Supervision of the securities market in KAZAKHSTAN

Agency of Republic Kazakhstan on Regulation and Supervision of Financial Market and Financial Organisations (Agency)

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Unified supervisory body over the participants of the financial market


The main purpose of reforming the system of state regulation of the financial market is the creation of an independent and effective system of consolidated supervision and regulation of financial market in order:

1) to increase the level of protection of rights and interests of consumers of the financial services,
2) stable and effective infrastructure of the domestic financial market,
3) to increase trust to the national financial system.
Unified supervisory body over the participants of the financial market

The main tasks of the Agency include state regulation of:

1) banking activities;
2) the securities market;
3) the activities of the accumulative pension funds;
4) insurance operations.
State regulation of the securities market includes:

1) regulation of relations of securities market participants;
2) protection of rights and interests of investors in the securities market;
3) imposition of the binding requirements on the participants of the securities market;
4) supervision over the activities of professional participants of the securities market, self-regulatory organisations, organisers of securities’ trade and other entities, whose activities on the securities market is carried out based on licenses or permissions;
5) organisation of educational system directed towards ensuring professional level of individuals as qualified specialists on the securities market.
Legislation on securities market and joint-stock companies

The middle of 2003 was marked by enactment of the new major legislative acts regulating relations in the securities market, namely the

Law On Securities Market,

Law On Joint stock Companies,


Draft law on investment funds now is on the Parliament’s consideration.
Supervision methods and procedures

The system of procedures, methods, rules of regulation, and supervisory relations, on the securities market, can by classified according to:

1) subjects of securities market,

2) the sources of information,

3) certain components and procedures subject to permanent control
Subjects of securities markets shall comprise of:

1) **institutional investors** (16 pension funds, 35 banks, 34 insurance company) and **individual investors**,  
2) **issuers** (2940 joint stock companies and 7 LLCs),  
3) **professional participants of the securities market** (101 licenses),  
4) **bidding organizer** (1 stock exchange);  
5) **central securities depository** (1, according to the Law on SM only one CSD to be in RK),  
6) **self-regulatory organizations** (2, Agency does not license SRO, it can confer SRO status in the event that at least half of the relevant market participants are members of the SRO).
Professional participants of the securities market:

1) broker-dealers (54);
2) securities registrars (19);
3) investment portfolio management companies (10);
4) pension assets management companies (10);
5) custodian banks (11);
6) transfer-agents (0).
All professional participants of the securities market should comply with the following main qualifying requirements:

1) established in a legal form of a joint-stock company with authorized capital of no less than KZT45,95 mln. (328 thous. $), to be paid in cash only;
2) all of the employees must have qualifying certificates from Agency;
3) have program-technical facilities and other equipment necessary to perform activity on the securities market in accordance with legal acts of the Agency;
4) internal documents shall comply with the requirements of Agency legal acts and internal documents of corresponding self-regulatory organization.
All professional participants of the securities market shall comply with the following main qualifying requirements:

1) book-keeping policy and compliance of basic accounting principles and with the International Accounting Standards requirements;

2) compliance with prudential norms and other indices or criteria (norms) of financial sustainability established for the corresponding type of activity in the securities market by legal acts of the Agency;

3) availability of organization departments complying with the requirements established by the legal acts of the Agency;

4) present periodic reports in line with the requirements established by the Agency;

5) present annual auditor reports.
The sources of supervision information:

The Agency, when exercising supervisory functions, utilises information on a permanent basis that is received:

1) in the process of licensing of a commercial entity;

2) in the course of exercising current control over the activities and subjects of regulation of the securities market, by means of regular reports and additional information;

3) during onsite supervision.
The sources of information for supervision:

Additional sources of information on the activities of securities market entities used by the Agency:

- any mass media legalised in accordance with the legislation of the Republic of Kazakhstan;

- information submitted by potential and existing issuers of securities and investors;

- other official sources.
Reporting by the licensed participants of the securities market:

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<th>Reports</th>
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<th>Custody</th>
<th>Brokers/Dealers</th>
<th>Transf-Agents</th>
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Onsite supervision:

Inspection Division conducts onsite supervision in compliance with the approved quarterly plan and unscheduled - conducted due to the following:

1) violation of securities market legislation is revealed in the course of examining the reporting of the securities market entities;

2) complaint on the actions of a securities market entity is received;

3) required by other state bodies.

Onsite supervision is conducted on the securities market entity premises either by means of requesting copies of necessary documents.

Duration of one inspection does not exceed thirty days.
he main purpose of onsite inspection is the compliance of the entity with the requirements of legislation of the Republic of Kazakhstan and with the data submitted by an entity during licensing process and reported data.

Components of supervision:

1) general organisation of business and documents management;

2) staff:
   - of consents of the Qualification Commission of the authorised agency given to the managers, including chief accountants of the licensees to their appointment/election. Candidates for the managerial positions get approved in order to determine their professional aptitude. It is mandatory for all the licensees;
   - presence of minimal number of specialists, who possess relevant qualification certificates;
Components of supervision of activity of regulated entities of the securities market:

3) operations of participants of securities market; contents of logs of registration, client's accounts, other registration matters that are needed to be conducted by the licensed entity, as well as their authenticity and compliance with the legislation of Kazakhstan pertaining to the securities market;

5) originals of clients' orders and instructions, contracts with counterparts of the licensed securities market entity as well as its own internal (investment) decisions which serve as a basis for any operations or transactions associated with activities in the securities market;

6) safety of keeping of primary documentation and registration logs of the licensed entity as well as the regularity of archiving of the mentioned documentation submitted in the electronic format;
1) financial statements data of securities market participants. Book-keeping policy and compliance of basic principles and rules of accounting with the requirements of International Accounting Standards and legislation of the Republic of Kazakhstan on accounting and book-keeping;

2) compliance of value and procedure of calculation financial stability factors and prudential standards of securities market participants with requirements established by the normative and legal acts on the securities market;

3) availability of material, technical, software and other facilities of securities market participants that ensure uninterrupted performance by them of the main activity on transactions with the securities, their registration or effective performance of such activities with the securities, as well as their compliance with requirements of the effective legislation of the Republic Kazakhstan.
Development of the Financial market, including Securities Market:

The Concept of development of financial sector of the Republic of Kazakhstan for the period till 2006 approved by the Government of RK envisages measures on further introduction of international standards of regulation of certain segments of the financial market, such as

- principles of the Basel Committee for the banking system,
- requirements of the International Association of Insurance Supervision (IAIS) for the insurance market,
- principles of regulation of securities market of the International Organisation of Securities Commission (IOSCO)

will be continued for the purposes of improvement of mechanisms and procedures of supervision over the financial market.

Apart from that certain standards and Directives of the European Union on the issue of prudential regulation of the financial market participants will be gradually adopted for the purpose of formation of healthy and complete infrastructure of the financial market.
The following are the main directions of development of the securities market:

1) development of domestic institutional investors;

2) extension of possibilities for investments;

3) improvement of mechanism of protection of rights and interest of investors;

4) elaboration and implementation of principles of risk management on the securities market;

5) development and upgrade of technical infrastructure of the securities market.
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Thank you for you attention!

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