

## Introduction

In August of 1999, the USAID/Pragma Securities Market Development project was downsized. The project was given a completion date of December, 1999. The main focus of the project became systems development to make sure that computer work in progress was finished in an appropriate manner. As a result of this decision, a new chief-of-party was not named and one American continued the work of the project. This work involved completion of several long-term computer systems development projects. In this regard, the following monthly reports reflect a tight focus on the systems work of the project as it comes to a close. While the following matrix follows the same format as all previous monthly reports some tasks have been removed to reflect just the work that was focused on at the end of the project.

## September, 1999

Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 2		<i>Assist in the Formation of a Central Depository (CD)</i>		
	2.1	Define and implement a rationalized relationship between the Central Depository and the Registrars. Support a handful of private independent registrars, handling mostly dividend and proxy responsibilities of JSC. Support the CD to settle and clear trades moving to the dematerialization of shares.  a) Assist the Depository to develop a standard interface to send and receive re-registration instructions to existing registrars.	On-going	The technical staff of Pragma is advising the Central Depository on the creation and implementation of standard registrar software to act as a Central Registry for the re-registration process. This software has been developed by the Central Depository staff. Their intention is to become a Central Registry but this will cause serious business issues for the existing registrars. So the goal is to install this registry software at

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				all of the existing registrars in Kyrgyzstan. To do this funding is needed, no money is available and this task will not be an ongoing part of the project.
	2.2	Construct the guarantee fund providing a strong financial mechanism to guarantee a settlement of trades enabling the CD to be the third party in all trades. Provide detailed and thorough documentation of codes and systems. Clean-up and refine the code so it is easily understood, maintained and enhanced by competent systems personnel. a) Provide automatic processing of trades through the clearing and settlement functions at the CD	October, 1999	Pragma technical staff is in the final stages of implementing a new trading system that will incorporate full clearing and settlement functionality at the CD. This functionality will become more crucial as the business model for clearing and settlement is defined by the local counterparts.
	2.3	Strengthen the CD's capacity to act in a custodial role. The CD must be capable of holding assets for foreign institutional investors, and maintaining accounts which contain collateralized assets or assets which have been pledged as collateral.  assist the CD to be able to hold securities in escrow	September, 1999	Pragma has advised on the regulations for escrow and provided technical modifications to the depository computer software to process escrow accounts.

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments

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Task 3		<u><i>Assist in the development of a functioning OTC Market</i></u>		
	3.1	Assist the Kyrgyz Broker Dealer Association to develop an OTC market for shares of smaller and less liquid companies. This will generate immediate trading and revenue for the broker/dealer community, while also helping to eliminate much of the "gray market" or "off-market" trading.	Completed	The grey market has been eliminated through a presidential decree issued in May, 1999. Pragma advisors have provided direction and input to the rules for OTC listing and trading. This task has been addressed with a dual-tier listing approach at the Kyrgyzstan Stock Exchange. Two types of securities are now traded at the exchange: listed and non-listed. Listed follow strict disclosure and financial requirements while non-listed are simply any security that a broker wishes to trade in.
	3.2	Continue to develop and refine the operations of the OTC system  a) Train the IT staff in the use and maintenance of the new OTC systems	On-going  On-going	The Pragma technical team is in the final testing of the new trading system: USTS. This system will replace the old AST2 trading system in October. It will provide open book, open quote trading for both listed and non-listed securities on the same computer system. The local IT staff of the KSE and CD are being trained in all phases of computer support for the new system including backups, disaster recovery, database maintenance, and advanced systems development skills.

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 4	4.1	<u><i>Provide continued assistance to National Commission on Securities (NSC)</i></u> Provide ample on-the-job and formal training in basic surveillance, inspection and enforcement activities including: 1) licensing of entities and individuals 2) trade reporting compliance 3) market surveillance of trading and trading and sales practices 4) reporting of broker/dealer's financial and operational net capital 5)	12/31/1999	

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		<p>maintaining adequate customer documentation in broker Dealer's books and records and</p> <p>6) developing an IT network at NSC with interface with KE and the Central Depository</p> <p>a) develop a securities testing and test proctoring system:</p> <p>i) a General Securities license (GS) covering sales, trading and investment banking staff;</p> <p>ii) a General Securities Principal (GP) license covering all supervisory functions for the GS as well as general supervision responsibility for broker dealer activity</p> <p>iii) a Financial and Operational Principle (FINOP) license to cover all financial record keeping, firm credit risk, net capital record keeping, accounting and book keeping</p>		<p>- 6) Pragma has created a computer network at the NSC linking all computers in the building to a server and provided basic networking services. This network will be further enhanced to provide access to the computer systems of the KSE and the CD. This will allow the NSC to monitor all share re-registration activity.</p>
	4.2	<p>Providing on-going technical assistance on legislative and regulatory infrastructure to NSC on as needed basis</p>	On-going	<p>Currently the Pragma Law department is involved in drafting and advising on the following legal documents:</p> <ol style="list-style-type: none"> <li>1. Working group comprised of NSC staff, professional participants of the securities market and Pragma staff is working on the draft Law <i>On the joint stock companies</i>. It is designed to craft a separate law from the existing law on: <i>Economic Partnerships and Companies</i> which contains the basics of a JSC law but also includes other issues not germane to a true JSC law.</li> <li>2. Pragma is working jointly with the NSC departments on the changes and additions to the Kyrgyz Republic Laws <i>On the securities market</i> and <i>On bankruptcy</i>.</li> <li>3. Advising on changes and additions to the <i>Accounting and Reporting Rules at the JSCs</i>.</li> <li>4. Draft of the Temporary Securities Trading Rules were reviewed following a request from the NSC Law Department. Comments and</li> </ol>

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			<p>suggestions were submitted to the NSC.</p> <p>5. Jointly worked with the NSC on changes and additions to the <i>Law on Economic Partnerships and Companies</i></p> <p>Pragma's attorney, Victor Efremov, reviewed the changes to the JSC law with Pragma Almaty's senior legal advisor, Kevin Fogarty, and received comments on proposed changes that were incorporated into the ongoing work.</p> <p>During this period, as an on-going project activity the Pragma Law department provided legal advice on various matters to all of the NSC departments, KSE and professional participants of the securities market.</p>
		c) Assist the NSC to develop the regulatory structure for investment funds	<p>The Pragma project is sending the commissioner at the NSC in charge of investment funds, Svetlana Ni, to a World Bank conference on the regulation of investment funds in late January, 2000.</p>

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October, 1999

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 2		<i>Assist in the Formation of a Central Depository (CD)</i>		
	2.1	Define and implement a rationalized relationship between the Central Depository and the Registrars. Support a handful of private independent registrars, handling mostly dividend and proxy responsibilities of JSC. Support the CD to settle and clear trades moving to the dematerialization of shares.  b) Assist the Depository to develop a standard interface to send and receive re-registration instructions to existing registrars.	On-going	
	2.2	Construct the guarantee fund providing a strong financial mechanism to guarantee a settlement of trades enabling the CD to be the third party in all trades. Provide detailed and thorough documentation of codes and systems. Clean-up and refine the code so it is easily understood, maintained and enhanced by competent systems personnel.  b) Provide automatic processing of trades through the clearing and settlement functions at the CD	October, 1999	With the implementation of USTS in October, the Central Depository can now provide clearing and settlement services to the market participants. Currently, projected settlement reports are produced for the information of the participants. As everyone agrees on the business

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				model, more detailed clearing and settlement functionality (already present in the computer system) will be implemented.
	2.3	Strengthen the CD's capacity to act in a custodial role. The CD must be capable of holding assets for foreign institutional investors, and maintaining accounts which contain collateralized assets or assets which have been pledged as collateral.		
		assist the CD to be able to hold securities in escrow	Completed September, 1999	Pragma has advised on the regulations for escrow and provided technical modifications to the depository computer software to process escrow accounts.

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 3		<u><i>Assist in the development of a functioning OTC Market</i></u>		
	3.1	Assist the Kyrgyz Broker Dealer Association to develop an OTC market for shares of smaller and less liquid companies. This will generate immediate trading and revenue for the broker/dealer community, while also helping to eliminate much of the "gray market" or "off-market" trading.	Completed, October, 1999	October marked the rollout of the new trading system at the KSE: USTS (USAID Securities Trading System). This system provides many new features to enhance the functionality of the KSE. An open order book allows all users to monitor the orders and trades on the system. Dual-tier (listed and non-listed securities) trading is provided. Remote access trading is possible in the new system and will be implemented going forward. The system provides manual trade matching so that market participants can more closely anticipate the price at which they will trade securities. This is better than an automated algorithm based on the volumes of this market.
	3.2	Continue to develop and refine the operations of the OTC system		

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	b) Train the IT staff in the use and maintenance of the new OTC systems	On-going	This month the technical staff of the KSE rolled out the new trading system and worked to stabilize and make minor adjustments to the system. Various new reports and user enhancements were added to provide maximum functionality.
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TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 4	4.1	<u><i>Provide continued assistance to National Commission on Securities (NSC)</i></u> Provide ample on-the-job and formal training in basic surveillance, inspection and enforcement activities including: 1) licensing of entities and individuals 2) trade reporting compliance 3) market surveillance of trading and trading and sales practices 4) reporting of broker/dealer's financial and operational net capital 5) maintaining adequate customer documentation in broker Dealer's books and records and 6) developing an IT network at NSC with interface with KE and the Central Depository	12/31/1999	- 6) Additional machines were configured and added to the NSC computer network. Training of local staff in the use of the network took place. Technical expertise was provided to bring up a informational website with all regulatory documents posted on it. The site address is <a href="http://www.nsc.kg">www.nsc.kg</a>
	4.2	Providing on-going technical assistance on legislative and regulatory infrastructure to NSC on as needed basis	On-going	Currently the Pragma Law department is involved in drafting and advising on the following legal documents:  6. Working group comprised of NSC staff, professional participants of the securities market and Pragma staff is working on the draft Law <i>On the joint stock companies</i> . It is designed to craft a separate law from the existing law on: <i>Economic Partnerships and Companies</i> which

			<p>contains the basics of a JSC law but also includes other issues not germane to a true JSC law.</p> <ol style="list-style-type: none"> <li>7. Pragma is working jointly with the NSC departments on the changes and additions to the Kyrgyz Republic Laws <i>On the securities market</i> and <i>On bankruptcy</i>.</li> <li>8. Advising on changes and additions to the <i>Accounting and Reporting Rules at the JSCs</i>.</li> <li>9. Draft of the Temporary Securities Trading Rules were reviewed following a request from the NSC Law Department. Comments and suggestions were submitted to the NSC.</li> <li>10. Jointly worked with the NSC on changes and additions to the <i>Law on Economic Partnerships and Companies</i></li> </ol> <p>Pragma's attorney, Victor Efremov, reviewed the changes to the JSC law with Pragma Almaty's senior legal advisor, Kevin Fogarty, and received comments on proposed changes that were incorporated into the ongoing work.</p> <p>During this period, as an on-going project activity the Pragma Law department provided legal advice on various matters to all of the NSC departments, KSE and professional participants of the securities market.</p>
		c) Assist the NSC to develop the regulatory structure for investment funds	<p>The Pragma project is sending the commissioner at the NSC in charge of investment funds, Svetlana Ni, to a World Bank conference on the regulation of investment funds in late January, 2000.</p>

MONTHLY REPORT FOR NOVEMBER 1999

November, 1999

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 2		<i>Assist in the Formation of a Central Depository (CD)</i>		
	2.1	Define and implement a rationalized relationship between the Central Depository and the Registrars. Support a handful of private independent registrars, handling mostly dividend and proxy responsibilities of JSC. Support the CD to settle and clear trades moving to the dematerialization of shares.  c) Assist the Depository to develop a standard interface to send and receive re-registration instructions to existing registrars.	On-going	
	2.2	Construct the guarantee fund providing a strong financial mechanism to guarantee a settlement of trades enabling the CD to be the third party in all trades. Provide detailed and thorough documentation of codes and systems. Clean-up and refine the code so it is easily understood, maintained and enhanced by competent systems personnel.  c) Provide automatic processing of trades through the clearing and settlement functions at the CD	October, 1999	With the implementation of USTS in October, the Central Depository can now provide clearing and settlement services to the market participants. Currently, projected settlement reports are produced for the information of the participants. As everyone agrees on the business model, the clearing and settlement functionality (already present in the

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				computer system) can be turned on.
	2.3	Strengthen the CD's capacity to act in a custodial role. The CD must be capable of holding assets for foreign institutional investors, and maintaining accounts which contain collateralized assets or assets which have been pledged as collateral.  assist the CD to be able to hold securities in escrow	Completed September, 1999	Pragma has advised on the regulations for escrow and provided technical modifications to the depository computer software to process escrow accounts.

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 3		<u>Assist in the development of a functioning OTC Market</u>		
	3.1	Assist the Kyrgyz Broker Dealer Association to develop an OTC market for shares of smaller and less liquid companies. This will generate immediate trading and revenue for the broker/dealer community, while also helping to eliminate much of the "gray market" or "off-market" trading.	Completed, October, 1999	October marked the rollout of the new trading system at the KSE: USTS (USAID Securities Trading System).
	3.2	Continue to develop and refine the operations of the OTC system  c) Train the IT staff in the use and maintenance of the new OTC systems	On-going	This month the technical staff of the KSE rolled out the new trading system and worked to stabilize and make minor adjustments to the system. Various new reports and user enhancements were added to provide maximum functionality.

MONTHLY REPORT FOR NOVEMBER 1999

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 4	4.1	<p><u><i>Provide continued assistance to National Commission on Securities (NSC)</i></u>                      Provide ample on-the-job and formal training in basic surveillance, inspection and enforcement activities including: 1) licensing of entities and individuals 2) trade reporting compliance 3) market surveillance of trading and trading and sales practices 4) reporting of broker/dealer's financial and operational net capital 5) maintaining adequate customer documentation in broker Dealer's books and records and 6) developing an IT network at NSC with interface with KE and the Central Depository</p>	12/31/1999	<p>- 6) Additional machines were configured and added to the NSC computer network. Training of local staff in the use of the network took place. Technical expertise was provided to bring up a informational website with all regulatory documents posted on it. The site address is <a href="http://www.nsc.kg">www.nsc.kg</a></p>
	4.2	<p>Providing on-going technical assistance on legislative and regulatory infrastructure to NSC on as needed basis</p>	Completed	<p>With the departure of senior legal expert, Victor Efremov, Pragma's legal advice to the local regulators has finished. Mr. Efremov continues to work with USAID projects at ARC-Checchi.</p>

MONTHLY REPORT FOR DECEMBER 1999

December, 1999

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 2		<i>Assist in the Formation of a Central Depository (CD)</i>		
	2.1	Define and implement a rationalized relationship between the Central Depository and the Registrars. Support a handful of private independent registrars, handling mostly dividend and proxy responsibilities of JSC. Support the CD to settle and clear trades moving to the dematerialization of shares.  d) Assist the Depository to develop a standard interface to send and receive re-registration instructions to existing registrars.	On-going	
	2.2	Construct the guarantee fund providing a strong financial mechanism to guarantee a settlement of trades enabling the CD to be the third party in all trades. Provide detailed and thorough documentation of codes and systems. Clean-up and refine the code so it is easily understood, maintained and enhanced by competent systems personnel. d) Provide automatic processing of trades through the clearing and settlement functions at the CD	Completed, October, 1999	
	2.3	Strengthen the CD's capacity to act in a custodial		

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		role. The CD must be capable of holding assets for foreign institutional investors, and maintaining accounts which contain collateralized assets or assets which have been pledged as collateral.		
		assist the CD to be able to hold securities in escrow	Completed September, 1999	

TASKS				
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Task 3		<i>Assist in the development of a functioning OTC Market</i>		
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	3.2	Continue to develop and refine the operations of the OTC system  d) Train the IT staff in the use and maintenance of the new OTC systems	On-going	December saw stabilization and customization tasks following the successful rollout of USTS. Various reports and modifications are being made to adjust the system to the KSE working model. Local systems staff are being trained in advance database development and client programming.

MONTHLY REPORT FOR DECEMBER 1999

TASKS				
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Task 4	4.1	<p><b><i>Provide continued assistance to National Commission on Securities (NSC)</i></b></p> <p>Provide ample on-the-job and formal training in basic surveillance, inspection and enforcement activities including: 1) licensing of entities and individuals 2) trade reporting compliance 3) market surveillance of trading and trading and sales practices 4) reporting of broker/dealer's financial and operational net capital 5) maintaining adequate customer documentation in broker Dealer's books and records and 6) developing an IT network at NSC with interface with KE and the Central Depository</p>	Completed December, 1999	The IT network at the NSC is stable. Minor instruction is being given to provide a small amount of ongoing technical support.

MONTHLY REPORT FOR JANUARY 2000

January, 1999

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 2		<i>Assist in the Formation of a Central Depository (CD)</i>		
	2.1	Define and implement a rationalized relationship between the Central Depository and the Registrars. Support a handful of private independent registrars, handling mostly dividend and proxy responsibilities of JSC. Support the CD to settle and clear trades moving to the dematerialization of shares.  e) Assist the Depository to develop a standard interface to send and receive re-registration instructions to existing registrars.	Completed October, 1999	
	2.2	Construct the guarantee fund providing a strong financial mechanism to guarantee a settlement of trades enabling the CD to be the third party in all trades. Provide detailed and thorough documentation of codes and systems. Clean-up and refine the code so it is easily understood, maintained and enhanced by competent systems personnel.  e) Provide automatic processing of trades through the clearing and settlement functions at the CD	Completed October, 1999	
	2.3	Strengthen the CD's capacity to act in a custodial		

MONTHLY REPORT FOR JANUARY 2000

		role. The CD must be capable of holding assets for foreign institutional investors, and maintaining accounts which contain collateralized assets or assets which have been pledged as collateral.		
		assist the CD to be able to hold securities in escrow	Completed September, 1999	

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	3.2	Continue to develop and refine the operations of the OTC system  e) Train the IT staff in the use and maintenance of the new OTC systems	On-going	Stabilization and minor enhancements continue based on user feedback to the operation of the electronic trading system. Work is also beginning on complete system documentation and installation instructions.

TASKS

MONTHLY REPORT FOR JANUARY 2000

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		c) Assist the NSC to develop the regulatory structure for investment funds		USAID sent one of the NSC commissioners to the US on a World Bank seminar on Non-Banking Instruments, Insurance & Pensions for capital market participants.

MONTHLY REPORT FOR FEBRUARY 2000

February, 2000

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 2		<i>Assist in the Formation of a Central Depository (CD)</i>		
	2.1	Define and implement a rationalized relationship between the Central Depository and the Registrars. Support a handful of private independent registrars, handling mostly dividend and proxy responsibilities of JSC. Support the CD to settle and clear trades moving to the dematerialization of shares.  f) Assist the Depository to develop a standard interface to send and receive re-registration instructions to existing registrars.	Completed October, 1999	
	2.2	Construct the guarantee fund providing a strong financial mechanism to guarantee a settlement of trades enabling the CD to be the third party in all trades. Provide detailed and thorough documentation of codes and systems. Clean-up and refine the code so it is easily understood, maintained and enhanced by competent systems personnel.  f) Provide automatic processing of trades through the clearing and settlement functions at the CD	Ongoing	January & February saw major work on documentation and cleanup of the system for final presentation to USAID at the close of the project.
	2.3	Strengthen the CD's capacity to act in a custodial		

MONTHLY REPORT FOR FEBRUARY 2000

		role. The CD must be capable of holding assets for foreign institutional investors, and maintaining accounts which contain collateralized assets or assets which have been pledged as collateral.		
		assist the CD to be able to hold securities in escrow	Completed September, 1999	

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	3.2	Continue to develop and refine the operations of the OTC system  f) Train the IT staff in the use and maintenance of the new OTC systems	On-going	Work continues on final packaging of the software for USAID project completion purposes. This involves full user's manuals for all systems and a comprehensive installation manual with proven and tested installation instructions. Work involves creating and running the full system from nothing and recording every screen and functionality in the documentation.

United States Agency For International Development,  
 Development of the Securities Market in Kyrgyzstan  
 The PRAGMA Corporation

Contract No: The Pragma Corporation,  
 OUT-EPE-802-95-00040-00

MONTHLY REPORT FOR FEBRUARY 2000

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MONTHLY REPORT FOR MARCH 2000

March, 2000

TASKS				
Task and Ref.	Item #	Description	Target Dates	Monthly Activity Summary/Comments
Task 2		<u><i>Assist in the Formation of a Central Depository (CD)</i></u>		
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	2.2	Construct the guarantee fund providing a strong financial mechanism to guarantee a settlement of trades enabling the CD to be the third party in all trades. Provide detailed and thorough documentation of codes and systems. Clean-up and refine the code so it is easily understood, maintained and enhanced by competent systems personnel.  g) Provide automatic processing of trades through the clearing and settlement functions at the CD	Ongoing	January & February saw major work on documentation and cleanup of the system for final presentation to USAID at the close of the project.
	2.3	Strengthen the CD's capacity to act in a custodial		

MONTHLY REPORT FOR MARCH 2000

		role. The CD must be capable of holding assets for foreign institutional investors, and maintaining accounts which contain collateralized assets or assets which have been pledged as collateral.		
		assist the CD to be able to hold securities in escrow	Completed September, 1999	

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	3.2	Continue to develop and refine the operations of the OTC system  g) Train the IT staff in the use and maintenance of the new OTC systems	On-going	Work continues on final packaging of the software for USAID project completion purposes. This involves full user's manuals for all systems and a comprehensive installation manual with proven and tested installation instructions. Work involves creating and running the full system from nothing and recording every screen and functionality in the documentation.

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