer advertising rule extends only to misleading information about trade prices and volumes. It should be more general. However, SRO rules addressing these questions in more detail also are awaiting adoption by the KASE.

**Margin sales, short sales, hypothecation of customer securities.** Settlement of securities transactions with borrowed funds or securities is neither prohibited nor regulated. Pledge or loan of customer securities without authorization does not need to be expressly addressed to be presumed forbidden, but since it actually has happened, an express rule might be worthwhile.

**Entry barriers.** The capital rule has high thresholds. The rule is two-pronged, requiring a minimum excess of liquid capital – loosely defined – over current liabilities, as well as a minimum ratio of liquid capital to total liabilities. At the exchange rates prevailing in early May 1999, the minimum excess was about \$187,000 for a firm that carried customer accounts and \$31,000 for a firm that didn't. These both, especially the latter, seem somewhat excessive. (The capital rule could be improved in other respects – e.g., early warning provisions, restrictions on capital withdrawal in certain circumstances -- but seems all right for a start.)

In addition, the broker-dealer regulations allow the NSC to establish a list of banks eligible for holding customer funds. Whenever possible, such authority should be put in terms of objective, published criteria. Mere names on a list open the door to corruption and arbitrary discrimination.

**Direct sales.** There is no requirement that a public offering of securities be made through a broker-dealer. It is in general obnoxious to compel anyone to retain services he does not want. There are two regulatory advantages to such a requirement, however. First, there is more assurance that the offering will be conducted by competent people who must abide by the rules of their profession and are subject to its discipline. Second, the broker-



dealer's need to protect its reputation as a seller of worthwhile investments will inhibit offerings that are fraudulent or overpriced. Regulations, however, should await experience. If problems with direct sales arise that cannot be addressed through regulation of offering methods and materials, it will be time to consider a rule prohibiting certain types of direct sales (other types, such as employee share sales, etc., could be conditionally omitted).

There is likewise no requirement that a broker be employed in secondary transactions. Persons who deal with non-professionals should have no expectations of being treated according to professional standards. They may make their own judgment of whether the added risk is worth the cost of a commission. However, in areas where the danger abuse is high, such as certain transactions by managers, it might make sense to require use of a broker in order to bring the transaction into a more regulated setting. In any case, there is need for more price transparency in this sector, where in fact most transactions occur. See the discussion further below on transparent pricing.

**Manipulating offering prices.** The new NSC broker-dealer regulation provides for underwriters making markets in an underwritten security both during the course of a distribution and thereafter. There are no specific restrictions. Although the general rule against manipulation might apply, securities distributions can present special temptations to manipulate prices either just prior to a distribution or during its course. Specific rules and prohibitions in this area would be useful.

### 3.5 Market Structure

**Privatization Investment Funds.** These are the principal investment vehicles for the vast majority of the population. They involve thousands of companies and millions of people. However, they exist under a regulatory regime separate from the NSC and the securities laws. The PIFs are in the process of transforming themselves from PIFs into either holding companies or investment funds. Only two even began the process of seeking investment funds licenses, and they dropped out. It seems difficult to believe that some of the new "holding companies" are not essentially operating as unlicensed investment funds. These conversions out of PIF form need more attention than they seem to be receiving, a point made in our memorandum on enforcement.

**The "Unbrokered" Market.** The Kazakhstan Stock Exchange ("KASE") reports a few dozen corporate securities trades in a month. Broker-dealers report a few hundred off-exchange trades in a month, though fewer since the new requirement that they trade anything over 50 shares through the KASE. Registrars, however, report thousands of securities transfers each month. Apparently, therefore, there is a large unbrokered market. Although registrars record price information, the NSC does not disseminate it. Prices vary substantially. PIFs sometimes swap stocks in re-shuffling their portfolios, and we do not know at what price such exchanges are reported to the registrars. Some PIFs apparently fulfill almost dealer-like roles.

The existence of a substantial unbrokered market should not be surprising. Relatively few brokerage offices exist outside Almaty, and the possibility of signing up a handful of one-trade customers is little incentive to expand.

It is also possible that broker-dealers do not report transactions between their own customers or between themselves and a customer. These cannot be checked against registrar reports since there is no change in nominal owner. However, broker-dealer inspections should be able to detect these.

**The KASE.** The KASE plays a critical role in the nation's official capital markets. It is the nation's only functioning stock exchange and only functioning self-regulatory organization. Broker-dealers are required by NSC regulation to place trades there. The KASE also accounts for a large share of the state debt market.

### **3.6 Regulatory Issues in the Secondary Market**

**Transparent pricing.** Theoretically, the prices of all intermediated transactions are being reported under the current regulations. Enforcement of these regulations is possible through comparison of broker, depository and registrar transfer records, and by examination of broker-dealer records of internal transactions and transaction-related revenue. To capture pricing on unbrokered transactions, the SML could be amended to permit a regulation requiring use of brokers on any sale. However, it is questionable whether it is fair or efficient to force people to purchase services they do not want. This is particularly so if the market for those services may be uncompetitive or non-existent in many communities.

Even in a competitive brokerage market, the added transaction costs could easily outweigh any price improvement for the small holder. The owner opens a brokerage account, transfers his securities into the broker's nominal holding (possibly requiring the broker to add a new issue to his own depository account), the owner sells his securities, possibly to someone he found without the help of the broker, and then he pays a commission. The buyer goes through the same process. And if the seller is a worker shedding some shares in the company he works for, it is probably the only securities trade he will ever make, and so he immediately closes the account.

It may be much simpler and cheaper just to work toward dissemination of price information that registrars already record and to focus on the registrar as the potential subject for any additional regulation, since he is an indispensable participant in any unbrokered transaction. Compulsory retention of a broker-dealer, if used as at all as a regulatory tool, should be targeted at specific contexts, where it will be clear that the broker's involvement will actually prevent deception and will be a net benefit to customers.

**Choice of market place.** In an ironic replication of Soviet central planning, market structure in Kazakhstan seems to be more a result of legislative and bureaucratic dictate than of free market evolution. Trading through broker-dealers is required by regulation to occur on organized markets, of which there is but one. The form and structure of organized markets are delimited by statute, sometimes in ways where the connection to the public interest is not obvious.

First, consider the requirement that brokers trade only on organized markets, in reality the KASE. The gathering of trade into a single forum can have practical benefits in terms of liquidity, transparency, price discovery, best execution, settlement and regulatory control. It also has costs, or else it would always come about voluntarily. The question is how large are these costs and to what extent they are merely costs to brokers arising from lost opportunities to abuse customers or counterparties. We don't know a great deal about the size or nature of these costs, and some effort is advisable to learn more about them in monitoring and adjusting for the consequences of the organized market rule.

The benefits of the organized market rule are inevitably limited at present. Even with the inclusion of trades that brokers previously executed outside the exchange, there is still very little liquidity in any given issue and very little order inter-action. Many new exchange trades presumably will be placed by brokers as agents and then quickly filled by them as principal.

Price discovery may be aided somewhat by the prompter and possibly more reliable reporting of trades done on the KASE as opposed to the previous system of off-exchange trade price reporting. However, price reports in any given issue remain few and far between in any case because the market is so inactive. The full value of prompter reporting will not be felt until there are more than a handful of trades per issue each month. As noted above, unbrokered transaction prices, though far more numerous and captured in registrar reports, are not published at all. The prices in these transactions sometimes vary enormously, and the causes for these variations should be explored in connection with any further regulatory changes.

To the extent that brokers must pay transaction fees to the KASE for trades routed there, the organized market rule also operates as a tax on brokers and a subsidy to the KASE, although this was not a motivating factor in the rule's adoption.

The operation of the organized-market rule should be monitored to determine whether its benefits outweigh its costs, and specific attention should be given as to just how these will be determined and weighed.

**Exceptions to the organized market rule.** Transactions may be executed outside the KASE if the trade is in other than domestic equities or corporate bonds, is a dealer purchase of less than 50 units from one individual, the transactions are part of an initial public offering ("IPO"), or the broker-dealer is redeeming its own securities pursuant to the JSC Law.

Some technical adjustments – or at least interpretations -- to the rule should be considered regarding, for example, a prohibition against breaking larger trades into several small ones of less than 50 units; treatment of new issues that are not IPOs; sales pursuant to shareholder pre-emptive rights (companies are required by law to give existing shareholders first claim on a new equity issue); shares issued pursuant to exercise of option or conversion rights; tender offers; non-cash trades; and block transactions relating to restructuring or sales of controlling stakes.

There also is an exception for foreign securities that may bear re-examination if the KASE merges with the Kyrgi stock exchange and becomes the principal market for the latter's shares.

**Consistency with legislation.** The legislative basis for the organized-market rule is a bit shaky. Article 9.3 of the Securities Market Law says that transactions on the non-organized market can be made using or not using licensed intermediaries. The organized-market rule says that in most cases such transactions cannot be made using licensed intermediaries. If this rule is to be retained, the law should be amended.

**Trading system.** The trading system basically is an open limit order book, without market makers. Orders for listed issues are anonymous; those for the "OTC" subsystem display the name of a broker to contact for execution. In practice, the KASE to a large extent is merely a trade reporting system. Often, buyers and sellers contact each other outside the exchange and agree on a deal. Then one party enters a quote at the exchange for the agreed price and quantity and the other party takes it.

There is nothing immoral about this, provided that both brokers are loyally working in their client's best interests. However, it also does little that a formal trading system is supposed to do. Specifically, it provides little order interaction, and so little protection against a broker's failure to work in his client's best interest, and it contributes little to liquidity or price discovery. Yet it is a monopoly.

Liquidity and price discovery objectives are sometimes served through the operation of a "called" market. That is, orders are accumulated over a period of time, and transactions done at intervals, weekly, for example, when there are enough buy and sell orders at one time and place to provide some degree of liquidity and arrive at a meaningful price.

Currently, however, there are so few transactions that even a market called at long intervals would not achieve the desired results, while at the same time frustrating anyone looking for a quick execution. An alternative in such a situation is a system of market makers, that is, dealers who continuously stand ready to buy or sell for their own account at a given spread.

Dealers set their prices based on their estimate of what prices will result in the flow of buy orders approximately matching the flow of sell orders over time. The difference between the buy and sell prices compensates the dealer for the risk that the supply/demand picture may alter to his detriment while he is holding the securities (or

owing them, in case he has been selling borrowed securities). Obviously, where transactions are infrequent or the security is subject to sudden changes in value, the spreads will be large. Sometimes an exchange will permit but one market-maker, the "specialist." He is relatively free of competitive pressures, except that he must display orders placed by others at better prices than his own; and his performance is reviewed periodically by the exchange to assure that he has provided liquidity at reasonable prices.

A specialist system may be most appropriate here. Trades are so rare that it is unlikely more than one firm per issue would willingly undertake a meaningful obligation to continuously buy and sell anyway.

In fact, there has been discussion at the KASE of introducing some type of market maker system. But discouragement over lack of capital and lack of shares has delayed action so far. (One might also note a lack of demand for shares. Whatever else may happen, this can be expected to persist until investors feel the market is trustworthy.)

Moreover, it is difficult to maintain any sort of market maker system without the possibility of borrowing securities. To reduce his risk, the market maker seeks to make money from his spread, not from price changes. From his standpoint, a zero position in the security would be ideal. However, if he carries a low inventory, then sometimes he may not have the security on hand when a buyer appears. Thus there must be a facility through which he can borrow it.

There is none now, although it probably would not be difficult to arrange through the central depository. Basically, institutional accounts would indicate what if any portion of their holdings they wished to make available for stock loans, on what terms and with what collateral. The depository would then use these securities to settle transactions of persons agreeing to the loan terms.

In any case, no type of market maker system is a magic solution. With trades in any given issue so extremely infrequent, spreads will be large, and market making is likely to be little more than an experimental side-line for any firm undertaking it.

**Alternative trading systems.** Alternative trading systems are possible in theory but could not legally be organized except in the prescribed statutory format of a member-owned exchange or OTC association, subject to various registration and internal governance requirements. The price transparency that is the principal benefit of the present system could be preserved by a proprietary system operated by a broker-dealer and subjected to trade-reporting requirements. That is not possible now unless the trades of the proprietary system were somehow flashed through the exchange. Some type of regulatory or statutory adjustment to allow for regulated, transparent and accessible alternative trading systems might assist the evolution of the market. Moreover, the ban on dual listings in the SML should be dropped or its application made subject to NSC rule.

### 3.7 Other Market Regulation Matters

**Self-regulation.** The KASE has taken over various self-regulatory functions from the dormant broker-dealer association. However, article 44.2 of the Securities Market Law forbids stock exchanges from regulating the conduct of members in the off-exchange market, which, even after the organized market rule, remains the main market for small holders selling less than 50 shares. Moreover, the list of topics to be covered by exchange rules (article 44.3) suggests that sales practice and other customer-side rules might have been contemplated as areas for a separate broker-dealer association to regulate (compare article 44.3 with articles 57.2 and 58.2). This problem could be solved by leaving this area to NSC regulation or by amending the statute to expand the stock exchange's regulatory jurisdiction.

**NSC review of disciplinary action.** Trade associations constitute a whole field of competition law because of their tendency to be used for anticompetitive ends. For this reason and for reasons of simple due process, the law should explicitly provide for appeal to the NSC of all but minor disciplinary actions by the stock exchange. Since the KASE is the only functioning self-regulatory organization and the only organized market, and since use of an organized market is required by NSC regulation, the KASE cannot be treated as if it were merely a voluntary private association.

**Competitive considerations generally.** SRO rules should state specific prohibitions against collusive and anticompetitive practices. Indeed, the Securities Market Law itself should identify a competitive securities market as a legislative goal and require rules to be assessed for their effect on competition. With a monopoly stock exchange and a monopoly depository, it might be easy to lose sight of the utterly central importance of competition to a market economy.

Moreover, there is an Anti-Monopoly Law in the country which contains broad prohibitions and no special exception for the securities markets. The depository, the stock exchange, the organized market rule might arguably fit within some of these prohibitions, although this claim has not yet been raised in any court insofar as we are aware. Reconciliation of this law with securities market regulation will be necessary at some point, however.

**Advisory and Rating Services.** The current law has provision for licensing and regulating portfolio managers (those exercising investment discretion), although the regulations, like the profession, are somewhat underdeveloped as yet. The SML permits the NSC to define additional categories of licensed professionals, which could include, and at some point should include, persons who hold themselves out as investment experts and give individual advice to a retail public, whether or not the advisers have investment discretion.

There is also a considerable sentiment for establishing an official risk ratings agency to, at a minimum, designate corporate securities as suitable or unsuitable for pension funds. (By NSC regulation, a KASE "A" list designation now fills this role.) It is hoped that such ratings would be less biased than the "A" list decisions now being made by the

KASE, and at the same time be more flexible without simply being weaker. The regulations for the rating entity would have to be drawn with the greatest care to assure that the ratings were unbiased, competent and did not deter honest expressions of opinion by other entities. Devising risk ratings for unseasoned equity issues will be especially challenging. This matter is further discussed below under "Fund Portfolio Restrictions."

### 3.8 Investment and Pension Funds

Getting pension fund regulation right is of urgent importance. Not only are pension funds the biggest pool of private domestic capital available for securities investment, they also represent the life savings of poor people, the most compelling of all possible contexts for careful and conscientious regulation. It would be quite unfortunate for the Kazakhs, US AID and the reputation of capitalism if this program did not turn out to be more successful from the people's point of view than mass privatization.

In the long run, investment fund regulation also will be important. No licensed investment funds currently exist. This being the case, it seems likely that some former PIFs now operating as holding companies are in fact in violation of the IFL, which requires licensing of most collective investment vehicles. At some point, however, some PIFs can be expected to convert to investment fund form.

**Funds and related party transactions.** The definitions of "affiliated persons" under both the IFL and the Pension Law are too narrow to prevent sweetheart deals. For example, it would seem to be entirely legal under the IFL for an investment fund to have three directors: one who was 100% owner of the fund's portfolio manager (so long as he wasn't its official or employee); another who owned 75% of every company in the fund's investment portfolio; and the third who was 100% owner of the companies that served as the fund's underwriter, custodian, portfolio broker and landlord. In almost every case, the simple interposition of a single legal entity between the fund official and the fund's counterparty will defeat the restrictions on dealing with affiliated persons of the fund.

The situation is a little less clear under the Pension Law. Narrower wording was recently broadened there to bring within the gambit of "affiliation" anyone with a right directly or indirectly to influence the decisions of the other, even if the right arises only by informal agreement. As noted above, however, a family connection per se will not establish affiliation. Thus, where A's brother is a major shareholder or director of B, A himself is not an "affiliated person" of B, absent some type of agreement.

Moreover, as also noted above, the restrictions that exist under the Pension Law apply only to the pension fund asset management company. The officials of the fund itself, who hire and fire the manager, can sell to the fund whatever they can persuade the manager to buy, within the categorical limitations (state-issued securities, level 2 bank deposits, A-list corporate securities, etc.) on portfolio assets and subject to a general duty to act in the fund's best interests. Their selection of suppliers or contractors for conducting the fund's non-portfolio activities are restrained only by the general duty.

note though the pension fund share holders are the company, not the pension.

Both investment and pension funds must be organized as joint stock companies and therefore should be subject to certain disclosure and shareholder approval requirements for "conflict-of-interest transactions" within the meaning of the JSC Law. The JSC Law uses the affiliated person definition now adopted in the Pension Law and covers both these and blood relatives in its conflict-of-interest provisions.

In the case of the IFL, however, one might argue that, despite the later date of the JSC Law, its broader definition of affiliated person should, in the case of an investment fund, be displaced by the narrow definition in the law dealing specifically with investment funds. This would produce the bizarre result that conflicts were less tightly controlled in a fiduciary organization than in an ordinary commercial one.

The bottom line is that the fund laws need more careful restrictions on related party transactions. The recent amendment of the Pension Law to permit transactions with affiliated persons over an organized market was not a good idea. It failed to exclude pre-arranged transactions and assumed that an organized market would be active, competitive and anonymous. These conditions do not obtain on the Kazakh market today. The amendment should have provided that the exemption it created would be subject to regulatory modification.

**Role of custodian.** Under the Pension Law the custodian monitors compliance of fund investments with the asset allocation rules applicable to them. Something of this type would be desirable under the IFL as well. Although American law contains no such requirement, the law of the European Union does. We think it is an appropriate requirement in a market with a corruption problem. We also think that there should be restrictions on affiliations between the portfolio manager and the custodian. Currently, the IFL only mentions affiliation between the custodian and the investment fund.

**Fund portfolio restrictions.** Pension fund assets may be invested up to 30% in corporate securities on the KASE "A" list. By international standards, even "A" list securities would have to be considered speculative. Given the hedged audit opinions that "A" list firms receive from international auditors, the lack of market liquidity, the lack of track record in the new economy, the wide-spread practice of "cooking the books" to conceal revenues from tax authorities, and the difficulty in so small a market of containing risk through diversification, these securities must inevitably play a limited role in a retirement portfolio.

Indeed, it may not be too much to say that a western broker would put his license in jeopardy if he recommended such securities to persons investing for retirement. At the same time, there is noticeable pressure to relax "A" list requirements, and there already have been questionable exceptions made, over Pragma's objection, to confer "A" listings on issues unable to meet the standard criteria.

It is possible that the "A" list role will be taken over by a special body devoted to rating securities as suitable or not for pension investment. And it is possible that, with or



without such guidance, the wisdom of pension asset managers will prevent ill-advised investment exposures. Even if these safeguards were adequate, however, they could not function properly if corrupted by conflicts of interest. Further regulatory efforts are advisable to assure that this does not occur, and the 30% limitation might also be reviewed. Regarding pension fund assets as the nation's most promising pool of investment capital presents fundamental policy dilemmas and extraordinary regulatory challenges in a country where any domestic investment is speculative and even the sovereign debt has a junk rating.

**Insurance company investment restrictions.** Insurance companies might be an additional source of institutional investment. However, they are currently prohibited from purchasing corporate securities unless these are denominated in a foreign currency. This provision bears re-examination.

**"Trust management principles."** The Pension Law makes pension asset management subject to trust principles, but the trust portions of the Civil Code reform have never been enacted. Completion of that reform would be useful (for bond indentures as well as pension management), but in the meantime the NSC's pension asset management regulation should contain its own delineation of trust management principles.

**Fund manager incentives.** Pension assets are supposed to be protected from some of the above dangers by the obligation of fund shareholders (i.e., the sponsors, not the beneficiaries) to make up real losses in fund value and the obligation of pension asset managers to pay for failure to satisfy the average-weighted-yield rule. Although the latter might furnish some incentive to speculate in order to keep up, and some fine-tuning might be appropriate in the rule's application, it seems unlikely that it would be difficult to achieve half the average weighted yield, which is all that the rule requires. However, the rule's operation should be monitored; and technical adjustments should be considered to allow for such things as price bubbles in any important type of investment asset, or application of a full-year weighted average to a manager whose management only began during the course of the year, when market conditions may have changed.

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Both pension asset managers and investment fund managers may be compensated by performance-based fees. To prevent these from becoming incentives to speculate, the NSC should have the authority to impose "fulcrum fee" requirements for fund management contracts, providing that managers who share in profits will also share in losses. This may be less necessary in the pension area, however, do to the presence of the average weighted yield rule and loss reimbursement provisions.

**Use of name.** Certain PIFs or holding companies use the words "investment fund" in their titles, although they are not licensed investment funds. (The latter are required to call themselves either "mutual funds" or "investment companies.") This is no doubt confusing to the public and should be addressed.

**Tax considerations.** Although there are no licensed investment funds now, there may never be many if the tax regime is not right. If, in addition to introducing another level of

administrative costs, the fund entity results in another level of income taxation. It is unlikely that funds will become very popular. There currently are no pass-through arrangements for earnings from fund portfolios.

### 3.9 Other Market Institutions

**Nature of the Central Depository.** The depository seems to be a statutory monopoly. At some point, it may be wise to reconsider this. Depositories arguably are natural monopolies; but true natural monopolies have no need to be statutory monopolies. And institutions that are not natural monopolies should not be statutory monopolies. The possibility of letting another institution arise if it could meet regulatory standards of safety, efficiency, interface, etc., may be a useful check on the conduct of the existing institution.

Moreover, as long as the depository is a statutory monopoly, the law needs to say more than it does about open access to the ownership of the institution and control of conflicts of interest. The law should also be clearer on regulatory access to depository information and the proper grounds for and appeals from expulsion from the depository or similar denials of access.

Monopoly or not, however, not all transactions settle through the depository. Even some KASE trading can be settled elsewhere. However, before regulatory action is contemplated, it will be necessary better to understand why some parties prefer not to use the depository.

**Fails.** Failures to settle are not unusual on the KASE. Settlement default entails certain financial penalties and can result in suspension or expulsion for repeat offenses. These are apparently not sufficient to have the desired effect, however. Moreover, these are KASE rules, rather than depository rules. The depository itself is simply a site for delivery against payment, a limited function, though one that it apparently fills well enough.

**Clearing and risk management.** Trades settle at the depository one at a time. Nothing in practice is netted, and there are no guarantee funds. At some point this simple procedure may be found inadequate. When that happens, a number of legal and regulatory issues will arise. For example, if multilateral netting backed by a clearing or guarantee fund is employed, it will need to be clear what body is substituting itself as universal counterparty – the KASE, the depository or some other entity. It will need to be clear that this kind of novation is legally legitimate. The effect of netting under bankruptcy law, which currently seems to impede netting, would have to be established. Numerous issues related to the pledge and liquidation of collateral as well as buying in or selling out securities would need to be resolved. The ownership of any guarantee fund will need to be clear, as will the ability of the clearing entity to pledge fund assets for cash advances. The ability to assess members to cover settlement losses, etc., also will need to be established.

Even without guaranteed settlement, however, the depository should consider risk-management measures for its current limited functions. If it lost someone's securities through error or fraud, it is not clear what the financial consequences might be. The legal framework for a more secure operation needs to be put in place.

**Authority for fully disclosed depository accounts.** The depository currently offers to maintain customer accounts for its participants on both omnibus and fully-disclosed bases. The Registry Law could easily be read to prohibit this practice, and this technical problem, along with another related to account secrecy, should be cleaned up.

**Affiliated custodians.** As noted in the discussion of the basic statutes, there is a statutory ban on entities acting as custodians for affiliated entities. While sensible enough in the context of funds under fiduciary management, there is no apparent reason that this should be a general rule.

### 3.10 Administrative Procedure

**Notice and comment.** The NSC has no formal procedure for publishing rule proposals and receiving public comment on them. However, as this is on the MOU agenda, it is hoped that it can be improved in the near future. Bureaucrats unfamiliar with this style of rule-making often think it is a waste of time because either there will be no comments or they will be fatuous. In the beginning, this is sometimes true. In the long-run, however, public notice and comment is extremely useful both to the quality and workability of the final product and to the public credibility of the process.

**Procedural due process.** We have recommended that the NSC formally incorporate into its disciplinary processes the principle that respondents are entitled to notice of the charges against them and a fair opportunity to explain themselves. As a practical matter, this usually already occurs. Moreover, judges review appeals of administrative action de novo, and so due process at the agency level is not quite as crucial as it might otherwise be. Nonetheless, making notice and opportunity to be heard an explicit part of the administrative process is a sound objective.

### 3.11 NSC Enforcement Powers

**Subpoena power.** The NSC's investigatory authority under the decree establishing the NSC could be read to confer something like subpoena power. However, the NSC does not believe that it has such power. It can inspect regulated entities and issuers, so it is not helpless. However, other violators as well as third-party witnesses need to be better covered.

**Remedies.** As suggested further above with respect to remedies, the authority of the NSC to sue on behalf of investors, either for injunctive relief or actual financial recovery on behalf of investors, is not always clear enough to the NSC. There is also concern as to the fees and other costs involved in bringing court actions as well as about the quality of the

judiciary. Although we have recommended specific changes in this area to clarify the NSC's authority, the NSC might also benefit from a more aggressive attitude. In addition, we have recommended measures to improve flexibility with respect to administrative remedies, so that the first step need not be suspension of an entire licensed firm or non-conforming securities issue.

### **3.12 Arbitration**

There are structures currently in place that allow for arbitration among exchange members and voluntary arbitration (open to market professionals, investors and issuers) before the NSC. About five arbitrations were conducted by the KASE last year. The NSC has never conducted an arbitration. More than regulatory reform, perhaps what is needed here is simply greater awareness among market participants that there exist alternative forums for dispute resolution. This is no small matter in a country where the quality of the courts is a question of grave concern.

### **3.13 Criminal Law**

Securities law violations are only partially covered in the Criminal Code. We recommended several amendments in our memorandum on enforcement matters to assure that criminal sanctions could reach serious failures to register securities, violations of antifraud or manipulation rules and deliberate disregard of a binding order of the NSC.

### **3.14 Broker-Dealer Insurance**

Kazakhstan has no equivalent of the Securities Investor Protection Corporation, and the infant industry probably could not afford one at this stage. We make no recommendation here for the present. The country is still working on insurance for bank deposits.

## **4. SUMMARY OF PRINCIPAL LEGAL AND REGULATORY NEEDS**

1. Statutory reform to assure that share appraisal (redemption) rights represent a fair valuation of shares regardless of nominal value.
2. Statutory reform to clarify the standing of the NSC to bring actions for injunctions, disgorgement or damages on behalf of investors.
3. Statutory reform to promote development of a civil procedure analogous to class actions brought by investors or shareholders on their own initiative.
4. Statutory reform to broaden NSC rule-making power in connection with proxy voting and regulations to effectuate this.
5. Regulatory reform to reconcile tender offer procedures with the organized market rule.
6. Statutory reform to permit legitimate debt-for-equity transactions.
7. Statutory reform extend periodic reporting requirements to entities meeting holder-dispersion and minimum asset tests without regard to quotation on an organized

- market. Regulatory measures implementing a comprehensive system of annual, quarterly and current reports.
8. Statutory reform clarifying the NSC's right to issue interpretive regulations as to the meaning of "closed offering," resale without registration of securities placed in closed offerings or otherwise exempt from initial regulation, publicly circulated securities from entities other than joint stock companies or issued in unconventional forms, and integration of offerings; implementing regulations.
  9. Statutory reform clarifying private rights of action for securities law violations and the administrative, civil and criminal liability of secondary violators.
  10. Statutory reform to implement larger administrative fines available for a wider range of securities law violations.
  11. Statutory reform to allow the NSC to issue and enforce antifraud rules and to expand regulatory power over sales efforts connected with a securities distribution.
  12. Internal NSC procedures for dissemination of registration and reporting information filed with it.
  13. Statutory and regulatory reform to revise the definition of insider trading, to permit the NSC to issue rules likely to minimize it and to clarify the civil liability resulting from it.
  14. Statutory and regulatory reform to broaden disqualification provisions for securities market professionals.
  15. More detailed regulation of internal supervision and compliance requirements for broker-dealers.
  16. Further reporting requirements for broker-dealers relating to updates of license application information, employee hires and dismissals and annual financial reporting.
  17. Clearer regulatory requirements for broker-dealers as to customer confirmation and account statements.
  18. Implementation of broker-dealer regulations regarding suitability of recommendations, churning, disclosure of market conditions, margin sales, short sales and hypothecation of customer securities, as well as broader advertising regulations.
  19. Modified capital requirements for broker-dealers.
  20. More objective standards for selection of banks eligible to hold broker-dealer customer funds.
  21. Statutory authority for the NSC to require use of a licensed broker-dealer in contexts where the risk of fraud or mistake is especially high.
  22. Regulatory reform to minimize price manipulation in connection with securities offerings.
  23. Dissemination of price and trade information from unbrokered transactions.
  24. Regulatory refinement of exceptions to the organized market rule.
  25. Reconciliation of the organized market rule with the SML.
  26. Introduction of market-making capacity on the KASE.
  27. Regulatory provision for securities lending.
  28. Statutory reform to allow more flexibility in the form of regulated alternative trading systems and elimination of the unqualified ban on dual listing.
  29. Reconciliation of KASE SRO functions with the SML.
  30. Statutory reform to provide for NSC review of SRO disciplinary action.

31. Statutory reform to recognize competition goals of securities legislation and to reconcile these with existing anti-monopoly law.
32. Rules to define and regulate investment advisers and to accommodate and regulate proposed ratings agency
33. Strengthen safeguards against conflicts of interest (affiliated-party transactions) in pension and investment fund laws and regulations.
34. Statutory reform to require that investment fund custodians be independent of fund managers and to impose rudimentary duties on custodians to monitor legality of fund investments.
35. Increased regulatory efforts to control conflicts of interest in pension asset management (see enforcement memos of 5 March 1999 and 29 March 1999) and statutory reform to permit closer control of transactions with affiliated persons.
36. Reform of insurance law to increase possibilities for securities investments by insurance companies.
37. Adoption of "trust" amendments to Civil Code, regulatory elaboration of these principles for pension asset managers in the meantime.
38. Statutory reform to allow NSC to impose "fulcrum fee" requirements on investment fund management fees; continuing regulatory attention to functioning of the average weighted yield rule, technical adjustments.
39. Statutory or regulatory restriction on use of the name "investment fund."
40. Tax law reform to allow tax-free pass-through of investment profits by investment funds.
41. Statutory allowance for more than one depository, subject to NSC regulatory assurance that it will not impair the safe and efficient settlement of transactions
42. Improved statutory guarantees of access to depository ownership, standards for denial of access to depository services, control of conflicts of interest.
43. Increased penalties for failure to settle trades contracted on the stock exchange.
44. Statutory and regulatory framework, including bankruptcy law, for trade settlements guaranteed by a clearinghouse; risk-management measures for non-settlement losses incurred by depository.
45. Statutory revision of Registry Law to clarify authority for depository to provide fully disclosed accounts and to clarify account secrecy requirements.
46. Eliminate the Registry Law's ban on affiliation between custodians and customers where investment funds, PIFs, pension funds and similar institutions are not involved.
47. Require either by statute or internal regulation that NSC rules be subject to publication and a period of public comment before permanent adoption.
48. Revise NSC procedural rules to make more explicit a person's right to be notified of supposed violations and provided an opportunity to be heard in his defense, in connection with adverse action against the person by the NSC.
49. Statutory reform to provide the NSC with subpoena power.
50. Regulatory (statutory if necessary) reform to increase flexibility of non-judicial remedies available to NSC.
51. Expansion of securities law violations subject to criminal prosecution to cover severe issue registration violations, antifraud rule violations and disregard of binding NSC orders.

In general, there is no objective of greater importance than promoting honest markets and responsible fiduciaries. Until this is achieved, no amount of information technology or other assistance will attract investors, foreign or domestic. People are not fools.

Program of the "Asset Management" Seminar  
sponsored by Asian Development Bank.

Date: 10-21 May.

Date	Lecture	Case studies
Monday	Ethics and Norms	Ethics and Norms
Tuesday	Introduction in Financial reporting	Current situation at the securities market in Kazakhstan
Wednesday	Introduction in Capital Markets, theory and practice	Introduction in Capital Markets, theory and practice
Thursday	Investment process: markets, industries and companies	Selection of Investment options for Pension funds in Kazakhstan
Friday	Equity investment: valuation	Kazakhstan Pension reform news
Monday	Fixed Income (Investing in bonds and their derivatives)	Fixed Income (Investing in bonds and their derivatives)
Tuesday	Asset management process: Case study of a pension fund work	Asset management process: Case study of a pension fund work International standards of performance ratings for asset management companies
Wednesday	Problems of investing in emerging markets. Education in finance- CFA program	Problems of investing in emerging market of Kazakhstan
Thursday	Risk management	Development of investment policy
Friday	Case study: visits to companies-	participants of the seminar

Participation in the seminar is free of charge.

I have sent an application and confirmed with them our participation. They guaranteed participation of one person from Pragma with a possibility of participating of our second representative. The participation is limited to two persons from one company. They will be contacting participants on Tuesday of the next week.



# Internal Memorandum

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To: David Lucterhand  
From: Kevin Fogarty  
CC:  
Date: June 14, 1999  
**Re:** Legal Team Monthly Report for May 1999

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## Task I. Continued Assistance to the NSC

### **Item 1. Drafting of regulations**

- 1) *Draft Payment Agent Regulation, Draft Revision of Licensing Rules, Comments on NSC Draft Instruction on Types of Security, Draft Regulation on Notification of Large Transactions*

These were completed in April and translated and delivered in May. They are described in the April report.

- 2) *Capital Rules for Pension Asset Managers*

Drafting Procedure: Comments on NSC draft by Jamilla, review and revision by Kevin after consultation with IMCC pension reform project and internal consultation.

We delivered comments on the NSC draft rule to govern prudential (capital/financial stability) norms for pension asset management companies. This rule would govern the finances of the management companies themselves, not their investment of pension assets, except that it did refine the average-weighted-yield rule. As noted last month, it is important that pension asset managers have substantial capital, since the main safeguard against mismanagement is the requirement that managers failing to achieve a certain level of performance contribute the shortfall to the pension fund. It would be easy to imagine a case where an under-capitalized management company cheats the fund in large transactions with the management company's confederates and then simply goes bankrupt.

The comments noted the confusing structure of the draft rule – it was not clear without explanation that the draft rule was mainly about proprietary rather than pension investments.

The comments also suggested raising the required ratio between capital and funds under management to a figure more likely to assure coverage of possible loss or other liability under the average-weighted-yield rule.

Since the sole justification for regulating a management company's capital is to assure that it can repay losses or other liability to the pension fund, the comments said the capital

requirement should be related to the likely dimensions of any such losses or liability. Thus, it was not clear why ratio requirements should decline as funds under management increase. For the same reason, if specific asset types were regarded as more risky than others, investments of managed as well as proprietary funds in these assets should result in an increased capital requirement.

As a general principle, the comments said a management company should be allowed to invest its own assets in a wide range of assets, like a broker-dealer, subject to two conditions: (1) no open-ended commitments and (2) capital reserves, discounts or allowances to cover risky investments. The NSC draft rule did not address open-ended commitments, and the reserves/discounts set out in the draft were too small.

Alternatively, additional capital could be required only for those proprietary investments outside the investments permitted for pension funds -- putatively prudent allocations. However, the pension fund allocation rule itself, like the broker-dealer capital rule, needed revision -- allocation ceilings were too high for domestic corporate securities and too low for foreign securities. On the whole, the comments favored a simple "net asset" ratio requirement, with proprietary assets realistically discounted to reflect risk and discounted again to reflect potential liability arising from risk in the managed assets.

The comments also noted the need for the rule to address how a broker-dealer that is also licensed as a pension asset management company would comply with both capital rules.

### *3) Evaluation of Shares in Redemption Offers*

Drafting Procedure: Jamilla prepared comments on NSC draft after consultation with Pragma Corporate Finance. Kevin reviewed, revised, and did further internal consultation.

The Joint Stock Company Law requires that companies wishing to buy back their own shares do so at the average weighted market value in the 30 days preceding the buy-back offer or at the "demand" price. (This apparently is an anti-greenmail/anti-looting provision: the "demand" price reference alludes to the redemptions available at the option of the shareholder in certain cases, which are subject to different price rules.)

The fundamental mission of the draft regulation should be to specify a meaning for "the average weighted market price" when there is no market for the company's shares and to clarify what the "demand" price is. The draft comments, completed, translated and delivered in June, emphasized the need to (a) be guided by the general definition of market value given in article 78 of the Law (price at which fully informed buyer and fully informed seller, acting without compulsion, would trade); (b) establish some minimum as to volume and number of transactions before relying solely on reported trade prices; (c) give more consideration to prices on foreign markets; (d) revise certain parts of the NSC draft concerning valuations based on other than trade prices; (e) be clear that the statutory alternative of redemptions at the "demand" price merely means the price established in article 28.6 governing redemptions on demand, not that shares in general could be redeemed at any price requested.

### *4) Placement of Shares in Closed Offerings*

Drafting Procedure: Jamilla prepared comments on the NSC draft, which Kevin reviewed and supplemented in a separate memo.

Closed share offerings, roughly equivalent to private placements in the US, are exempt from registration. The NSC's draft instruction detailing the meaning of this concept is important to assure that securities that needn't be registered can avoid registration and that those that should be registered will be registered.

Among a variety of more technical points, the comments delivered in May noted that the NSC draft instruction contained overly elaborate documentary requirements for assignment of a national identification number to issues that were exempt from registration. But at the same time the draft rule missed the opportunity to clarify exactly what types of sales would be exempt from registration. As to the latter point, the comments suggested provisions (a) to assure that exempt "closed offerings" are limited to relatively small numbers of persons with relatively easy access to information about the issuer; (b) to allow registration-exempt but limited resale of shares acquired in closed offerings, so that a quick series of formally closed sales and resales do not result in something similar to an unregistered open offering; (c) to treat as a single open offering a related series of formally closed offerings that results in the issue reaching large numbers of people; (d) to assure that "qualified investors" are bona fide securities market businesses.

#### 5) *Draft Rule on Custodial Activity*

Drafting Procedure: At the NSC's request, we worked on writing a custody regulation to replace the existing one. Jamilla, working on the basis of instructions from Kevin, consultation with actual custodians, the NSC staff and a review of existing law and regulations, produced a first draft.

Custodians play a key role, particularly with respect to pension funds, in assuring that pension fund assets are not, roughly speaking, lost or stolen. The regulation governing their activities should contain adequate provision to assure that custodial assets are readily identifiable at all times; that they cannot be moved without proper authorization; that appropriate internal controls in general exist; that the custodian keeps records adequate to reconstruct events relating to assets in custody; that the custodian itself is insulated from any conflicts of interest in the performance of its duties; that the custodian has the technical and financial resources necessary to perform its duties; that the custodian performs certain monitoring functions that will prevent misuse of fiduciary assets; that the custodian reports regularly to counterparties and regulators; and that the custodian has arrangements to assure that its customer is reasonably able to exercise the rights associated with securities ownership.

#### 6) *Comments on Draft Regulations for Registrars of Closed Joint Stock Companies*

Drafting Procedure: Natalie received a draft of this regulation from the NSC staff for her comments. She prepared a memorandum as to the same to be reviewed and supplemented by Kevin.

This draft presents no great policy issues except (a) the legal consequence of deviation from the prescribed procedures (is the transfer invalidated?) and (b) whether registrars of closed companies should decline to register transfers that would bring the number of shareholders over 100, which is the limit for a closed company. Our initial inclination is that procedural errors not benefiting a party acting in bad faith should not invalidate a transfer and that registrars should refuse to register transfers that they know will bring the number of shareholders over 100, except perhaps in cases of inheritance or other "involuntary" transfers.

*1) Comments on NSC Draft Revision of Reporting Requirements for Professional Participants in the Securities Markets*

Drafting Procedure: Jamilla received this draft from the NSC and provided a memorandum of comments to Kevin for his review and supplementation.

This draft regulation covers reports to be made to the NSC monthly or quarterly by broker-dealers, stock markets, the central depository and registrars. For some reason, pension asset managers are covered separately. The format is confusing. A separate rule for each type of professional might be easier to follow, but the same format is used as to licensing requirements. Generally speaking, reports from licensed entities should be sufficient to (a) alert the regulator to possible compliance problems at the regulated entity; and (b) improve market transparency by assuring that material information as to prices, times and volumes of securities transactions are readily available to the public. The draft rule seems to go into great detail as to the latter – though it is meaningless if the NSC does not disseminate or use the data, which it hardly seems to – and little detail as to the former.

*8) Comments on NSC Draft Rules for Pension Asset Management Company Internal Procedures.*

Drafting Procedure: Jamilla prepared a memo on this draft which she delivered to Kevin for review and supplementation shortly after the end of the month.

This draft rule describes the topics that the asset manager's internal regulations should cover: investment criteria and decision process, organization and job descriptions, order forms and other documentation, settlement procedures and controls, control of confidentiality and of data integrity. However, the NSC draft doesn't set many standards for how these topics should be covered. And it includes almost nothing on the fundamental topic of preventing or neutralizing conflicts of interest.

**Item 2. Assist in Establishing Enforcement Power of NSC**

*1) Comments on NSC Draft of Administrative Code Amendments Giving NSC Power to Levy Fines*

Drafting Procedure: Kevin received a draft of these NSC staff proposals and prepared and delivered remarks.

The NSC, whose remedies for securities law violations are sometimes inflexible, particularly with respect to violations by issuers, drafted changes to the Administrative Code, which would allow it to impose fines for certain violations of the securities laws. The comments we delivered in May on this draft noted that (a) the list of violations for which fines could be imposed seemed partial and incomplete; (b) some violations required "serious harm" to result before a fine could be imposed, but the content of this distinction and the reason it applied to some violations but not others was unclear; (c) the individuals subject to fines were "officers" of the entities involved with the violation, but we thought anyone aiding or abetting a violation should be subject to fines, regardless of his official position; (d) the fines suggested were too small to inhibit profitable violations; (e) fines should have been included for disregard of a binding order of the NSC.

Kevin delivered a draft 34-page assessment of the regulatory and legal needs of the Kazakh securities market to USAID. He continues to update and improve his own draft against the possibility that someone, somewhere might read it.

Kevin also sent several memos to the NSC in response to their requests for information about American or international practice on regulatory topics including the definition of a securities dealer, regulatory requirements for foreign securities, and rules relating to insider trading.

Mirgul completed a memo on the functioning of shareholder protection associations in Russia, with possible applications here, and provided some assistance in reviewing disclosure documents submitted by Jetsugaz Corp.

Oksana was involved in assisting with the insurance reform project and various translation and ad hoc research projects.

# SECURITIES DEVELOPMENT PROJECT

## PRAGMA CORPORATION

### USAID/CAR

#### OFFICE OF MARKET TRANSITION

#### REQUEST FOR PROPOSAL (RFP)

#### PROGRAM INFORMATION

<b>Program Title:</b>	Privatization and Commercialization of USAID Securities Market Web Site: <a href="http://www.kazecon.kz">www.kazecon.kz</a>
<b>Duration:</b>	Minimum of 6 months
<b>Proposed Operating Dates:</b>	June 1 – December 31, 1999
<b>Maximum USAID Funds:</b>	N/A
<b>Announcement Date:</b>	May 11, 1999
<b>Proposal Due Date:</b>	6:00 p.m., May 25, 1999
<b>Evaluation Process:</b>	Highest Technical Score

#### I. BACKGROUND/SUPPORTING INFORMATION

One of the more useful applications of the Internet is the provision of financial information to investors. The relative usefulness of the Internet in providing financial information becomes even more profound in markets where traditional information distribution systems are underdeveloped or where potential investors are located in other countries. Kazakhstan's market falls into both categories.

An early recognition of the potential for Internet use in the financial sector in Kazakhstan led USAID to establish the [www.kazecon.kz](http://www.kazecon.kz) web site in January 1997 as an avenue for disseminating information on privatization and securities markets in Kazakhstan. In August 1997, the web site came under the management of the USAID Securities Market Development Project (SMDP), administered by the Pragma Corporation. The web site received the Financial Times "Best Business Server of 1997" in November of that year, adding to the site's prestige and raising interest among the international business and media communities.

In early 1999, USAID and Pragma began considering ways of commercializing the web site so as to ensure its continued operation after USAID funding for the SMDP expires in March 2000. As originally imagined, this task would have involved Pragma personnel running the web site beginning to explore and develop ways to generate income, through advertising, selling information, or other means.

At least two factors make commercialization by Pragma problematic. First, the generation of revenue by USAID contractors creates complications under USAID budgeting and financial integrity regulations. Second, the pursuit of such revenues

could divert resources and raise conflicts of interest that could compromise Pragma's performance in its current task of administering the SMDP.

This is a request for a proposal to take over the day-to-day maintenance and development of the web site from Pragma with the goal of developing the site's commercial potential while maintaining the web site to further USAID goals through the SMDP. To facilitate the operation of the web site and coordination with the SMDP, the candidate with the best proposal for commercializing the web site will operate from offices at the building where the SMDP, the National Securities Commission and the Kazakhstan Stock Exchange are located.

Further, USAID will provide the successful candidate with the exclusive use of the kazecon.kz name and the data and program files that make up the web site.

USAID will also provide the successful candidate with use of and access to the USAID-owned equipment necessary to operate the web site. Finally, USAID/Pragma technical staff who have been working on the web site will be made available to the successful candidate to assist in the commercialization effort. The use of these facilities, equipment and personnel will be at no cost for a minimum period of six months and not longer than the duration of the SMDP. The SMDP is scheduled to terminate on March 31, 2000.

From the time a candidate is selected until the termination of the USAID SMDP, the successful candidate will be responsive to USAID requests to post information on the web site which USAID feels is pertinent to development of the securities market and USAID's involvement therewith.

## **II. MAIN USAID STRATEGIC OBJECTIVE**

SO: 1.4. A more Competitive and Market-responsive Private and Financial Sector

### **Intermediate Results:**

IR 1.4.2.1.1 Securities market institutions effectively serve the financial industry.

## **III. GOALS OF THE ACTIVITY**

### **Causal Relationship/Performance Results:**

The result will be achieved through the establishment of a commercially viable, Internet-based provider of financial information on Kazakhstan's economy and securities market.

## **IV. PARTICULAR ACTIVITIES:**

With regard to activities in support of current web site activities the successful candidate will be obligated to:

- Post and maintain information on the web site provided to it by Pragma, which USAID believes would further the development of Kazakhstan's securities market.

- Post and maintain information on the web site that sufficiently explains USAID's role in developing and supporting the web site.
- Post and maintain information on the web site information regarding USAID's role in Kazakhstan's market transition, as provided by Pragma.
- Post and maintain other information on the web site of interest to foreign and domestic investors.

## V. USE OF EQUIPMENT, INTELLECTUAL PROPERTY AND OFFICE SPACE

The successful candidate will be provided part of Pragma's office space at 67 Aiteke Bi, Almaty, Kazakhstan, and will be given exclusive use of the following USAID-owned equipment, under Pragma's control, for the duration of the activity:

- 1 Dell Optiplex GX1L Pentium II 266 MHz, 32 Mb RAM computer with a 3 Gb HD, and network card.
- 1 15" Value monitor TCO 95.
- 2 Desks
- 2 Office Chairs
- Shelving

The successful candidate will also be granted reasonable use of and access to the following USAID-owned equipment under Pragma's control:

- 1 32 Kb/c digital line, providing synchronous connection to the internet service provider "Nursat";
- 1 PowerEdge 2300, Pentium II 333/66/512 computer on which Pragma's consultants develop internet materials before posting them on the web site; and
- 1 PowerEdge 2300, Pentium II 333/66/512 computer located in offices controlled by the Internet provider "Nursat".

The successful candidate will have access to Pragma's technical staff involved in the web site activity to assist in the commercialization effort.

Finally, the successful candidate will receive exclusive use of the kazecon.kz name and the data and program files that currently make up the web site.

## VI. ELIGIBILITY

Any "going concern" with operations and offices in Kazakhstan is invited to submit a proposal.



## **VII. GENERAL INFORMATION**

A general description of the history, operation, and other relevant information regarding the web site is attached as Appendix A.

## **VIII. PROPOSAL FORMAT AND SUBMISSION**

The proposal should clearly demonstrate that the applicant has the capability of operating the web site at its current level under the terms discussed in this request for proposals. Further, the proposal should explain how the applicant plans to make the web site commercially viable. The proposal should consist of a concept paper, no more than five pages in length, which explains how the web site will be used to enhance the candidate's current business and a draft business plan, which demonstrates the commercial viability of the concept.

Proposals are due no later than 6:00 p.m. local time, at the Securities Market Development Project Offices, C/O David Lucterhand, Chief of Party, Pragma Corporation. They may be hand-delivered, sent by mail, faxed or sent electronically.

**USAID Securities Market Development Corporation**  
**C/O David Lucterhand, Chief of Party**  
**Pragma Corporation**  
**National Securities Commission Bldg.**  
**Aiteke bi, 67**  
**Room 420-422**  
**Almaty, Kazakhstan**  
**Tel: 7-3272-63-94-84**  
**Fax: 7-3272-63-93-23**  
**E-mail: pragfile@kazecon.kz**

**Capital Markets Development**  
**Public Education Seminar for Senior Officials in Kyrgyzstan**  
**An IDA/WBI Joint Program**

Sponsored by National Commission on Securities Markets under the President of the  
Kyrgyz Republic (NCSM), National Bank of the Kyrgyz Republic (NBK)

with the Financial Support of Turkish International Cooperation Agency (TICA) and  
United States Agency for International Development (USAID)

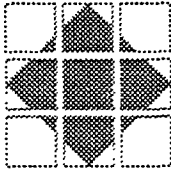
May 18 – 19, 1999  
Bishkek, Kyrgyz Republic

Tuesday, May 18

First Day

- |               |   |
|---------------|---|
| 8:30 – 9:00   | Registration of the participants.   |
| 9:00 – 9:10   | Seminar Opening – <i>Mr. Uran Abdynasyrov</i> , Chairman, National Commission on Securities Markets (NCSM) (4 min)<br>✓ <b>Speakers and Seminar Program Introduction</b> – <i>Mr. Ulan Sarbanov</i> , Governor, National Bank of the Kyrgyz Republic (NBK), <i>Mr. Demir Yener</i> , Financial Specialist, World Bank Institute, (6 min.)   |
| 9:10 – 10:00  | <i>Mr. Askar Akaev</i> , President of the Kyrgyz Republic (50 min.)   |
| 10:00 – 10:30 | <u>Session 1.</u> – World Bank Financial Sector Development Program in the Kyrgyz Republic - <i>Mr. Mohinder Mudahar</i> , World Bank Resident Representative (30 min.)   |
| 10:30 – 10:45 | Break   |
| 10:45 – 12:15 | ✓ <u>Session 2.</u> The Role of Capital Markets in the Development of Transition Economies – <i>Mr. Uran Abdynasyrov</i> , Chairman, National Commission on Securities Markets (NCSM)<br><br>✓ <u>Co-speaker:</u> <i>Mr. Azamat Djoldasbekov</i> , Chairman, National Commission on Securities Market, Kazakhstan   |
| 12:15 – 13:30 | Lunch   |
| 13:30 – 15:00 | ✓ <u>Session 3.</u> Causes of Recent Financial Crisis in Russia and Its Consequences on Financial Sector Development of Transition Economies – <i>Mr. Ulan Sarbanov</i> , Governor, National Bank of the Kyrgyz Republic<br><br>✓ <u>Discussants:</u> <i>Mr. Demir Yener</i> , Financial Specialist, World Bank Institute, <i>Mr. Abdyjapar Tagaev</i> , President, Kyrgyz Stock Exchange |
| 15:00 – 15.15 | Break   |





**The Pragma Corporation**  
**USAID Securities Market Development Project**  
**Monthly Report**  
**(For the period ending June 30, 1999)**

For the  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	David Lucterhand
COTR USAID/CAR	Rick Gurley

ALMATY, KAZAKHSTAN

**The Pragma Corporation**  
**USAID Securities Market Development Project**  
**Monthly Report**  
**(For the period ending June 30, 1999)**

**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 June 1999.

- PUBLIC FINANCE SPECIALIST BEGINS ANALYSIS OF RK MUNICIPAL ISSUANCE
- RECOMMENDATIONS TO REVISE "A" LISTING REQUIREMENTS GIVEN TO KASE
- DRAFTING OF REGULATIONS FOR NSC CONTINUES
- SRO TRAINING CONTINUES
- S&P REPRESENTATIVES VISITED IN MOSCOW
- IT PERSONNEL VISIT RUSSIAN STOCK EXCHANGE AND FCSSM IN MOSCOW
- MOU SIGNED BETWEEN KASE AND ISTANBUL STOCK EXCHANGE FOR FUTURE COOPERATION
- SPEECH DELIVERED AT CONFERENCE ON PENSION REFORM
- GOLDEN EAGLE PARTNERS SELECTED AS WINNER OF RFP FOR PRIVATIZATION OF WEB SITE
- PROCEEDINGS OF FIXED INCOME CONFERENCE COMPLETED

**II. PROJECT DESCRIPTION**

The Pragma Team works with the National Securities Commission ("NSC"), the Kazakhstan Stock Exchange ("KASE"), broker-dealers and the Central Depository in developing Kazakhstan's securities market. To further these goals, the Pragma Team works under a recently signed MOU between USAID and the NSC. Pragma also works with KASE under the auspices of a 1998 Memorandum of Understanding which established the precedent and rules of engagement. While these MOUs have expired, Pragma and NSC continue to cooperate in accordance with the pre-existing agreements.

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 its completion date. The priorities of the Project for

this period are noted in the boxes below in section 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.

In continuation of post conference activity which centered on responding to requests for technical assistance, planning commenced for visiting the Oblast of Mangistau with the arrival of Robert Serafini, Senior Public Finance Advisor, to evaluate current and future issuance plans for the Oblast of Mangistau. Further Internal briefings were organized for Pragma staff to convey the fundamentals of Public finance and the financial advisor to the Mangistau Oblast was visited in order to better understand the nature of their first issue.

As noted in recent reports, emphasis has been placed on identifying corporates which could issue fixed income instruments for trade on KASE due to the current lack of interest from institutional investors for investing in equities. Within this context, a major initiative was undertaken in response to requests from broker-dealers and companies to lower the net worth requirements for "A" listed securities. This is because pension funds are the only real domestic institutional investors in Kazakhstan but they are limited to investing in "A" listed securities. Further, through our listing efforts, we identified several profitable well run companies which needed access to capital but could not meet the current minimum net worth requirement. In fact, few companies in Kazakhstan could. Also, given that pension fund managers needed product diversification to manage risk, more "A" listed companies could help diversify that risk. After a thorough comparison to other global exchange listing requirements and taking into account the current listing requirements of KASE, recommendations for changing "A" listing requirements were issued to KASE and the NSC. The essence of the recommendations reflected the need for lower net worth requirements while recognizing the need for increased financial disclosure and corporate profitability. (See Attachment 1) Ultimately, the Exchange Council which is the equivalent on an executive committee in corporate parlance, met and decided not to adopt the net worth reduction recommendation but did decide to adopt several other recommendations which arguably could lessen the likelihood of default for fixed income issues.

On other matters, our regional consultants continued their listing efforts working both with specific companies and privatized investment companies (PIFs) and have directed the better part of their efforts to meeting with municipal officials to better understand their plans for issuance. Also, during the month, PIFs were encouraged to direct their broker dealers to post bids and offers on share parcels offered for sale through KASE and at the very least-offers. Additionally, broker dealers were encouraged to post bids and offers on all shares traded at KASE. Work continued on creating a trust mechanism necessary in the structuring of asset backed securities. Discussion continued with S&P and EA ratings about what it would take for them to set up a ratings presence in Kazakhstan. This culminated in a trip to Moscow by the COP to discuss the criteria necessary for S&P to establish a presence here. Tentative plans were made for a visit by S&P to Kazakhstan for the purpose of making a ratings presentation to selected companies. Lastly, the proceedings of the *Central Asian fixed Income Conference* was completed and distributed to USAID, broker-dealers, the NSC, the KASE, oblasts, municipalities, selected companies, and SABIT of the Foreign Commercial Service. (See attachment 2)

On legal matters relating to NSC, the rigorous schedule of drafting regulations and commentary on existing or proposed regulations continued. A list of specific regulatory drafts and comments is attached. *(See Attachment 3)*

Regarding exchange matters, training for KASE and NSC staff on SRO matters continued throughout June and explored issues surrounding regulatory matters and surveillance procedures. *(See Attachment 4)* Comments on market makers were delivered to the President of KASE which included incentives for market makers. While the KASE president thought that this was not the time to introduce market makers, Pragma disagreed and stated its intention to continue working with broker-dealers about becoming market makers. On other matters, executives from the Istanbul Stock Exchange met with their counterparts at the KASE and signed an agreement for future cooperation and possible cross listings. Subsequently, the Chairman of the NSC cancelled the provision allowing KASE listed shares to be listed on the Istanbul Stock Exchange out of concern that trading activity would move there. On NSC matters, we discovered a regulation which required broker-dealers to take a 100% haircut on their proprietary positions in OTC I & II. We presented a recommendation that the NSC allow some value be imputed to OTC I & II positions, otherwise broker-dealers would have no incentive to trade them. The NSC implied reconsidering the position.

Also this month, a winner of the RFP, issued late in May regarding privatization of the web site, was chosen. Pragma received two serious proposals and after measured review (site visits, management interviews, review of financials etc.) and deliberation, chose Golden Eagle Partners. A draft contract is being prepared.

The IT group continued its support for the [www.kazecon.kz](http://www.kazecon.kz). The NSC also approved group's the new web site design and structure. Systems testing of the site continued throughout the month. The head of the IT group and an associate visited The Russian Stock Exchange and the Federal Commission for the Securities Market at their invitation to learn first hand how financial disclosure is filed electronically and the systems which support this work. *(See Attachment 5)*

On other matters: Regarding the transformation of DSPP into the Committee for State Property and Privatization (CSPP), we received a final copy of the Privatization Program for 1999-2000 signed by Prime Minister Balgimbayev and prepared a synopsis of it for the OMT/CAR Director Gary Linden. *(See Attachment 6)* The program outlines the direction the RK is taking towards the privatization of blue chip companies and the management of state property. A Conference for Financial Professionals was attended by the COP and officiated by the RK President. A synopsis of President Nazarbayev's comments delivered at the conference was prepared for the Director of OMT/CAR Gary Linden. *(See Attachment 7)* An address was given by the COP at a Conference on Pension Fund Reform sponsored by The Soros Foundation and the Pension Reform Project. The subject was The Importance of New Product Development for Pension Fund Investment. *(See Attachment 8)* Robert Googins, former insurance commissioner of the State Of Conn., continued his work with the Insurance Division of the National Bank through analysis of extant regulations affecting the industry.

Task 1 - Continued Assistance to the NSC

Defined Activity	Progress Made During the Month
1. Draft regulations.	<p>The Team's Legal Group continued its work on various laws and regulations noted below:</p> <ul style="list-style-type: none"> <li>• <i>Capital Rules for Pension Fund Managers</i>-Delivered comments on the NSC draft rule which governs the capital/financial norms for pension fund asset management companies. This rule governs the finances of the management companies themselves, not their investment of pension assets.</li> <li>• <i>Evaluation of Shares in Redemption Offers</i>: Comments are being developed on the NSC draft which addresses the provision within the Joint Stock Company Law that requires companies wanting to buy back their shares to do so at the average weighted market value of the proceeding thirty days. The commentary focused on the meaning of "average weighted price" when there is no market for the company's shares.</li> <li>• <i>Placement of Shares in Closed Offerings</i>: Comments were delivered on the NSC's draft instruction detailing when securities are exempt from registration (roughly equivalent to a private placement in the U.S.)</li> <li>• <i>Draft Rule on Custodial Activity</i>: NSC has requested that we draft a new regulation on custody to replace the existing one. The regulation governing their activities should contain adequate provisions to assure that custodial assets are readily identifiable at all times.</li> <li>• <i>Regulation for Registrars of Closed Joint Stock Companies</i>: Comments are being developed for the NSC which address issues such as: the legal consequences of deviating from proscribed procedures; and when should registrars decline to register shareholders for purposes of registering transfers in a closed company if the number of shareholders exceeds 100.</li> <li>• <i>NSC Draft Revision of Reporting Requirements for Professional Participants in the Securities Markets</i>: Comments are being developed on draft regulation which cover the monthly or quarterly reports to be made to the NSC by broker dealers, exchanges, the central depository, and registrars.</li> <li>• <i>NSC Draft Rules for Pension Asset Management Company Internal Procedures</i>: Comments are being developed which address the internal regulations of asset managers such as investment criteria and selection process, organization and job descriptions, order forms and other documentation, settlement procedures and risk control, control of confidentiality and data integrity.</li> </ul>
2. Assist in establishing enforcement power of NSC.	<p>Comments were delivered to the NSC addressing remedies for securities law violations. This included changes to the Administrative Code which would allow it to impose fines for certain violations. This was in response to highly inflexible NSC remedies for violations especially as it pertained to issuers. (See Attachment 4)</p>
3. Assist NSC in moving off-exchange trading to KASE.	<p>Virtually all unauthorized off-exchange trading has been eliminated.</p>



Defined Activity	Progress Made During the Month
<p>4. Establish NSC Data Warehouse/Trade Reporting System.</p>	<p>The Technological Support Group continued its ongoing work with the NSC. During the month the Group:</p> <p>Continued working on the NSC reporting system for managers of pension fund assets by:</p> <ol style="list-style-type: none"> <li>1. Meeting with custodian banks and President of KASE to agree on the structure of tables and the type of data to be entered.</li> <li>2. Developing a system which controls the information flowing from custodian banks with the objective of checking the accuracy of the prepared data for transfer to the NSC prior to its actual transmission; meeting with IT counterparts in custodian banks, the NSC, and registrars to agree on compatible standards for data transmission.</li> </ol> <p>Continued work on the internal NSC information system by:</p> <ol style="list-style-type: none"> <li>1. Continuing development of the Registry of Government Securities issues by Min Fir and the National Bank through which the NSC assigns NSINs.</li> <li>2. Responding to all NSC employee user comments by integrating their suggested changes into the NSC internal information system.</li> </ol> <p>Other:</p> <ol style="list-style-type: none"> <li>1. Continued technical support for <a href="http://www.kazcon.kz">www.kazcon.kz</a> web site</li> <li>2. Installed additional computer capability for the NSC head of strategic planning.</li> <li>3. Trained the local NSC administrator on servicing and managing the internal information system.</li> </ol>

**Task 2 - Blue Chip Privatization**

Defined Activity	Progress Made During the Month
<p>1. Assist and monitor the privatization of state owned shares.</p>	<p>Our regional consultant in Astana is in continuous contact with DSPP committee members involved in the transformation to CSPP. He most recently provided us with a copy of the privatization plan which is referenced in the executive summary.</p>
<p>2. Assist and involve Broker/Dealers in working w/GOK privatization.</p>	<p>Discussion with broker-dealers regarding the implications for privatization based on review of the recently distributed privatization plan is underway. For many broker-dealers, our introduction of the plan was their first exposure to the GOK's new emphasis on privatization.</p>

Defined Activity	Progress Made During the Month
3. Advocate share listings of blue chip companies w/KASE.	While CSPP reorganization is still underway, the new privatization plan makes reference to the GOK using the KASE for privatization of state owned blocks of shares. With regard to blue chips, however, the plan specifically states that the preferred method of privatizing these assets is by seeking a strategic investor. We expect to visit the newly reorganized CSPP once reorganization is completed to remind committee officials that listing on the KASE represents a viable alternative for investment.

**Task 3 - Development of the Markets**

Defined Activity	Progress Made During the Month
1. Encourage companies to list on KASE.	<p>The team successfully completed getting CentreCredit Bank listed OTC II as a preliminary step to an "A" listing.</p> <p>On other matters, the Group:</p> <ol style="list-style-type: none"> <li>1. Assisted "Ural-Poliplast" JSC in preparation of documents for listing.</li> <li>2. Assisted "Pavlodarenergoservice" JSC on share registration with the NSC. The issue was registered during the month of June.</li> <li>3. Advised "Vash Vybor" JSC on the listing process.</li> <li>4. Advised "PS Agro Pac" JSC in the selection of an auditor. "Aya Audit" was chosen and began audit activities.</li> <li>5. Continued work with regional PIFs, "Rost Fond", "Metalinvest", and "Prominvest" to verify their holdings and to explain the importance of directing their broker-dealers to post bids and asks for their shares on KASE.</li> <li>6. Met with "Intymak" JSC, a former PIF, located in Atyrau, to encourage their participation in share trading on the KASE.</li> <li>7. Planned meetings with the regional administrations in Aktau and Atyrau to discuss municipal issuance.</li> </ol> <p>As of month end, 75 companies or securities issues were listed on KASE broken down in the following way:</p> <ul style="list-style-type: none"> <li>• Seven "A" listed with eleven issues.</li> <li>• Ten "B" listed with eighteen issues.</li> <li>• Fifty-eight listed OTC I &amp; II with seventy-two issues.</li> </ul> <p>These numbers exclude companies placed by the DSPP.</p>
2. Encourage trading on KASE	<ol style="list-style-type: none"> <li>1. Prepared and submitted recommendations to change the KASE "A" listing category requirements to permit reliable and growing companies with lower than \$10 million net worth capitalization access to pension fund investment. This was done at the request of the KASE President, Damir Karasayev, and several dynamically growing companies such as Foodmaster. The Exchange Council reviewed the recommendations. However, the main proposal to decrease the threshold of share capital was not approved due to opposition from the Council Chairman.</li> <li>2. Continued work on upgrading ten companies from OTC II to OTC I.</li> <li>3. Continued discussions with broker-dealers and PIF's to reiterate the importance of posting bids and offers in the securities which had been sponsored by them for listing</li> </ol>

Defined Activity	Progress Made During the Month
	<p>on the KASE as well as the importance of posting bids and offers for other securities listed on KASE.</p> <p>4. Signed Protocols of Intention (POI) with "P.S. Agro Pac" JSC. and "Foodmaster" to advise them on the listing process.</p> <p>Other:</p> <p>1. Continued work on the use of a trustee mechanism for the issuance of asset backed securities by determining which aspects of the Kazakhstan civil code could permit such activity.</p>

**Task 4 – Continued Assistance to KASE and the Central Depository**

Defined Activity	Discussion of Progress Made During the Month
<p>1. Support KASE in accepting the SRO responsibilities of the Association of Broker/Dealers (ABD)</p>	<p>1. Training activity continued throughout the month of June emphasizing surveillance, trading guidelines and procedures, laws of RK relevant to the securities markets, NSC regulations, custodian issues, KASE rules and Code of Ethics, and Rules of Fair Practice (to be adopted by KASE).</p> <p>Other: Mr. Azamat Joldasbekov, Chairman of the NSC, raised in meetings the probability that other SRO's would be formed-for pension funds and registrars and asked for USAID support. We informed him that USAID should be contacted and agree.</p>
<p>2. Assist KASE to finalize rules for market-makers/work in conjunction with Broker-Dealers.</p>	<p>Draft comments on market maker activity were delivered to Damir Karasaev, President of KASE. Included were several financial incentives for broker-dealers to act as market makers. In response, Mr. Karasaev felt that the timing was poor to introduce market making since most BD's had weak capital structures. We informed him that Pragma would continue to encourage BD's to start market making activities in selected securities.</p>
<p>3. Improve broker-dealers operational efficiency and transparency.</p>	<p>The new enforcement officer at KASE is participating in our formal training sessions for SROs and continues on going analysis of BD trade reports. New Capital adequacy rules were developed for BD's and approved by the NSC.</p> <p>Other: Pragma suggested to NSC Chairman Joldasbekov, formation of the regulation and compliance committee to discuss those issues related to stock trading and broker-dealer operations. Rather than form this committee, Mr. Joldasbekov stated that Pragma would be invited as observers to the Expert Council where matters of this kind could be discussed.</p>
<p>4. Provide assistance to the Central Depository (CD).</p>	<p>Discussions were held with Mr. Kapushev, President of the Central Depository (CD), regarding the CD acting as registrar for all securities traded on KASE. He expressed concern that the CD could not distribute corporate governance items nor dividends. The suggestion was made to use one of the large banks with branch offices around the country. Alternatively, the CD could source and use a transfer agent just as current registrars do. Mr. Kapushev indicated that he would like to revisit this issue at a later time.</p>

**Task 5 - Other Activities**

Defined Activity	Progress Made During the Month
1. Make the USAID web site a self-sustaining entity.	A request for proposals (RFP) was issued on the <a href="http://www.kazecon.kz">www.kazecon.kz</a> web site and in the financial newspaper <i>Panorama</i> . In response, two proposals were received and evaluated. The winner was Golden Eagle Partners (GEP), an Almaty based investment group. A contract to convey the use of the web site to GEP is being prepared.
2. Chief of Party presents paper at Soros Foundatioin sponsored conference in Almaty; attends Conference of Financial Professionals	<p>1. David Lucterhand participated in a Capital Markets Pension Reform conference June 22-23 and presented a paper on <u>The Importance of New Product Development for Pension Fund Investment</u>.</p> <p>2. Lucterhand attended the first Conference of Financial Professionals sponsored by the Republic of Kazakhstan. Various governmental officials and industry executives exchanged candid views regarding the economy, banking, and investment.</p>

**IV. ADMINISTRATIVE ISSUES**

None

**V. PROJECT STAFFING**

The following personnel were engaged in project activities this month:

Richard Dvorin, Senior Capital Markets Advisor

Kevin Fogarty, Senior Legal Advisor \*

David Lucterhand, Chief of Party

Timothy Smith, Senior Technical Advisor

Robert Googins, Senior Advisor, Insurance (Short term)

Robert Serafini, Senior Advisor, Public Finance (Short Term)

\*Kevin Fogarty was on home leave for approximately two weeks during the month.

USAID SECURITIES MARKET DEVELOPMENT PROJECT

Monthly Report for June 1999

List of Attachments

- Attachment 1. Recommendations to the KASE for listing requirements
- Attachment 2. *Proceedings*, Central Asian Fixed Income Conference
- Attachment 3. Legal Report by Kevin Fogarty on Regulatory Activity with NSC
- Attachment 4. SRO Seminar Syllabus
- Attachment 5. IT Trip Report
- Attachment 6. Synopsis of GOK Privatization Plan submitted to Gary Linden, Director, OMT/CAR
- Attachment 7. Summation of President Nazarbayev's Comments During the Conference - for Financial Professionals submitted to Gary Linden Director, OMT/CAR
- Attachment 8. Program, Pension Reform Conference

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Mr. Damir Karasayev  
President  
Kazakhstan Stock Exchange  
67 Aiteke Bi St.  
Almaty, Kazakhstan  
480091

May 31, 1999

Dear Mr. Karasayev:

In response to your request that Pragma review the current listing requirements for "A" listed securities on KASE, please find the following recommendations. I should like to point out that the review is for fixed income listing only. We are prepared to review listing requirements for category "A" equity issuers at a later date.

### **Background**

Since the August 17, 1998 Russian default on its short term treasuries and subsequent banking crises in both Russia and Asia, international investment capital has sought refuge in short term fixed income instruments issued mostly by G-7 countries and the highly liquid stock markets in North America and Europe. This change in market dynamics resulted from losses emerging market funds experienced with previous investments in Asia and Russia. Consequently, this shift in sentiment by international fund managers has meant that little money has been invested in Kazakhstan. What little that has is mostly direct investment.

In a converting economy, the need for capital is never ending. This means that alternative sources of funding must be found. For Kazakhstan, the answer lay in the creation of a domestic institutional investor market not easily accomplished but possible through pension reform, following the Chilean model allowing the formation of private pension funds. Their creation led to a need for investment diversification and the creation of performance benchmarks. However, the paucity of investment product meant that many portfolios held many of the same securities. Safety and performance were largely met by investing in state securities. Due to the lack of liquidity in equities and the absence of international investment, "A" listed shares had few takers. Yet according to pension fund regulations, only investments in "A" listed shares could be made.

Previously, KASE listing requirements reflected a bias towards large capitalized "blue chips" which met the investment requirements of large international institutional investors. The change in investment climate, and lack of "blue Chip" privatization, however, rendered it difficult for small

companies to ever qualify for an "A" listing. This meant that small, well-run companies were relegated to "B" listing category- thus not eligible for pension fund investment, which, in effect, eliminated them from almost any access to capital.

Market participants recognize that the need for capital and the realities of the market place must be harmonized with investor requirements. Currently, investors require safety and yield. This is provided by diversified investments in short term financial instruments. Since Kazakhstani treasuries and sovereign Eurobonds constitute most of the investment product, corporate fixed income issuance is necessary to provide critical investment diversification. This can only be accomplished by providing new corporate fixed income product which reflects the reality that many companies are small to medium sized.

Therefore, these recommendations are made according to criteria that attempt to balance the need for corporate borrowing with standards of practice appropriate for safeguarding the public's money through pension fund investment.

### Recommendations

#	Requirement	Currently	Recommended
1	Shareholders' Equity / Net worth requirement, tenge equivalent of	10M USD	1M USD
2	Operating history	3 years	3 years
3	Profitability	1 prior year / Net 3 years	1 prior year
4	Independent Registrar	Yes	Yes
5	Audit	"Big Five"	"Big Five"
6	Minimum issue size	-	100 000 USD
7	Default on Principal / Interest payments	-	No outstanding Loan/Bonds principal or interest arrears. No default history for two years prior to the issue year
8	Dividend delinquency	-	No outstanding dividend arrears for two years prior to the issue year
9	Collateralized Debt	-	Companies issuing fully collateralized debt are exempt from operating history and profitability requirements.
10	Exchange Council Discretion to admit an issue	-	The Exchange Council may admit an issue that does not meet profitability condition in exceptional and justified cases if the Council determines that interests of trading participants are not jeopardized.

1. The Net worth / Shareholders' equity of a company should be reduced, since there are few companies with a net worth of \$10 million; the majority are national or monopolist companies.

and major banks. As experience shows, sound and quickly developing companies in Kazakhstan typically have capitalization at approximately \$1 million. This reduced level of capitalization is not significantly lower than the listing requirements in many developed capital markets. For example, to list on the American Stock Exchange (AMEX), the net worth requirement is \$4 million. NASDAQ low-capitalization listing is also \$4 million, the second-level quoting listing of the Russian Trading System (RTS) - \$3 million, official listing on the Berlin Stock Exchange - \$1.2 million. To be listed in "A" listing on the Bulgarian Stock Exchange, where the economic environment and the recent history of development are similar to Kazakhstan, approximately \$1 million is required. The same requirement for a net worth exists on the Warsaw Stock Exchange.

2. It is reasonable and prudent to preserve the three-year operating history requirement.
3. Profitability for at least one prior year. This clause reinforces the existing requirement that companies be profitable for at least one prior year. The net 3-year profitability requirement does not appear as reliable an indicator in current conditions for the following reasons:
  - Most of the small cap companies will not have "Big 5" audits for 3 consecutive years. Therefore their financial statements may not be comparable.
  - The income statement figures may not be directly comparable due to the use of different accounting standards as well as inflation and devaluation factors.

Also, companies may have extraordinary income (e.g. sale off of assets) in one of the years while having negative operating margins during two other years. For these reasons, a threshold requirement for listing should be one prior year's financial results rather than the net of three years.

4. The requirement of an independent registrar maintaining the share registry must be preserved.
5. The audit requirement performed by a "Big Five" company should be preserved. Such an audit will result in increased transparency of the issuer that significantly increases an issuer's credibility for investors.
6. We also deem it necessary to introduce the requirement for a minimum issue size. Too small an issue will not ensure necessary liquidity and a fair price discovery. In addition, low volume issues will be more expensive for issuance due to the fixed costs for an issuer.
7. No Default on Principal/Interest Payments. This clause, which is recommended as an addition to the current requirements, requires an issuer to have no outstanding Loan/Notes/Bonds principal or interest arrears. Also, a company should have no default history for two years prior to the issue year. This requirement will put a safeguard in place to ensure that the issuer has a good credit history, stands up to its obligations and respects creditors. Combined with a three year operating history requirement this standard will be a strengthened screening test to admit companies that are less riskier than average to Pension funds' resources.
8. Dividend Delinquency/History. This new clause recommended for inclusion requires that an issuing company does not have any dividend arrears for two years prior to the new issue year. If a company has declared dividends in previous two years before the current issue they should be paid out to the shareholders before the company issues debt. By proposing this standard we attempt to balance loosening the capital requirement with a purpose of awarding and promoting companies that have dividend payout discipline. This shows that the company stands up to its obligations and to a certain degree this could serve as a reflection of its creditworthiness.
9. Companies issuing fully collateralized debt are exempt from operating history and profitability requirements. Fully collateralized bonds represent one of the lowest risk debt instruments if backed by a proper mechanism to ensure interest and principal repayments. In fact, the Bankruptcy Law puts creditors whose loans are collateralized into the second order in their claims to assets in case of debtor's bankruptcy. When liquid assets of a debtor are placed into a trust mechanism with 100% coverage of a principal and total interest payments, the riskiness of a bond is sufficiently lowered to justify omission of profitability and operating history requirements. By



dropping these requirements, we are allowing those market participants who do not meet operating history and profitability standards the opportunity to consider 100% collateralized bonds. This allows them to establish a credibility record as well as to raise capital.

10. The Exchange Council may admit an issue that does not meet profitability condition in exceptional and justified cases if the Council determines that interests of trading participants are not jeopardized. The Exchange Council shall determine that trading of such securities will not jeopardize interests and safety of trading participants. This clause provides discretion to the Exchange Council to list bonds of companies that were not profitable in the prior year but forecast profitability, demonstrate debt-servicing ability, have a secured (guaranteed) investment projects and have high liquidity ratios.

### Conclusion

New standards for listing are necessary to increase market liquidity, provide access to capital for middle market corporations, and to create product diversification for pension funds investment, all without sacrificing transparency and credibility.

Most sincerely,

David C. M. Lucterhand, Chief of Party, Securities Market Development Project  
USAID/ Central Asian Region

Rick Dvorin, Senior Capital Markets Advisor, Securities Market Development Project  
USAID/Central Asian Region

Cc: Gary Linden, Director, OMT, USAID/CAR  
Rick Gurley, Capital Markets Officer, OMT, USAID/CAR  
Mohammad Fatoorechie, Project Director, The Pragma Corporation

## Internal Memorandum

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To: David Lucterhand  
From: Kevin Fogarty  
CC:  
Date: 19 August 1999  
Re: Legal Team Monthly Report for June 1999

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### Task I. Continued Assistance to the NSC

#### Item 1. Drafting of regulations

##### *1) Evaluation of Shares in Redemption Offers*

Drafting Procedure: Jamilla prepared comments on NSC draft after consultation with Pragma Corporate Finance. Kevin reviewed, revised, and did further internal consultation.

These comments were delivered in June but largely drafted earlier. They are described in the May report. **Comments warned against mechanical reliance on stock exchange prices where trades infrequent and advised more consideration for other factors, including foreign prices, accounting-based valuations, and combinations of methods provided there is a record mad of the methodology and its justification.**

##### *2) Draft Rule on Custodial Activity*

Drafting Procedure: At the NSC's request, we worked on writing a custody regulation to replace the existing one. Jamilla, working on the basis of instructions from Kevin, consultation with actual custodians, the NSC staff and a review of existing law and regulations, produced a first draft. Kevin worked on revision.

**The background of this draft rule was described in the May report. Work continued on this item in June but was suspended so that it could be done in consultation with the custody expert being brought in by the IMCC pension project in July.**

##### *3) Comments on Draft Regulations for Registrars of Closed Joint Stock Companies*

Drafting Procedure: Natalie received a draft of this regulation from the NSC staff for her comments. She prepared a memorandum as to the same, reviewed and supplemented by Kevin.

The background on this item was described in the May report. The comments were delivered in June. The memo suggested certain measures to help registrars discover how many beneficial owners were represented by nominal holders, since certain regulatory and legal requirements

hinge on the number of beneficial owners. **We suggested that registrars for closed companies not be permitted to register sales that would bring the number of shareholders above the closed company legal ceiling of 100.**

*4) Comments on NSC Draft Revision of Reporting Requirements for Professional Participants in the Securities Markets*

Drafting Procedure: Jamilla received this draft from the NSC and provided a memorandum of comments to Kevin for his review and supplementation.

This project was described in the May report, and work continued in June.

*5) Comments on NSC Draft Rules for Pension Asset Management Company Internal Procedures.*

Drafting Procedure: Jamilla prepared a memo on this draft which she delivered to Kevin for review and supplementation shortly after the end of May. Kevin prepared a memo for her setting out points to be included in comments to the NSC.

This draft rule was described in the May report. **The comments developed in June (delivered in July) emphasized the need for avoiding conflicts of interest and observing basic principles of internal control.** Internal procedures should provide for authorization and review of transactions, adequate audit trails, physical and electronic security, and means for identifying and avoiding conflicts of interest.

*6) Comments on Draft Depository Regulation*

Drafting Procedure: We delivered a draft of this regulation to the NSC earlier in the year and in June received back a slightly reworked version for any additional comment.

**We suggested strengthening of provisions relating to transparency in Depository operations and non-discriminatory access to Depository participation.** Specifically, we recommended that the Depository be subject to disclosure and conflict-of-interest provisions similar to those binding a public company under the Joint Stock Company Law and that denial of access to Depository participation be based solely on non-anticompetitive business factors, with appeal to the NSC available. We also added a number of more technical comments.

Additional

Kevin, who was out from the 16<sup>th</sup> til the end of the month, provided comments to Commissioner Kulinov regarding certain ideas of his for reforming the issue registration system. Oksana worked on insurance matters. Mirgul and others also investigated possible legal mechanisms for utilizing assets to back or secure debt issues. Jamilla worked on an information memo concerning broker-dealer sales practices and assisted regional consultants in preparing a bond-registration package.

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**TRAINING FOR KASE COMPLIANCE AND REGULATORY  
 OFFICER AND STAFF**

Training sessions scheduled to take place at Pragma Conference Room, 4th Floor  
 10:00-12:00, Monday/Wednesday/Friday

Rick Dvorin

( ) number of sessions

DATE	TOPIC	MATERIALS
26 May 1999 (1)	SRO Overview, Rights, Duties, and Interaction with the NSC	• SRO Outline
(1)	Review of Reporting and Surveillance; Trading guidelines	• Surveillance Guide • Trade reports
(1)	The Law and NSC regulations...what they mean	• RK securities Laws • NSC regulations
(3)	KASE Rules...what they mean and how to review for compliance	• KASE Ethics Code (Rules of Fair Practice); Disciplinary Code; Arbitration; Charter and By-laws
(3)	Routine Inspections of Broker/Dealer Back Offices...books and records; sales practices	• NSC regulation on Broker/Dealer Activities • Inspection Checklist
(2)	Investigations for Cause...customer complaints; trade irregularities	• Inspection Checklist
(1)	The Disciplinary Process	• KASE Disciplinary Code
(1)	Mediation and Arbitration	• KASE Arbitration Code
(1)	Other SRO Activities	• Outline

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04.06.99 N370

To: Director of USAID Project on  
Securities Market Development  
Att-n: D. Lucterhand  
From: Andrei Nadein

Re: Trip to Moscow

From June, 25 till June, 29 I and the Head of the KASE Management, Bakhytzhan Niyazov were on business trip to Moscow with the aim to study the experience of disclosure on the Russian stock exchange, and also with the aim of more specific study of the informational systems providing disclosure.

During the trip we had several meeting with the companies providing disclosure on the Russian stock exchange.

There we had a meeting with National Association of the Stock Exchange Participants (NASEP) disclosure Department. On that meeting we discussed the experience of NASEP on disclosure of large issuers, and also the mechanisms to defend investors rights through providing free access to the investors' disclosure. I would like to mention several important ideas, used by NASEP, which are:

To get free access to the issuers' documents NASEP bought small share holdings (1-10 shares) most of the russian issuers. Now being shareholders of the companies, they have the legal right to get all necessary documents, which then are transferred into the electronic type and are published in the open web-site [www.skrin.ru](http://www.skrin.ru). The main problem of disclosure on the russian market is the absence of the legislation, which could regulate the electronic document turnover and electronic signatures. The transfer of the documentation from being written on paper to electronic forms admittedly slows down the process of disclosure and do not meets the requests of the operative disclosure of significant events, which have to be disclosed according to the legislation of the Russian Federation. But NASEP has found out temporary way out of the situation by publicizing on the electronic web-site not the electronic documents, but the real ones scanned from the originals and situated on the web-site as graphic files, what in principle can replace the fax copy and presents the guaranteed identical information with the original.

The issuers' disclosure takes place through the open web-site, which is supported by the members of NASEP and is covered by the membership payments of the Association. From the technical point of view this system is significantly worse the data base, worked out by our group, and as consequence the maintenance of such system is the laborious process. At present moment this system makes disclosures on 50 largest issuers and is supported by 10 people.

The main information for the system NASEP gets from the Federal Securities Commission. During the meetings with the different departments of the Federal Securities Commission there were discussed the aspects of the legal regulation of disclosure on the russian stock market.

In the existing russian experience under the disclosure is considered the accountancy of the open joint-stock company to the regulating body – Federal Securities Commission (FSC). With the aim of creating the legal basis of getting and controlling the information last year FSC adopted decrees, regulating the order of issuers' accounting to the regulating body, clearly defining the list

of disclosure, the order of its presentation and use, and also the forms of data transfer according to which the issuers will present the information.

Besides there was adopted the Law on The Investors Rights Defense, which gives the FSC the legal rights to disclose the necessary information to the interested circle of persons.

At present time the russian issuers present two kinds of accounting:

- Quarterly reports. These documents are similar to the emission prospectus and include the list of information, defined by decree, and are presented on the regular basis once in quarter, both in written type and in electronic file in MS Word format.
- Operative report on significant events. Operative information according to previously discussed circle of questions on significant events, which occur with the issuers, and which should be obligatorily disclosed by the issuer in the shortest period from the moment the event occurred.

To automatize getting data on reports, FSC together with the corporation Karana elaborated the electronic system of accounting, which allows the issuer to introduce the necessary accounting as electronic type into specially developed clients' module, where it automatically formats the information to the requested form and sends it to the regional departments of FSC for preliminary analysis. Further this information from the regions is transferred to the common data base of FSC with the purpose to disclose it on the official FSC's web-site for the maximum possible circle of interested persons, and after on free-charge basis is send to the informational agencies in order to offer this information among the maximum possible circle of persons. Also the information could be suggested of on the commercial basis.

The deficiency of that system is the absence of the system of administration and control from the manipulations with the information of the officials of federal entities, the absence of the system of internal security and control over the change of information from the officials of FSC. The members of FSC and the developers of that system mentioned both this problem.

More over there were meeting with the corporation Karana, the developers of the system of getting information and its disclosure on the stock market. The mechanism of realization of that system and its main functions and technical solutions were presented to us. The technical realization of that system is sufficiently standard and our resources let realize that kind of systems.

With regards,  
The Head of The Technology Group  
Andrei Nadein.

## MEMORANDUM

**To:** David Lucterhand  
**Cc:** Gary Linden  
**From:** Oksana Kompaniets, Alexandr Kozlenko  
**Date:** June 29, 1999  
**Re:** Synopsis of the Government Privatization Program (attached see the English translation of the entire Program)

Here is some general and specific information regarding the **Program for Privatization and Increasing the Efficiency of Management with Respect of State-Owned Assets to be implemented during 1999-2000.**

### GENERAL INFORMATION

1. **Status:** approved by the Governmental Decree dated June 1, 1999.
2. **Government official authorized to supervise implementation of the Program:** Uraz Jandosov, RK Deputy Prime-Minister

### SPECIFIC INFORMATION

The Program is aimed at addressing the following key issues over the period from 1999 to 2000:

1. **Towards improving legal regulatory framework for facilitating privatization and upgrading the level of management of state-owned groups of assets**

#### *Goals:*

- 1) to increase transparency of privatization process at a legislative level;
- 2) to properly and fully address issues related to management of state-owned property;
- 3) to clarify the mechanism for continuing separation of municipally owned property (communal property) from the property owned by the national government (national property);
- 4) to fill the gap in legislation with respect of the treatment of state-owned assets in the course of rehabilitation, liquidation or financial revival of enterprises.

#### *Objectives:*

- 1) to enact new pieces of legislation – Law on State-Owned Property, Law on Institutions;
- 2) to amend the existing laws – the Law on State-Owned Enterprises, Law on Bankruptcy;
- 3) to issue a number of expository regulations to specify and detail provisions of the above mentioned laws and address such issues as appointment of management at enterprises having a state-owned share, decision-making by the government as a shareholder, etc.

## **2. Towards improving the system for keeping track of and recording of state-owned assets**

### ***Goals:***

- 1) to create an information clearing house for state-owned pieces of property;
- 2) to establish a liability of government officials for keeping inaccurate records with regard to the state-owned property;
- 3) to ensure availability of accurate and adequate statistical information about state-owned assets;
- 4) to develop a system for keeping track of the property owned by municipal authorities.

### ***Objectives:***

- 1) to establish a uniform (centralized) registry of state-owned assets to be maintained by the State Property and Privatization Department (municipal authorities shall maintain local registries of communal property and report monthly to the DSPP for entering data to the Uniform registry).

## **3. Towards upgrading the efficiency level of management of state-owned assets**

### ***Goals and objectives:***

- 1) to proceed with separation of the nationally-owned property from the property to be owned by the municipal authorities

In April 1999 the Government approved a list of state-owned blocks of shares and participatory shares in economic partnerships to be transferred under municipal ownership. Based on that list the Government expects to actually transfer the assets during the second quarter of 1999. In addition, the Government approved (also in April) a list of companies which will remain in the ownership of the national government (i.e. shares of the so-called *national companies, blue chips, large privatization objects and other assets significant for development of Kazakhstan economy*).

A special treatment is designed for the national companies (natural monopolies, uranium companies, etc). It would require that each national company should have indicative action plan, business plans and undergo listing on the KASE.

Some types of assets shall remain in sole ownership of the national government (the Government shall produce a list of such assets). The shall not be subjected to privatization, but may be transferred under trust management or leased.

- 2) to develop and maintain a system for managing property owned by municipal authorities

The property owned by the municipal authorities shall be managed by those authorities in compliance with the laws of the RK establishing general procedures for managing and disposing of state-owned property. (The right of ownership would allow municipal authorities to retain all the profits generated as the result of operating the owned businesses (of course after paying all the relevant taxes to the national budget)).



#### **4. Towards promoting competitive and transparent privatization**

##### ***Goals and objectives:***

- 1) to sell state-owned blocks of shares of blue chips and large privatization objects with a view of maximizing the income received by the state;

Until the end of the year 2000 the Government contemplates completing the sale of the remaining portion of the state-owned blocks of shares of a number companies (e.g. Mangystaumunaigas, Kazkhrom, Aluminum of Kazakhstan, Kazakhmys, and others). The Government will take all the efforts to get shares of those companies listed on the KASE. The main approach favored by the Government in dealing with blue chips will be to seek for an additional strategic investor who should be a recognized operator in a particular field and devoted to internationally accepted standards for transparency and corporate governance.

- 2) to complete privatization of the second-tier companies;
- 3) to privatize the companies previously transferred under trust management;

To scrutinize the contracts previously entered into by the RK with trust managers to see whether those trustees properly and timely perform their obligations and upon discovery that the companies fail to execute their obligations, to initiate termination of contacts with subsequent selling of the property with consideration of the guidelines established by this Program.

- 4) to privatize social assets (educational and medical institutions, etc);

#### **5. Towards developing post-privatization monitoring and investment obligations**

- 1) to retain auditors and consulting firms for purposes of assessing the degree to which investors execute their investment obligations with regard to privatized entities;
- 2) to initiate, on the basis of the findings, negotiations with investors with a view of developing new supplementary arrangements and contracts.

#### **6. Towards resolving problems associated with previously performed privatization**

- 1) to finally settle disputes arisen from previously performed privatization (to list all the creditors' claims, determine successors, decide on the forms and methods of handling the claims);
- 2) in 1999 to submit to the Parliament a number of draft statutory acts aimed at facilitating conversion of investment-privatization funds into joint stock companies and ensuring adequate managing thereof.

The Program is accompanied by a comprehensive action plan precisely determining performers and deadlines.

#### **GENERAL OBSERVATIONS**

If compared with the previous privatization program, this Program seems to be more precise and establish more aggressive and ambitious goals which at the same time look realistic and doable.

## On Approval of the Program of Privatization and Increased Efficiency of Management of State Property in 1999-2000

Following the Action Plan of the Government for 1998-2000 and Memorandum of the Government of the Republic of Kazakhstan on Strengthening Economic Stability, approved by the Resolution #656 of the Government of the Republic of Kazakhstan from July 11, 1998, the Government of the Republic of Kazakhstan:

### DECREES:

1. To approve attached hereto:
  - 1) Program of Privatization and Increased Efficiency of Management of State Property in 1999-2000;
  - 2) Actions Plan for 1999 for implementation of the Program of Privatization and Increased Efficiency of Management of State Property in 1999-2000;
2. U.A.Jandosov, Deputy Prime Minister of the Republic of Kazakhstan Minister of Finance of the Republic of Kazakhstan, shall control execution of this Decree.
3. This Decree shall come in force upon the date of its signing.

June 1, 1999

N.Balgimbaev  
Prime Minister of the Republic of Kazakhstan

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## 1. INTRODUCTION

During the period from 1991 to 1998, the Privatization Program was conducted in the Republic, which entailed small and mass privatization, case-by-case privatization, sector programs, the legal base has been developed, initial division of the state property into republican and municipal property has been undertaken. Within the framework of privatization programs, as of the end of 1998, 3,276 joint-stock companies and economic partnerships have been privatized, which amounts to 65% of the total number of existing joint-stock companies and economic partnerships; 2606 entities in the public sector (in 1997-1998 only), separate items of property and property complexes of enterprises. In the course of privatization, private property has been formed as the basis of the market economy.

Development of the privatization process, changes in general economic environment in the Republic, the budget reform, formation of the domestic private sector, deepening of the process of distribution of authorities between the central Government and regions and changes in composition of privatized entities, as well as external factors, such as fall of prices for raw materials and the financial crisis on developing markets in 1998, require periodic adjustments of state policy in management of the state property and improving the effective legislation proceeding from gained experience.

The effective law (Decree of President of the Republic of Kazakhstan having the force of law "On Privatization" and other regulatory acts) has played its positive role, but the new stage of development of the reformation process does require its adjustment. Many issues related to management and privatization of the state property are not regulated. Privatization forms and methods also need updating to match higher levels of ongoing processes in the economy. A huge mass of relations emerged as a result of conditioned (primarily by investment obligations) privatization and executed contracts on transfers to trusted management (concessions) also needs legal regulation.

This Program has been developed with the purpose of further implementation of the Strategy of Kazakhstan Development Till the Year 2030 with regard to efficient management of the state property in 1999-2000.

## 2. IMPROVEMENT OF THE LEGAL BASIS FOR PRIVATIZATION AND MANAGEMENT OF THE STATE PROPERTY

Main problems:

- legal acts regulating the privatization process adopted on earlier stages do not reflect the whole range of forms of the state property with their specifics, they also do not ensure sufficient transparency of privatization procedures;
- earlier regulations are primarily focused on privatization and they do not sufficiently reflect issues related to management of the state property;

- the effective law does not completely provide a mechanism for segregation of the state and the municipal property, as well as functioning of various entities in the state ownership;
- the effective law lacks regulations related to state property with regard to rehabilitation, bankruptcy and sanitation procedures for businesses.

Seeking to improve the legislation related to management of the state property and privatization, the draft law "On the State Property" has been developed, which will regulate ownership, usage and disposal of the state assets. It will reflect the modern concepts of a system for efficient management of state assets, procedures for decision-making in the process of public management and its correlation with trust management of state property, principles and procedures for management and disposal of state and municipal property, specific mechanisms for privatization. Changes will also be made to the Decree of President of the Republic of Kazakhstan having the force of law "On State Companies" with the purpose of a more detailed regulation in the system for management of state commercial entities; to the law "On Bankruptcy" with regard to issues related to rehabilitation and bankruptcy procedures for entities, which are debtors of the state or which have a state share in their capital. The draft law "On Agencies" is being developed. All these laws will form an integrated system for management of and disposal with the state property.

The Government of the Republic of Kazakhstan will develop regulations, which will regulate assignments of first managers of state companies and officers of joint-stock companies with state shares; procedures for decision-making on behalf of the state as a shareholder; specifics ownership, usage and disposal with municipal property; record keeping and control of usage of property belonging to state companies and agencies; a package of issues related to segregation of state and municipal property.

### **3. IMPROVED RECORD KEEPING OF STATE PROPERTY**

Existing problems:

- various Ministries and agencies (the Ministry of Finance, the Ministry of Natural Resources and Environment Protection, the Ministry of Justice, the National Bank of the Republic of Kazakhstan, etc.) keep records for various types of the state property, there no unified system for record keeping for the state property;
- responsibility of state agencies and other entities for correctness and authenticity of record keeping of the state property is not determined;
- there is no comprehensive state statistic reporting on the status of the state property;
- the methodology of the record keeping system for municipal property is unclear;
- there is no record keeping for exacted property and property being exacted from legal entities for the benefit of the state.

### **3.1. Property in the Republican or Municipal Ownership**

A unified approach will be adopted for development of the Consolidated Assets Registry of the Republic of Kazakhstan. During the period till the end of 2000, the Consolidated Registry of State Assets will be created based on the Registry of state enterprises, agencies and joint-stock companies, economic partnership with state shares (further – the Registry), which will allow comprehensive accounting of assets of the Republic of Kazakhstan through reflection of basic data from corresponding registries and cadastres.

The Ministry of Finance in cooperation with the Statistics Agency of the Republic of Kazakhstan, involved Ministries, agencies and institutions will develop new state statistic reporting forms for accounting of the state property.

The system of responsibility of state agencies and officials for completeness and accuracy of accounting of the state property will be developed and implemented.

The draft Law of the Republic of Kazakhstan “On the State Property” and appropriate legal regulations will establish the rules for accounting of the state property in republican and municipal ownership. The Committee on State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan (further – the Committee) will keep records on the property in the republican ownership.

Akims of cities (oblasts) will keep records on municipal property through reflection of the balance cost of assets of state legal entities, the amount and par values of securities, volumes and price denominations of state-owned blocks of shares in joint-stock companies and shares in economic partnerships, as well as basic financial data on state agencies, joint-stock companies and economic partnerships, including volumes of assets and liabilities, debts payable and receivable.

To ensure completeness of records on the state property in the Registry, data from registries for municipal property will be submitted to the Committee once a month.

### **3.2. Property not assigned to state legal entities**

With the purpose of increased efficiency of management of the State property, continuous and complete accounting based on inventory results and formation of appropriate registries and (cadastres), the property not assigned to state legal entities will be assigned to appropriate state legal entities.

## **4. INCREASED EFFICIENCY OF MANAGEMENT OF THE STATE PROPERTY**

The main problems related to efficient management of the State property are:

- lack of classification of the State property into categories according to its purpose, tasks and mechanisms for its management;
- lack of clear procedures for management decision-making with regard to various types of the State property, including the entities vital for the

Republic, which operate in some strategically important sectors of the economy (National Companies).

#### **4.1. Segregation of Republican and Municipal Property**

Based on performed functions and sources of financing, the state property has been recently divided into Republican and municipal property with regard to state enterprises and agencies.

In April 1999, the Government of the Republic of Kazakhstan has approved the list of state-owned blocks of shares and shares in economic partnerships previously owned by the state, transferred to municipal ownership. Based on the list, in compliance with requirements of the law, the Committee will transfer state-owned blocks of shares and shares in economic partnerships to municipalities during the second quarter of 1999. This measure will ensure increased efficiency of management of the State property and control of enforcement of administrative decisions.

The Republican property includes state-owned blocks of shares in National Companies, blue chip companies, large privatized entities and other entities, which are important for development of the economy of the Republic of Kazakhstan. The list of these entities has also been approved by the Government of the Republic of Kazakhstan in April 1999.

#### **4.2. Management of Property in Republican Ownership (Republican Property)**

4.2.1. Functions related to management of and disposal with state-owned blocks of shares in economic partnerships and state companies will be performed according to the schedule attached hereto.

4.2.2. Approaches to management of National Companies:

During the described period, the state will keep its presence in some strategically important sectors of the economy. Such sectors are those, which form the foundation of the national economy, as well as sectors producing vital goods, products and services. They include in particular: extraction, processing, transportation and refining of oil, railroad and air transport, energy grids and production of uranium.

Operations of National Companies will be conducted according to the concepts for development of economy sectors approved by the Government, which provide for de-monopolizing certain markets, development of regulations and institutions.

Based on these concepts, the Government will approve mid-term (3-5 years) indicative plans for development of each National Company, which will contain investment and borrowing plans, approaches to tariff policy (for natural monopolists), indices of upgrading production facilities, growth of efficiency; increase of output of products (services), reduction of costs of products (services), forecasts and projections of expected revenues, main directions of their use, sources of proprietary capital.

Within the frameworks of indicative plans, Boards of Directors will review and approve annual business plans (annual production programs).

The criteria of efficiency of management of National Companies are as follows:

- fulfillment of the mid-term indicative plan, the annual business plan of a National Company;
- financial results of operations of a National Company during the report period;
- listing on the Kazakhstan Stock Exchange (KASE);
- facilitation of development of the corresponding economy sector and the economy as a whole resulted from operations of the National Company.

In addition to the above criteria, the key factor for efficient management of National Companies is the choice and appointment of adequately qualified first managers (top management).

To achieve this, the Government will apply two basic methods:

- a) contests for positions in top management among physical persons having adequate knowledge, business reputation and positive experience in business and/or public activities;
- b) tenders among legal entities for the right to appoint several top managers under guarantees of such legal entity with regard to achievement of certain financial and productive performance by the National Company (performance bond), in such cases, domestic and international companies, which have sufficient experience and business reputation in the appropriate economy sector, will be admitted to tenders.

The Government will start such tenders in the third quarter of 1999.

The Government will also approve the block of legal acts regulating operations of National Companies, procedures for making decisions and their implementation.

Rights for use and holding state-owned blocks of shares in National Companies will be transferred to sector ministries. The rights related to decision-making with regard to management will be exclusively granted to the Government of the Republic of Kazakhstan, the Committee will implement decisions made with regard to disposal with state-owned blocks of shares in National Companies.

4.2.3. Transfers of entities in exclusive ownership of the State to property lease or trust management (rent).

The Government will review the list of entities (property) in the exclusive ownership of the State (not to be privatized), which, for their efficient use, can be transferred to property lease or trust management. Transfers of such entities to rent will be conducted in compliance with competitiveness and transparency, with no provisions for subsequent sale and simultaneous transfer to rent (trust management) of state-owned blocks of shares in the same entities.



### **4.3. Management of Municipal Property**

Management of municipal property will be performed by local executive bodies in compliance with the effective laws establishing basic procedures for management of and disposal with the State property.

## **5. ENSURING COMPETITIVE AND TRANSPARENT PRIVATIZATION**

The main tasks to be fulfilled in the sphere of privatization of the State property in 1999-2000, are:

- development and adoption of a regulative base, which will ensure competitive and transparent privatization;
- sales of state-owned blocks of shares in blue chip companies and large privatization entities, which will ensure maximum revenues to the state budget and efficient management by new owners;
- completion of privatization of second-tier companies;
- privatization of entities previously transferred to trust management;
- solution of problems related to investment obligations of buyers and the review of functions of post-privatization control;
- extension of the legislation with regard to protection of interests of the state, as the owner of property in state legal entities and a participant in joint-stock companies and economic partnerships in the course of bankruptcy and rehabilitation procedures.

### **5.1. Privatization of State Owned Blocks of Shares in Blue Chip Companies**

Blue chips are large entities operating as open or public companies, which shares are listed (or qualify for listing) in A listing of the Kazakhstan Stock Exchange and circulate in sufficient volumes on the Kazakhstani and/or international stock markets.

Before the end of 2000, the Government plans complete sales of remaining state blocks of shares of the following companies: Mangistaumunaigaz, Aktobemunaigaz, Kzakhmys Corporation, Kazchrome, Kazzync, Aluminum of Kazakhstan, Sokolovsk-Sarbai Ore Concentrating Industrial Association, Ust-Kamenogorsk Titanium and Magnesium Combine. At the same time, the Government will apply necessary efforts to induce these companies to undertake appropriate actions for applying and listing on the KASE.

Because of a special role in the economy and the social sphere, The Government most likely will partially preserve its blocks of shares in Kazakhtelecom and Narodny Bank, since they play a special role in the economy and the social sphere of the country, but their controlling shares will be sold to the private sector.

Privatization of State owned blocks of shares in blue chip companies will be conducted through tenders. Entities (institutions) with appropriate experience and international reputations will be engaged as managers and advisors (consultants) for search and choice of investors. The Government of the Republic of Kazakhstan will make decisions on terms, forms and methods of sales of State owned blocks of shares in Kazakhstani blue chip companies individually for each company.

The basic approach on this (the second) stage of privatization of blue chips will be attraction of additional strategic investors to these companies, which are reputable operators in the correspondent sector of economy and which meet international transparency and corporate governance standards.

If no such strategic invertors are found before December 1, 1999, the Government will start offering state owned blocks of shares of blue chip companies using stock market mechanisms with the focus on domestic institutional investors, primarily, accumulation pension funds.

## **5.2. Sales of Large Entities Subject to Privatization**

All large entities subject to privatization, listed in 4.2.1. hereof, will be privatized in 1999-2000. Forms and methods of tender privatization of these entities will be defined by the Government of the Republic of Kazakhstan as recommended by the Commission of the Government. The Committee will undertake measures for pre-sale preparation and privatization with participation of involved state agencies.

## **5.3. Privatization of state-owned blocks of shares of second-tier companies**

Second-tier companies are joint-stock companies, which state-owned blocks of shares have to be privatized in 1999-2000 and which are neither blue chip companies, nor large privatized entities.

Decisions on forms and methods of privatization, including pre-trade preparation of state owned companies belonging to this group, have to be considered, made and implemented by sector ministries in compliance with requirements of the law.

With regard to entities transferred to municipal ownership, such decisions have to be made and implemented by Akims of Oblasts, cities of Astana and Almaty in compliance with requirements of the effective law. The Government will control availability of and strict compliance with regional (city) Privatization Programs, meeting established criteria of transparency and competitiveness.

## **5.4. Privatization of state-owned blocks of shares in joint-stock companies and state shares in economic partnerships previously transferred to trust management**

Privatization of state-owned blocks of shares in joint-stock companies and state shares in economic partnerships previously transferred to trust management will be conducted in tree major directions as follows:

- if a managing company fails to properly meet its obligations, contracts for trust management will be cancelled according to procedures established by the

law, with subsequent sale of the state-owned blocks of shares in joint-stock companies and state shares in economic partnerships in compliance with approaches described herein;

- if a management company properly meets its investments obligations under trust management contracts without the right of subsequent purchase, such contracts will be completed. After completion of contracts, state-owned blocks of shares (participant's share) will be subject to tender offering;
- targeted sales of state-owned blocks of shares in joint-stock companies and participant's shares in economic partnerships in trust management with the right of subsequent purchase. Targeted sales will be conducted only in cases, where such sale was envisioned by the trust management contract executed according to results of a tender, provided that the managing company has completely met its contract obligations and agrees with the price established by the state, if the contract does not provide otherwise.

### **5.5. Privatization of entities in the social sector, including entities delivering services to the Government**

In last years, private companies started functioning in education, health protection, scientific research and other public sectors, however, the state agencies (institutions) providing such services still dominate. Basically, public sector entities, which became excessive as a result of optimizing the network of public services, have been privatized and later they have been used for other purposes. As a result, the scope of services has narrowed or the load on existing state entities has grown.

The key direction of economic reforms in this sector is the budget reform started after January 1, 1999, directed toward reduction of budget expenditures for maintenance of state agencies with preservation of the volume of delivered services and increased quality of services through transition to the system of state orders and targeted development of competitive environment.

In the course of the reform, legal forms of agencies funded from the Republican budget are being transformed into Republican state companies, and the State pays to them for delivered services through the mechanism of state orders.

In 1999, this system should be basically institutionalized, which will allow starting more active privatization of state companies in the social sector in the next year. Taking into consideration importance of these entities in the state property, their privatization will be conducted individually, by specific decisions of the Government with accounting for interests of personnel employed by such entities.

Privatized entities in the social sector will be admitted to tenders for state orders for delivery of various services, prices for which will be calculated based on funding norms approved under procedures established by the Government.

Thus, with preserved level of consumption of public services (by individuals, agencies and the Government) guaranteed by the state, non-Government entities will operate in education (including higher education), health protection, science, culture and entertainment and providing other types of services.

## **5.6. Post-Privatization Control and Investment Obligations**

In 1995-1998, numerous entities have been privatized through investment tenders. As a result of such privatization, the state budget failed to receive significant revenues, while new owners have been burdened with liabilities lasting for many years. After the financial crisis on developing markets and fall of demand and prices for Kazakhstani export products, many investors faced objective difficulties conducting their investment programs. Many investment obligations were unclearly formulated (with no differentiation between investments into fixed and working capital). a number of investment obligations have lost their meaning as a result of reduced demand for products of such entities on the Kazakhstani market.

Proceeding from the above, the Government will formulate its approaches to its relationships with some investors, it is expedient to prepare and to execute additional agreements to revise provisions of many contracts.

In the second and the third quarters of 1999, inspections will be conducted (with involvement of inspectors, auditing and consulting companies) to control meeting investment and other obligations by investors, which had purchased privatized entities through investment tenders, including economic analysis of efficiency of operation of such institutions (entities).

Based on results of such inspections, before the end of 1999, negotiations will be conducted with investors for preparation of additional agreements for contracts. A special inter-sector commission will be formed with participation of involved ministries and agencies. Similar efforts will have to be applied by Akims of cities (oblasts) with regard to companies and entities, which state-owned blocks of shares (participant's shares) have been transferred to the municipal ownership.

## **6. SETTLEMENT OF PROBLEMS ARISING AS A RESULT OF PRIVATIZATION CONDUCTED IN PREVIOUS YEARS**

One of the priorities of the Government in 1999-2000, is the final settlement of problems and disputes, which have arisen in the course of privatization conducted in previous years. Privatization of a number of agencies and entities did not completely meet requirements of the legislation, including failures to comply with the principle of legal succession of a buyer's (a seller's) liabilities to creditors.

To this end, the volume of claims from legal entities and individuals to the Government of the Republic of Kazakhstan keeps growing, including those from creditors of companies and agencies privatized as property complexes. During the Program period, the Government will finalize inventory of reasonable claims of creditors, identifying legal successors according to forms and methods of repayments against claims resulting from privatization.

Another problem is related to finalizing the process of coupon privatization. Many Investment Privatizing Funds failed to conduct general meetings of shareholders, some funds need to restore lost documents, solve problems related to management of funds and assets. In 1999, the Government will develop and submit to the Parliament appropriate draft laws, which will allow finalizing reorganization of Investment

Privatization Funds into open joint-stock companies, consolidation of their assets and will ensure their qualified management.

## 7. CONCLUSION

Actions of the Government aimed to privatization of the State property will be directed to achievement of two primary objectives:

- withdrawal of the state from operations, which are inappropriate for its nature in the market economy and maximum possible avoidance of competition with private producers;
- formation of the institute of efficient private owners, meeting their obligations to the budget and producing competitive goods and services.

The major participants in implementation of this Program will be sector ministries, Akims oblasts and cities of Astana and Almaty. At the same time, operations of the Committee of the State Property of the Ministry of Finance of the Republic of Kazakhstan will be focused on accurate and comprehensive accounting of the State property, control of its use, development of regulations and methodological support of processes of management of the State property and privatization.

APPROVED BY THE RESOLUTION OF THE GOVERNMENT OF THE REPUBLIC OF  
KAZAKHSTAN FROM JUNE 1, 1999 # 683

**ACTIONS PLAN FOR 1999 FOR IMPLEMENTATION OF THE PROGRAM OF PRIVATIZATION AND INCREASED  
EFFICIENCY OF MANAGEMENT OF THE STATE PROPERTY**

Measures	Executor	Deadline	Form of Completion	Notes
<b>Section 2</b>				
To develop the draft Law of the Republic of Kazakhstan "On State Property" regulating ownership, use of and disposal with the State property	Ministry of Finance Ministry of Justice	Second quarter 1999	Draft Law	
To develop the draft Law of the Republic of Kazakhstan "On Agencies"	Ministry of Justice, Ministry of Finance	Second quarter 1999	Draft Law	
To develop the draft Law of the Republic of Kazakhstan "On Amendments and Addenda to the Law of the Republic of Kazakhstan "On Bankruptcy", related to enhancement of relations taking place during procedures of rehabilitation, bankruptcy and restructuring of companies"	Ministry of Justice Ministry of Finance Ministry of State Income	Third quarter 1999	Draft Law	
To develop the draft Law of the Republic of Kazakhstan "On Amendments and Addenda to the Edict of President of the Republic of Kazakhstan with the force of Law "On State Companies"	Ministry of Finance Ministry of Justice Ministry of Energy, Industry and Trade Ministry of Transport, Telecommunications and	Third quarter 1999	Draft Law	

	Tourism Ministry of Agriculture			
To revise the legal regulations related to ownership, use and disposal with the state assets	Ministry of Finance Ministry of Justice	Within one month after adoption of the Law "On State Property"	Report to the Government	
To develop legal regulations on improvement of relations with regard to ownership, use and disposal with the state assets	Ministry of Finance Ministry of Justice	Third quarter 1999	Resolution of the Government	
To develop a regulation on procedures for accounting of property confiscated or in the process of confiscation from legal entities to the benefit of the state	Ministry of Finance Ministry of Justice Ministry of State Income	Third quarter 1999	Resolution of the Government	
To improve the legal regulatory framework regulating procedures for division of the State property into republican and municipal property and procedures for transfers of property between these types of property	Ministry of Finance Ministry of Justice	Third quarter 1999	Resolution of the Government	
To develop Rules for appointment of first managers of state companies and officers of joint-stock companies	Committee on State Property and Privatization of the Ministry of Finance	Third quarter 1999	Resolution of the Government	
To develop Rules for making decisions on behalf of the state as a shareholder	Committee on State Property and Privatization of the Ministry of Finance	Second quarter 1999	Resolution of the Government	
To develop the Regulation on drafting and approval of programs for sector development	Agency of Economic Planning, Ministry of Finance	Third quarter 1999	Resolution of the Government	
To develop rules of tenders for managers of National Companies	Committee on State Property and Privatization of the Ministry of Finance, sector	Third quarter 1999	Resolution of the Government	

	ministries			
To develop Rules regulating operations of National Companies	Committee on State Property and Privatization of the Ministry of Finance, sector ministries	Third quarter 1999	Resolution of the Government	
To develop Rules for lease of property under economic (operation) management of state companies	Ministry of Finance	Third quarter 1999	Resolution of the Government	
To develop rules for tender sales of state-owned blocks of shares	Ministry of Finance	Third quarter 1999	Resolution of the Government	
To develop Rules for procedures for management of republican and municipal property and assets of state companies and agencies	Ministry of Finance	Third quarter 1999	Resolution of the Government	
<b>Section 3</b>				
To undertake registration of shares issued by all entities, which shares are owned by the state	Committee on State Property and Privatization of the Ministry of Finance, sector ministries	Second quarter 1999		
To undertake inventory of state legal entities, including compliance of functions performed by them with their legal forms	Ministry of Finance, Ministry of Justice, other involved ministries and agencies, Akims of oblasts and cities of Astana and Almaty	Third quarter 1999	Resolution of the Government	
To undertake inventory of state property located abroad	Ministry of Finance, Ministry of Foreign Affairs	Third quarter 1999	Inventory Act	
To develop and approve Rules for accounting and control of use of property in state companies and agencies	Ministry of Finance	Third quarter 1999	Order of the Ministry of Finance	



To undertake inventory of property in state companies and agencies according to the approved Rules for accounting and control of use of property in state companies and agencies	Ministries and agencies, other involved state agencies	Fourth quarter 1999	Inventory Acts	
To develop Rules regulating accounting procedures for State property in municipal ownership	Ministry of Finance	Third quarter 1999	Resolution of the Government	
To develop statistic reporting forms for accounting of the State property	Statistics Agency, Ministry of Finance	Second quarter 1999	Resolution of the Government	
To develop the Concept and methodology framework for formation of the consolidated registry of assets of the Republic of Kazakhstan, including the Cadastre system for accounting of land, mineral resources, flora and fauna	Ministry of Finance, Ministry of Justice, Ministry of Agriculture, Ministry of Natural Resources and Protection of Environment, and other involved ministries and agencies	Third quarter 1999	Report to the Government	
To develop the Action Plan for formation of the consolidated registry of assets of the Republic of Kazakhstan	Ministry of Finance	Third quarter 1999	Resolution of the Government on approval of the Action Plan	
To conduct the work for formation of the consolidated registry of assets of the Republic of Kazakhstan containing consolidated information from registries, cadastres and other information sources used for accounting of the State property	Ministry of Finance, Ministry of Justice, other involved ministries and agencies, Akims of oblasts and cities of Astana and Almaty	During the year	Report to the Government	
To develop and to approve the system of measures for increased responsibility of state agencies and officers for accuracy and completeness of accounting of the State property	Ministry of Finance, Ministry of Justice	Third quarter 1999	Resolution of the Government, draft laws	

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To assign State property not currently assigned to any state legal entities	Ministry of Finance, Ministry of Justice, other involved ministries and agencies, Akims of oblasts and cities of Astana and Almaty	Fourth quarter 1999	Resolution of the Government	
<b>Section 4</b>				
To transfer state-owned blocks of shares in joint-stock companies defined by the Government to the municipal ownership	Ministry of Finance	Second quarter 1999	Transfer/acceptance Acts, entries in registrars	
To transfer functions related to ownership, use of and in some cases, disposal with the State property to ministries and agencies according to 4.2.1. hereof	Ministry of Finance	Second quarter 1999	Resolution of the Government, Transfer/acceptance Acts	
To establish control of calculation and payment of appropriate shares from revenues of state companies to the state budget as dividends	Sector ministries	Second quarter 1999	Report to the Government	
To review and approve annual business plans and budgets, including estimations of administrative costs in joint-stock companies and partnership with state participation	Sector ministries, Boards of Directors	For 1999 – before the end of the second quarter For 2000 – before the end of the fourth quarter	Report to the Government	
To prepare suggestions for composition of auditing commissions in agencies from categories 1 and 2 in attached Table	Committee of State Property and Privatization of the Ministry of Finance	Second quarter 1999	Resolution of the Government	
To approve auditing commissions in other joint-stock companies and economic partnership	Sector ministries	Second quarter 1999	Report to the Government	
To approve appointment of external auditors in joint-stock companies and economic partnerships	Ministry of Finance	For 1998 reporting – before	Report to the Government	

from categories 1 and 2 in attached Table		the end of the second quarter 1999 For 1999 reporting – before the end of the fourth quarter		
To prepare and approve the procedures for transfer to lease of entities (property) in exclusive state ownership (not subject to privatization)	Ministry of Justice, Ministry of Finance	Third quarter 1999	Resolution of the Government	
To draft legal acts on National Companies regulating: <ul style="list-style-type: none"> <li>• procedures for their foundation</li> <li>• execution of individual contracts with managers</li> <li>• periodic reporting</li> <li>• large purchases</li> <li>• interest limits for attracted credits</li> <li>• filing mid-term indicative development plans for 3-5 years</li> <li>• mechanisms of control of operations of National Companies</li> <li>• list and forms for calculation of indices for each National Company where performance of managers will be evaluated</li> <li>• prohibition from participation of National Companies in charter capitals of other legal entities, except for cases defined by resolutions of the Government of the</li> </ul>	Ministry of Finance, NSC (as agreed), Ministry of Economy, Industry and Trade Ministry of Transport, Telecommunications and Tourism, AREMiZK	Third quarter 1999	Passing legal acts	

Republic of Kazakhstan; • general and administrative expenses of National Companies.				
To finalize transformation of National Companies into joint-stock companies	Sector ministries	Third quarter 1999	Resolution of the Government	
To transform Temir Zholy State Company into the Open Joint-Stock Company in the framework of the General Program of Reorganization and Demonopolization	Ministry of Economy, Industry and Trade	Third quarter 1999	Resolution of the Government	
To sign individual contracts with managers ensuring that managers will promulgate only interests of National Companies and the State, linking their compensations to their performance, provisions for prolongation and termination of contracts based on efficiency and performance	Ministry of Finance, Boards of Directors of National Companies	During the year	Contracts, reports to the Government	
To monitor efficiency of management of the State property	Committee of State Property and Privatization of the Ministry of Finance, sector ministries	Quarterly	Reports to the Government with analysis of efficiency of management of the State property	
<b>Section 5</b>				
To prepare the list of entities owned by the state, which will not be privatized	Ministry of Finance, sector ministries, agencies	Second quarter 1999	Resolution of the Government	
To prepare the additional list of republican and municipal companies and agencies, which profile makes them eligible to operate in competitive environment through privatization	Committee of State Property and Privatization of the Ministry of Finance, sector ministries, agencies, Akims of oblasts and cities of Astana and Almaty	Third quarter 1999	Resolution of the Government, Resolutions of , Akims of oblasts and cities of Astana and Almaty	

Transform state companies and agencies subject to privatization into joint-stock companies	Ministry of Finance, Ministry of Justice, other involved ministries and agencies, Akims of oblasts and cities of Astana and Almaty	Third quarter 1999	State reregistration	
To prepare the list of requirements to potential investors into blue chip companies	Committee of State Property and Privatization of the Ministry of Finance in cooperation with sector ministries and agencies	Second quarter 1999	Resolution of the Government	
To take necessary measures for attraction of investors to blue chip companies and conducting tenders	Committee of State Property and Privatization of the Ministry of Finance	Before December 1, 1999	Report to the Government	
To develop a model Contract for underwriting services for offering of state-owned blocks of shares in blue chip companies on domestic and/or international markets	Committee of State Property and Privatization of the Ministry of Finance, NSC	Third quarter 1999	Resolution of the Government	
To undertake inventory of social sector entities in the republican property, including entities financed from the state budget and/or owned or managed by state companies, agencies, joint-stock companies or economic partnerships with state participation, with the purpose of their privatization	Ministry of Health Protection, Ministry of Culture, Ministry of Science and Higher Education, Ministry of Transport, Telecommunications and Tourism, Ministry of Finance	Fourth quarter 1999	Resolution of the Government	
To sell state-owned blocks of shares not listed in the list of entities in the State property not subject to privatization	Committee of State Property and Privatization of the Ministry of Finance, Ministry of Energy, Industry and Trade, Ministry of Transport, Telecommunications and Tourism, Ministry of Agriculture, Akims of oblasts and cities of Astana and Almaty	During the year	Reports to the Government	

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To conduct inspections of fulfillment of obligations under trust management contracts and prepare proposals	Commission on Inspection of Trust Management Contracts, Ministry of Finance	Third quarter 1999	Inspection Acts	
To conduct inspections of fulfillment of contract obligations by investors purchased privatized entities through investment tenders	Commission on Inspection of Investment Tenders Contracts	Third quarter 1999	Inspection Acts	
To form the Inter-sector Commission for negotiations with investors and preparation of additional agreements to contracts	Ministry of Finance, Ministry of Energy, Industry and Trade, Ministry of Transport, Telecommunications and Tourism, Ministry of State Income, Agency on Investments, Ministry of Justice	Third quarter 1999	Resolution of the Government	
To conduct negotiations with investors, which purchased privatized entities through investment tenders or manage them under trust management contracts, to prepare and to sign additional agreements to contracts	Commission for negotiations with investors and preparation of additional agreements to contracts	Before the end of the fourth quarter 1999	Additional agreements	
<b>Section 6</b>				
To start inventory of claims of creditors	Committee of State Property and Privatization of the Ministry of Finance	During 1999	Report to the Government	
To draft the law, which will create legal frameworks to finalize the coupon privatization	Ministry of Finance, Ministry of Justice	Third quarter 1999	Draft law	
To finalize transformation of Investment Privatization Funds into Open Joint-Stock Companies	Committee of State Property and Privatization of the Ministry of Finance	Before the end of 1999 (if the Law is passed)	State reregistration	

## DISTRIBUTION OF FUNCTIONS

For Management of and Disposal with State-Owned Blocks of Shares (Participant's Shares) in Economic Partnerships in the Republican Property and in Republican State Companies

Category	Names of Joint-stock Companies (Responsible Sector Ministries)	State Share	Key Management Authorities: 1. Formation of Boards of Directors, (appointment of State Representatives) 2. Approval of strategic (mid-term) plans, production and investment programs and reports on their results	Authorities for use and ownership of state-owned blocks of shares	Authorities for disposal with state-owned blocks of shares (making decisions on sales of state-owned blocks of shares, reorganizing, liquidation and formation of Privatization Commission)	Control on behalf of the State
1. National Companies	1. CJSC NNC Kazakhoil (MEI&T)	100	The Government (Governmental Commission)	Responsible sector ministries	The Government (Governmental Commission), Authorized Agency of Committee of State Property and Privatization of the Ministry of Finance	Auditing Commissions are formed by the Government of the Republic of Kazakhstan
	2. CJSC NCTN Kaztransoil (MEI&T)	100				
	3. CJSC NAC Kazatomprom (MEI&T)	100				
	4. CJSC KEGOC (MEI&T)	100				
	5. RGP Kazakhstan Temir Zholy (MTC&T)	100				
	6. CJSC NMSC Kazmortransflot	100				

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(MTC&T)				
7. CJSC Air Kazakhstan (MTC&T)	100			
8. CJSC NC Silk Road Kazakhstan (MTC&T)	100			
9. RGP Kazaeronavigatsia (MTC&T)	100			
10. OJSC International Airport Almaty (MTC&T)	100			
11. RGP International Airport Astana (MTC&T)	100			
12. OJSC Atyrau Airport (MTC&T)	100			
13. RGP Atyrau Seaport (MTC&T)	100			
14. CJSC Food Contract Corporation (MEI&T)	100			
15. CJSC Eximbank (MF)	100			
16. Internal and international gas transportation mains in concession of Tractebel company (MEI&T)	100			
17. Republican State Post Company	100			



<b>II. Blue chips</b>	1. OJSC Kazakhtelecom (MTC&T) 50 2. OJSC Mangistaumunaigaz (MEI&T) 30 3. OJSC Aktobemunaigas (MEI&T) 30 4. OJSC Kazakhmys Corporation (MEI&T) 35 5. OJSC Kazzinc (MEI&T) 27.7 6. OJSC TNC Kazchrome (MEI&T) 29 7. OJSC Aluminum of Kazakhstan (MEI&T) 31.68 8. JSC SSGPO (MEI&T) 39.5 9. OJSC HSBK (MF) 80.04 10. OJSC UKTMC (MEI&T) 15.5		The Government (Governmental Commission)	Responsible sector ministries	The Government (Governmental Commission), Authorized Agency of Committee of State Property and Privatization of the Ministry of Finance	Auditing Commissions are formed by the Government of the Republic of Kazakhstan
<b>III. Large Privatized Entities</b>	1. JSC Ekibastuz GRES-2 (MEI&T) 100 2. OJSC Pavlodar NPZ in concession of CCL-OIL (MEI&T) 87.9 3. OJSC Akmolinsk Grid Network Company (MEI&T) 100 4. OJSC Taldykorgan Grid Network Company (MEI&T) 78.93 5. OJSC Taldykorgan Transport and Grid Network Company (MEI&T) 100		Sector Ministries in coordination with the Ministry of Finance	Responsible sector ministries	The Government (Governmental Commission), Authorized Agency of Committee of State Property and Privatization of the Ministry of Finance	Auditing Commissions are formed by sector Ministries with participation of Committee of State Property and Privatization of the Ministry of Finance

6. OJSC Taldykorgan RES	100			
7. OJSC Sarkand RES	100			
8. OJSC Saryozek RES	100			
9. OJSC Ushtobe RES	100			
10. OJSC Zharkent RES	100			
11. OJSC Koksus RES	100			
12. OJSC Karabulak RES	100			
13. OJSC Tekeli RES	100			
14. OJSC Aksu RES	100			
15. OJSC Alakol RES	100			
16. OJSC Atyray REC	100			
17. OJSC Regional Power Company Altaienergo	81.83			
18. OJSC Aktyubenergo	100			
19. OJSC Semipalatinsk RES	90			
20. OJSC Jambyl Grid Network Company	100			
21. OJSC Western Kazakhstan Grid Network Company Uralskenergo	100			
22. OJSC Karaganda Grid Network Company	30			
23. Abai Grid Networks Limited Liability Company	49			
24. OJSC Jezkazgan Grid Network Company	90			
25. OJSC Jezdy Grid Networks	90			
26. OJSC Ulytau Grid Networks	90			
27. OJSC Zhana-Arka Grid Networks	90			
28. OJSC Erkanat	90			

29. OJSC Aktogai Grid Networks	90
30. OJSC Kairat	90
31. OJSC Gorelektroset (Jezkazgan)	90
32. OJSC Kyzylorda REC	90
33. OJSC Kostanai Electric grid Company	100
34. OJSC Mangistau REC	100
35. OJSC Pavlodar REC	100
36. OJSC Pavlodar RES	100
37. OJSC Bayanaul RES	100
38. OJSC Southern Electric Grids	100
39. OJSC Zhelezinsk RES	100
40. OJSC Maisk RES	100
41. OJSC Irtyshsk RES	100
42. OJSC Lebyazhinsk RES	100
43. OJSC Aksu Gorelektroseti	100
44. OJSC Ekibastuz Gorelektroseti	100
45. OJSC Kachirsk RES	100
46. OJSC Scherbakty RES	100
47. OJSC Uspensk RES	100
48. OJSC Aktogai RES	100
49. OJSC Kokshetau Electric Grid Company	100
50. OJSC Turkestanenergo	49
51. OJSC South Kazakhstan Electric Grid Company	100
52. OJSC Shubarkul Open Pit (MEI&T)	78.9
53. OAO Shubarkul PTU (MEI&T)	100

	54. Gas distribution networks of high, medium and low pressure (MEI&T)	90				
	55. OJSC Trade House Zangar in concession of Butya-Accept Consortium (MEI&T)	100				
	56. JSC Kazinstrah (MF)	100				
	57. OJSC Kaskor (MEI&T)	60.3				
	58. OJS Bank Centercredit (MF)	23				
<b>IV. Other State Companies in the Republican Property</b>	The List Provided in the Resolution of the Government of the Republic of Kazakhstan #659 from 05/27/99		Sector Ministries	Responsible sector ministries	Responsible sector ministries (after passing the Law "On State Property")	Auditing Commissions are formed by sector Ministries with participation of the Ministry of Finance
<b>V. Other Republican State Companies</b>			Sector Ministries	Responsible sector ministries	The Government (Governmental Commission), Authorized Agency of Committee of State Property and Privatization of the Ministry of Finance	Auditing Commissions are formed by sector Ministries with participation of Committee of State Property and Privatization of the Ministry of Finance and the Ministry of Finance

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## MEMORANDUM

**To:** Gary Linden. **Cc:** Rick Gurley  
**From:** David C.M. Lucterhand  
**Date:** June 4, 1999  
**Subject:** Brief Summation of Nazarbayev's Remarks **FAX # 50 76 36**

Dear Gary:

During the last contractors' meeting you expressed an interest in getting bullet points of President Nazarbayev's address to the Congress of Financial Professionals.

The essence of his remarks acknowledged the need for domestic capital formation to fuel investment. It will not come from foreign investment alone. In order for that to happen, citizens must have confidence in their financial institutions. What does it take to get the mattress money into banks? To that end he specifically called for:

- Deposit insurance for savers.
- Greater confidentiality - before answering burdensome requests from the Revenue Ministry for financial records of companies and individuals, the Ministry must follow due process. He mentioned 1200 inquiries alone last year at just one bank. He stated emphatically that this has to stop. People must have confidence that banks are just not data gatherers for the Ministry of Revenue.
- Banks to become financial centers offering a wide range of financial products (such as securities) in which to invest.
- The creation of a national network to offer financial services possibly using post offices as the vehicle.
- Development of a municipal bond industry to modernize infrastructure, expansion of the insurance industry from just auto insurance into life and property so that investment in annuities would be possible, and the development of a corporate bond market. He stated that the Government was considering not taxing interest from corporate bonds for a period of time to create investment incentives.
- Minister Dzhandosov to speed up the state sell off program adding that he (Nazarbayev) had given a specific order to the finance minister to sell shares in the major companies still held by the state, including major oil companies, to increase liquidity on the stock market. This would give pensions funds more of a chance to invest in the economy.

ATTACHMENT G

**Program of the 1st Kazakh International Conference**  
**“Pension Reform in Kazakhstan: achievements, problems, perspectives”**

**June 21**

Arrival of the conference participants

**June 22**

<b>9.00 – 10.00</b>	<b>Registration of the conference participants</b>	
<b>10.00 – 10.15</b>	Opening of the conference. Word of greeting.	Aidar Alibaev, chairman of the board of the APF. Saule Esenova, deputy executive director of Soros Foundation
<b>10.15 – 10.25</b>	Speech of welcome	V. Khrapunov, Akim (Governor) of the Almaty city
<b>10.25 - 11.35</b>	Speech of welcome	V. A. Sivrukova - Vice Minister of Labour and Social Protection of Population of the RK
<b>10.35 – 11.15</b>	Status of the accumulative pension system in the world	Pedro Corona, President of the International Association of Pension Funds
<b>11.15 -11.30</b>	<b>Coffee-break</b>	
<b>11.30 – 12.10</b>	Mechanism of pension reform in Kazakhstan	S. Suleimenov, Vice Minister of Labour and Social Protection of the RK
<b>12.10 – 12.35</b>	Pension reform and stock market	G. Marchenko, President of the Douche Bank Securities
<b>12.35 – 13.00</b>	Certain problems of pension reform	A. Alibaev, Chairman of the Board of the APF
<b>13.00 – 14.00</b>	<b>Lunch</b>	
<b>14.00 – 14.25</b>	Role of the Committee in the establishment and development of the accumulative pension funds	S. A. Amanzholov, Director of the Committee on Regulation of the Activity of Pension Funds
<b>14.25 – 14.50</b>	Problems of the establishment and development of the NAPF	T. Abylkanov, Chairman of the Board of the “Kazakhmys” non-state accumulative pension fund
<b>14.50 – 15.10</b>	Mechanism for record-keeping and processing of payments to the accumulative pension funds	F. Nazyrov, Director General for the State Center on Benefit Payments
<b>15.10 – 15.35</b>	Influence of the new accumulative pension system upon development of the securities market	N. Moldakhmetov, Executive Director - Commissioner of the National Securities Committee
<b>15.30 – 16.00</b>	Pension assets management	D. Zherybyatiev, Deputy chairman of the Board of “Zhetysu” pension assets management company (PAMC)
<b>16.00 – 16.15</b>	<b>Coffee-break</b>	
<b>16.15 – 16.40</b>	Non-state accumulative pension funds as a subject of the securities market	D. Karasaev, President of the Kazakhstan Stock Exchange
<b>16.40 – 17.05</b>	Issues of regulation of the activity of the custodian banks	M. T. Kudyshev, Deputy Chairman of the National Bank of the RK
<b>17.05 – 17.25</b>	Activity of the custodian banks and problems of their development	F. Mashabaeva, Head of the Department for Custodial Service of the ATF Bank
<b>17.25 – 17.50</b>	Legislative regulation of the accumulative pension system	Yu. Lysenko, head of the legal department of the Committee on regulation of the activity of PFs
<b>17.50 – 18.00</b>	Summarizing of the first day results	

June 23

9.00 – 9.20	Development of pension reform in Kazakhstan: Western experts' opinion	Emily Andrews, World Bank
9.20 – 9.40		Glenn Anders, Head of the USAID mission in Central Asia and Kazakhstan
9.40 – 10.10	Russian experience of pension reform	E. Yakushev, President of the "Pension and Actuarial Consultations" company (Russia)
10.10 – 11.00	Pension Reform experience in the CIS countries and Baltic (10 to 15 minutes each)	Latvia, Lithuania, Ukraine, Moldova
11.00 – 11.15	Coffee-break	

Conference continues by working in groups.

	1 group	2 group
11.15 – 13.00	<p><b>Investment policy. New financial instruments development.</b>  <i>Moderator – D. Zherybyatiev, Deputy Chairman of the Board of Zhetysu PAMC.</i>  <b>Speakers:</b>  <i>David Weig</i>, investment manager of the USA mutual fund,  <i>U. Shayakhmetova</i>, Chairman of the Board of the «ABN AMRO Asset Management» PAMC;                      Managers of PAMC, NAPF, Custodians. Representatives of the CIS, Western Europe</p>	<p><b>Competition in the accumulative pension system</b>  <i>Moderator – S. Balbaev, executive director of Kazakhstan Press-Club.</i>  <b>Moderators:</b>  <i>Pedro Corona</i>, President of the International Association of Pension Funds (Chile),  <i>L. S. Kusainova</i> - Deputy Chairman of the Board of the "NefteGasDem" NAPF, APF «Ular», APF «Kurmet», PAMC "BTA Asset Management", Representatives of the CIS, Western Europe</p>
13.00 – 14.00	Lunch	Lunch
14.00 – 16.00	<p><b>Problems of attraction of contributors and collection of contributions</b>  <i>Moderator – T. Afanasieva - IMCC corporation</i>  <b>Speakers:</b>  <i>Jose Ricardo Perdomo</i>, President of «Profuturo» pension fund (Salvador),  <i>S. Elshibekov</i>, Head of the Administration Department of the Ministry of Revenues of the RK,  <i>F. Nazyrov</i>, Director General for the SCBP;  <i>A. Popov</i>, Vice president of the NAPF in Kunaev's name;                      Director of Pension Fund of Russia, NAPF of Kazakhstan, representatives of the CIS, Western Europe</p>	<p><b>Institutional structure and perspectives of development of the accumulative pension system</b>  <i>Moderator – G. Ovcharova, Vice President of the Union of Insurers of Kazakhstan</i>  <b>Speakers:</b>  <i>Enrique Diaz</i>, Chairman of the National Securities Committee, former Superintendent of pension funds (Peru),  <i>G. Bainazarov</i>, President of the Union of Insurers of Kazakhstan,  <i>K. Mikhalevsky</i>, Actuary of the Swiss reinsurance society; Ministry of Labour and Social Protection; NAPF; PAMC; representatives of the CIS, Western Europe</p>
16.00 – 16.15	Coffee-break	Coffee-break
16.15 – 18.00	<p><b>Information support of the accumulative pension system</b> (explanation, advertising, mass communication media)  <i>Moderator: A. Tyrtkaeva, Head of</i></p>	<p><b>Supervision and regulation of the accumulative pension system</b>  <i>Moderator: V. Eivlev, Lawyer of IMCC/USAID Project</i>  <b>Speakers:</b></p>

	<p><i>the Information Center of the Ministry of Labour and Social Protection.</i></p> <p><b>Speakers:</b>  <b>Pedro Corona</b>, President of the International Association of Pension Funds (Chile).  <b>A. Karaulova</b>, President of Kazakhstan Press-Club.          APF, Mass Media. representatives of the CIS. Western Europe</p>	<p><b>Enrique Diaz</b>, Chairman of the National Securities Committee (Peru).  <b>R. Baimurzin</b>, Deputy Director of the Committee on Regulation of the Activity of Pension Funds;  <b>Z. Tashmetov</b>, senior specialist of the NSC, Managers of NAPFs. PAMCs, Custodians, representatives of the CIS, Western Europe</p>
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**June 24**

9.00 – 9.10	Introductory speech	A. Alibaev, Chairman of the Board of the APF
9.10 – 9.35	Investment policy. New financial instruments development.	T. Budnikova, Head of the Financial Management of "Zhetysu" PAMC
9.35 - 9.55	Competition in the accumulative pension system	T. Aitmagambetova, Vice President of "CaspimunaiGas" APF
9.55 - 10.15	Problems of attraction of contributors and collection of contributions	A. Bernikov, Deputy Director General of "Narodny" Pension Fund
10.15 – 10.40	Institutional structure and perspectives of development of the accumulative pension system	Z. Kurmanov, Vice-President of "KBS – GARANT" insurance company
10.40 – 11.00	Information support of the accumulative pension system	A. Tyrtkaeva, Head of the Information Center of the Ministry of Labour and Social Protection of the RK
11.00 – 11.15	<b>Coffee-break</b>	
11.15 – 11.35	Supervision and regulation of the accumulative pension system	R. Baimurzin, Deputy Director of the Chairman of the Committee on regulation of the activity of pension funds
11.35 - 11.55	Importance of reforming the pension system of Kazakhstan	U. Dzhandosov, Vice Prime Minister – Minister of Finance of Kazakhstan
11.55 - 12.15	Fundamental results of pension reform in Kazakhstan	N. Korzhova, Minister of Labour and Social Protection of Population of the Republic of Kazakhstan
12.15 – 12.30	<b>Summarizing the results of Conference. Recommendations.</b>	A. Alibaev, Chairman of the Board of the APF
12.30 – 13.00	<b>Speech of conclusion. Winding up of the Conference.</b>	N. Korzhova, Minister of Labour and Social Protection of Population of the Republic of Kazakhstan, S. Esenova, Deputy Executive Director of Soros Foundation, A. Alibaev, Chairman of the Board of the APF

**14.00 – till 19.00**

Sights seeing tour for the conference guests (State Museum of the Republic of Kazakhstan, Independence Square, 28 Panfilovtsev Park, skating ring Medeo in the mountains).

**19.00** Reception for the conference participants.

**25 June** **Departure of the conference participants.**



**Предварительная программа конференции**

21 июня

Заезд участников конференции

22 июня

9.00 – 10.00		
<b>Регистрация участников конференции</b>		
10.00 – 10.15	Открытие конференции. Приветственное слово	Айдар Алибаев, председатель Совета АПФ, Сауле Есенова, заместитель исполнительного директора Фонда Сороса
10.15 – 10.25	Приветственное слово	В. Храпунов, Аким города Алматы
10.25 – 10.35	Приветственное слово	В. Сиврюкова, Вице-министр труда и социальной защиты РК
10.35 – 11.15	Состояние накопительной пенсионной системы в мире	Педро Корона, президент Международной Ассоциации пенсионных фондов
11.15 -11.30	<b>Кофе-брейк</b>	
11.30 – 12.10	Механизм пенсионной реформы Казахстана	С. Сулейменов, Вице Министр труда и социальной защиты РК
12.10 – 12.35	Пенсионная реформа и фондовый рынок	Г. Марченко, президент Дойч Банк Секьюритис
12.35 – 13.00	Некоторые проблемы пенсионной реформы	А. Алибаев, председатель Совета АПФ
13.00 – 14.00	<b>Обед</b>	
14.00 – 14.25	Роль комитета в становлении и развитии накопительных пенсионных фондов	С. Аманжолов, директор комитета по регулированию деятельности пенсионных фондов
14.25 – 14.50	Проблемы становления и развития ННПФ	Т. Абылканов, Председатель Правления ННПФ «Казахмыс»
14.50 – 15.10	Механизм учета и обработки платежей в накопительные пенсионные фонды	Ф. Назыров, генеральный директор ГЦВП
15.10 – 15.35	Влияние новой накопительной пенсионной системы на развитие рынка ценных бумаг	Н. Молдахметов, Исполнительный директор член НКЦБ
15.30 – 16.00	Управление пенсионными активами	Д. Жеребятъев, зам. председателя Правления КУПА «Жетысу»
16.00 – 16.15	<b>Кофе-брейк</b>	
16.15 – 16.40	Негосударственные накопительные пенсионные фонды, как субъект РЦБ	Д. Карасаев, президент Казахстанской фондовой биржи
16.40 – 17.05	Вопросы регулирования деятельности банков - кастодианов	Кудышев М. Т., заместитель председателя Национального банка РК
17.05 – 17.25	Деятельность банков – кастодианов и проблемы становления	Ф. Машабаева, начальник управления кастодиального обслуживания АТФБ
17.25 – 17.50		Н. Шайкенов, ректор КазГЮУ
17.50 – 18.00	Подведение итогов первого дня	

15.00 – 16.15	<b>Кофе - брейк</b>	<b>Кофе – брейк</b>
16.15 – 18.00	<b>Информационная поддержка накопительной пенсионной системы (разъяснение, реклама, СМИ)</b> <i>Ведущий: А. Тыртыкаева, начальник информационного центра Минтруда.</i> <b>Выступающие:</b> <i>Педро Корона, президент Международной Ассоциации пенсионных фондов (Чили).</i> <i>А. Караулова, Президент Казахстанского пресс клуба.</i> <i>НПФ, СМИ, Представители СНГ, Восточной Европы</i>	<b>Надзор и регулирование накопительной пенсионной системы</b> <i>Ведущий: В. Иевлев, юрист проекта IMCC USAID.</i> <b>Выступающие:</b> <i>Эрико Диас, председатель Национальной комиссии по ценным бумагам (Перу),</i> <i>С. Аманжолов, директор НПА,</i> <i>Руководители ННПФ, КУПА, Банков-кастодианов,</i> <i>Представители СНГ, Восточной Европы</i>

**24 июня**

9.00 – 9.10	Вступительное слово	А. Алибаев, председатель Совета АПФ
9.10 – 9.35	Инвестиционная политика. Развитие новых финансовых инструментов.	Т. Будникова, начальник финансового управления КУПА «Жетысу»
9.35 – 9.55	Конкурентность в накопительной пенсионной системе	Т. Айтмагамбетова, Вице Президент НПФ «КаспийМунайГаз»
9.55 – 10.15	Проблемы привлечения вкладчиков и сбора взносов	А. Берников, зам. генерального директора «Народного ПФ»
10.15 – 10.40	Институциональная структура и перспективы развития накопительной пенсионной системы	Ж. Курманов, Вице – президент страховой компании «KBS – GARANT»
10.40 – 11.00	Информационная поддержка накопительной пенсионной системы	А. Тыртыкаева, начальник информационного центра Минтруда.
11.00 – 11.15	<b>Кофе-брейк</b>	
11.15 – 11.35	Надзор и регулирование накопительной пенсионной системы	
11.35 – 11.55	Значение реформирования пенсионной системы в РК	У. Джандосов, Вице Премьер – Министр финансов РК
11.55 – 12.15	Основные результаты пенсионной реформы в РК	Н. Коржова, Министр труда и социальной защиты РК.
12.15 – 12.30	<b>Подведение итогов конференции. Принятие рекомендаций.</b>	А. Алибаев, председатель Совета АПФ
12.30 – 13.00	<b>Заключительное слово. Закрытие конференции</b>	Н. Коржова, Министр труда и социальной защиты населения РК, С. Есенова, зам. исполнительного директора Фонда Сорос, А. Алибаев, председатель Совета АПФ

с 14.00 – до 19.00

Обзорная экскурсия для гостей конференции (знакомство с достопримечательностями г. Алматы с посещением Госмузея РК, площади Независимости, парка 28 гвардейцев панфиловцев, горного катка Медео).

в 19.00 Банкет для участников конференции.

25 июня Отъезд участников конференции.