

## Chapter 2

### POTENTIAL FOR SECURITIES MARKETS IN THE CENTRAL ASIAN COUNTRIES, AZERBAIJAN AND MONGOLIA

by  
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#### Introduction

The Central Asian countries, Azerbaijan and Mongolia have gradually developed their securities markets with their banking sector reforms after the collapse of the communist regime. Although the market infrastructure in the region has been moderately developed with the support of international organisations, however, their securities markets are typically small in scale and still have the weaknesses. The objective of this paper is to review current conditions of securities markets in the region and to assess their market potential compared to one another and to the advanced countries.

This paper is based on the Market Survey conducted in 2004, where six countries were targeted; Azerbaijan, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan. Because of the lack of comprehensive financial data, Turkmenistan is little covered in this study. Currently, there is substantially no securities market in Turkmenistan, although a law related to the securities market was adopted in 1993. Only the Commodity and Raw Materials Exchange exists in Turkmenistan.

In this paper, four basic fields were examined to assess the market potential in the region: 1) macroeconomic performance; 2) market structure; 3) market performance; and 4) regulatory and supervisory structure for the securities market.

#### 1. Macroeconomic Performance

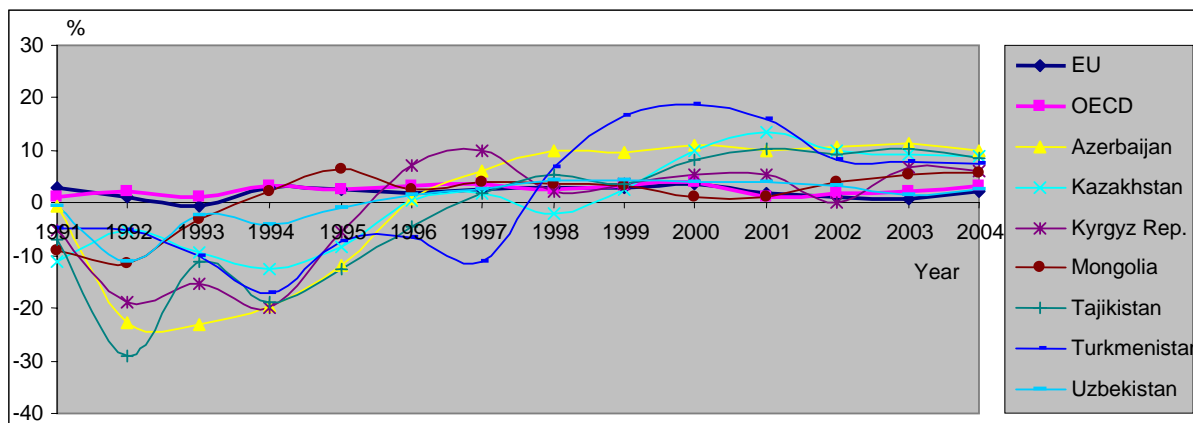
Since the dissolution of the Soviet Union in December 1991, most of Central Asian countries have moved from planned economies that basically supplied raw materials to market based economies at different speeds. Although gross domestic products (GDP) in the region are quite small in scale as compared to the advanced countries, their real GDP growth (3-10% in 2004) has exceeded both the estimated EU average (2.3% in 2004) and the OECD average (3.4% in 2004) as shown in Figure 1. Particularly rapid growth is seen in Azerbaijan and Kazakhstan (10% and 9% in 2004 respectively). In Kazakhstan, it seemed to be backed by active exports and booming oil revenues.

Almost all study countries faced severely negative economic shocks immediately after their independence. The first half of the 1990s was a time of deep recession for them, which was caused by abruptly cutting off the resource flows within a single economic unit. Then, the macroeconomic performance in the region gradually improved in the second half of the 1990s but the Russian crisis in 1998 had a negative economic impact. Subsequently, the events of September 11<sup>th</sup> brought some inflows of economic aid into some of them due to their geographical importance. Currently, all study countries have been growing at different speeds.

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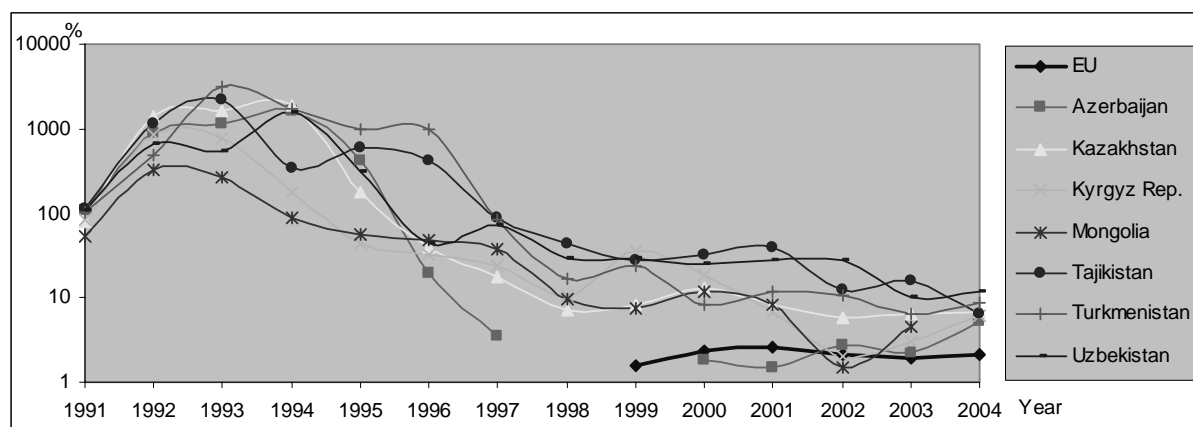
**Figure 1: Real GDP Growth Rate**



(Source) EBRD Transition Report 2004, OECD Economic Outlook VOL.2004/1 No.75, Economist Intelligence Unit (Mongolia: country reports 1996-2005)

In addition to the moderate economic growth in study countries, consumer price inflation also has been gradually decreasing in the region as compared to the hyper-inflation during the first half of the 1990s as shown in Figure 2 (5-12% in 2004). However, inflation rates in the region still remain high as compared to the advanced countries (EU: 2% in 2004). Furthermore, there is the fact that huge income gaps and high poverty rates still exist in the region. This disparity may have a negative impact on the development of securities markets in respective countries. It will be more important to mobilise individual money effectively through the securities markets.

**Figure 2: Inflation Rate**



(Source) EBRD Transition Report 2004, Economist Intelligence Unit (Mongolia: country reports 1996-2005)

## 2. Market Structure

From the data collected through the Market Survey, three basic characteristics of the securities markets in the region were identified, though there were some differences country by country.

First, study countries have had relatively well-organised market infrastructures from the beginning by accepting the support of international financial institutions such as the World Bank and the IMF. More concretely, except for Tajikistan, they have relatively sophisticated electronic trading systems;

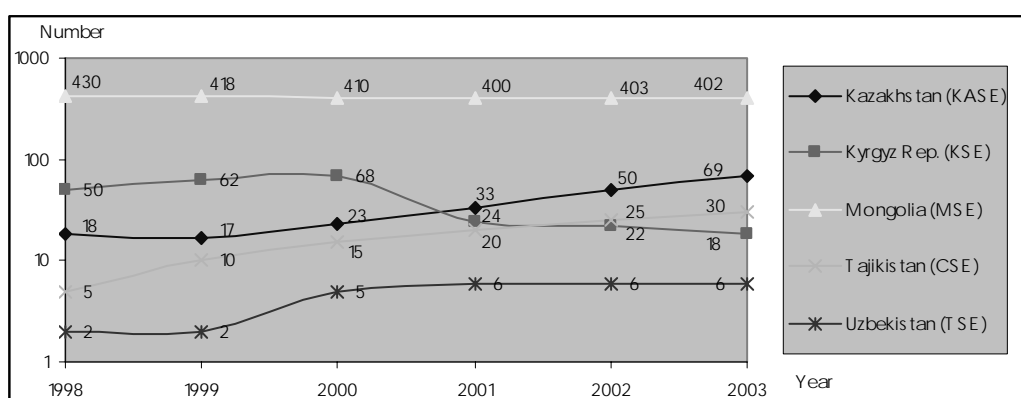
i.e., computer assisted order routing and execution systems, which enable investors to place buy- or sell-orders electronically. In Kazakhstan, more than 90% of the total trades have been conducted through the “Electronic Trading System of KASE”. In the Kyrgyz Republic, the electronic trading system “BTS” handles all transactions from trading to clearing and settlement, separated from the Kyrgyz Stock Exchange. This system started in 2000 but currently there is no listing procedures in the BTS. In Azerbaijan, the Russian company “INIST” built the electronic trading system inside of the Baku Stock Exchange. There are 30 electronic trading booths for brokers. In Mongolia, all trades are conducted via “the MSE Pure-Order Driven System”, which started in 1995. Only in Uzbekistan, an electronic OTC trading system for small investors exists, which is called “EL SIS-SAVDO” and started in 2000. Also, most of the countries have adopted a central depository system except for Tajikistan, but in Tajikistan, a law on central depository exists.

Second, market participants are still restricted in study countries. To begin with, the securities markets in the region have been developed as part of the privatisation process. In many cases, the markets have been used as means of reducing the national budget deficit. Also governments tend to focus on developing domestic investors rather than attracting foreign investors, as a priority. Therefore, there are almost no foreign investors in their securities markets at this moment.

The structure of the intermediaries of securities markets varies country by country. In Azerbaijan, banks have mainly participated in the securities market as brokers and dealers. By contrast, particularly in Uzbekistan, many securities firms and fund management companies have actively participated in the market as intermediaries.

The companies listed on the stock exchanges are still quite small in scale, which number is less than 70 companies on average except for Mongolia as indicated in Figure 3. The Mongolian Stock Exchange currently has 402 listed companies but even this number is less than one fifth of the New York Stock Exchange (2308 in 2003), the Tokyo Stock Exchange (2206) and the London Stock Exchange (2692). The listed companies in the region were basically transformed from state-owned companies to joint stock companies in the process of privatisation.

**Figure 3: Number of Listed Companies at the end-of-year**



(Source) OECD Market Survey 2004

Lastly, securities markets in the region still have a narrow range of products and still heavily depend on short-term securities products. Short-term government bonds, basically 3 to 9 months in maturity, are flagship products in the region. In Mongolia, very short-term T-bonds with a maturity of 14 days are actively circulated. Particularly in Kazakhstan, the repurchase agreement or REPO market has been rapidly developed. Equities and corporate bonds are still minor products in study countries. In

Tajikistan, there is no corporate bond market at present. The derivative market exists in Azerbaijan and Kazakhstan but this market is very restricted, where the only available product is futures and the transaction volume is quite limited.

**Table 1: Major Products**

	<b>Equity</b>	<b>Corporate Bond</b>	<b>Government Bond</b>	<b>Derivatives</b>	<b>Others</b>
<b>Azerbaijan</b>	- Common stock - Preferred stock	- Short-term bond (3-, 6-month) - Long-term bond (up to 5 years)	- Short-term T-bill (3-, 6-, 9-month)	- Futures (only in 2001)	- REPO on T-bill - Promissory Note - Privatisation checks - Privatisation options
<b>Kazakhstan</b>	- Common stock (A-, B-listing, OTC) - Preferred stock - State Block of Shares (SBS)	- Corporate bond - IFO bond	- Municipal bond - T-bond (MAOKO) - Short-term T-bill (MEKKAM) - Mid-term T-bill (MEOKAM) - Long-term T-bill (MEAKAM) - Indexed T-bill (MEIKAM) -Eurobond	- Undelivered 6 month futures on the rate USD/KZT and EURO/USD	- REPO - Promissory Note - Foreign Exchange
<b>Kyrgyz Republic</b>	- Common stock - Preferred stock	- Short-term bond - Long-term bond (1 to 3 years)	- Short-term T-bill (3-, 6-, 9-month) - Long-term T-bill (5 to 15 years)	n/a,	n/a,
<b>Mongolia</b>	- Common stock	- Short-term bond (6-month, 1 year)	- Short-term T-bond (14 days) - Mid-term T-bill (3 years)	n/a,	n/a,
<b>Tajikistan</b>	- Shares in state-owned and private companies - Registered and bearer common and preferred stock	n/a,	- T-bill (up to 1 year) - Financial Ministry bond (2 issues; 20-year) - National Bank bond (short-term)	n/a,	n/a,
<b>Turkmenistan</b>	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Uzbekistan <sup>a</sup></b>	- Common and preferred stock, traded freely both for UZC and USD	- Corporate bond, traded freely. (3-, 6-, 9-month & 1.5 year)	- State short-term bond (6-, 9-, 12-month) - State mid-term bond (1.5 year & 5-year)	n/a,	n/a,

(Source) OECD Market Survey 2004

(Note) <sup>a</sup> State short-term bonds are traded on the Currency Exchange from 1996. State mid-term bonds are to be issued from April 2004.

The following Figures 4 to 9 illustrate the trading, clearing and settlement schemes of securities markets in study countries, where three features are identified: 1) electronic trading is a major instrument of securities trading; 2) central depository system that contributes to an effective DVP (delivery versus payment) is a standard in their market infrastructures; and 3) domestic institutional investors such as pension funds and insurance companies account for a large portion of investors, which is the same trend as in the advanced countries.

Figure 4: Trading, Clearing and Settlement Scheme in Azerbaijan

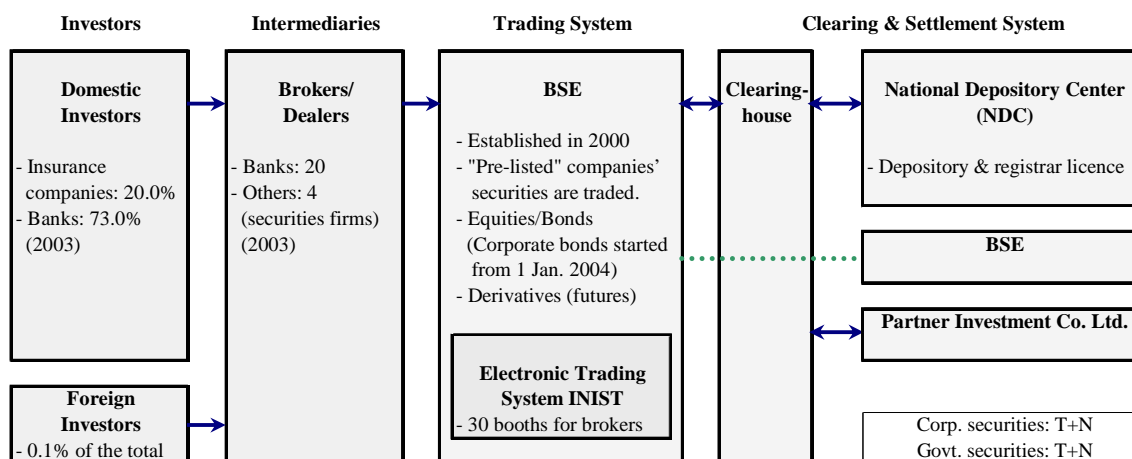


Figure 5: Trading, Clearing and Settlement Scheme in Kazakhstan

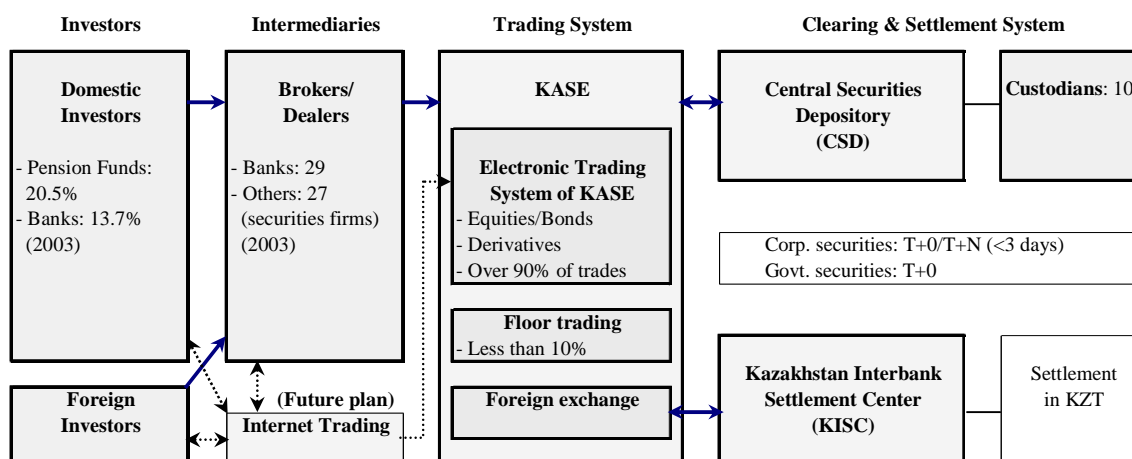
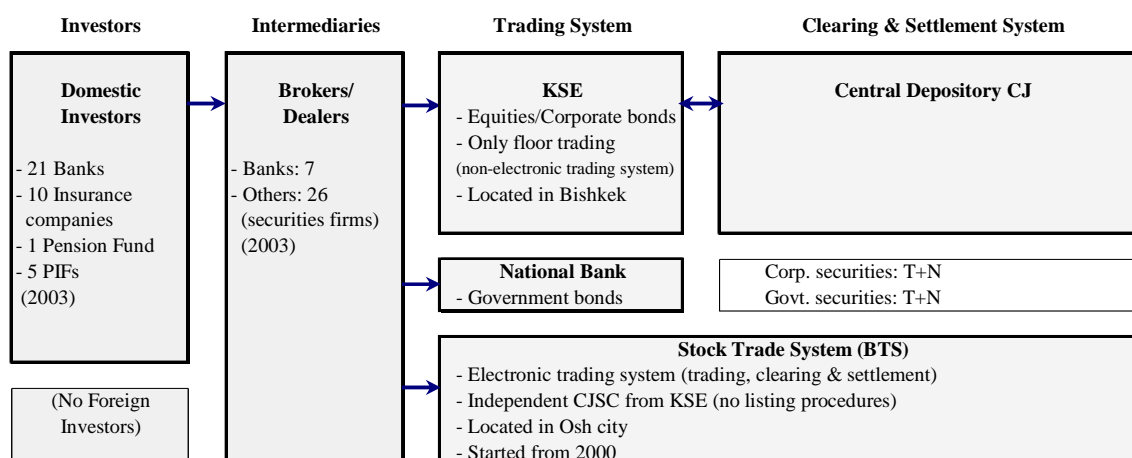
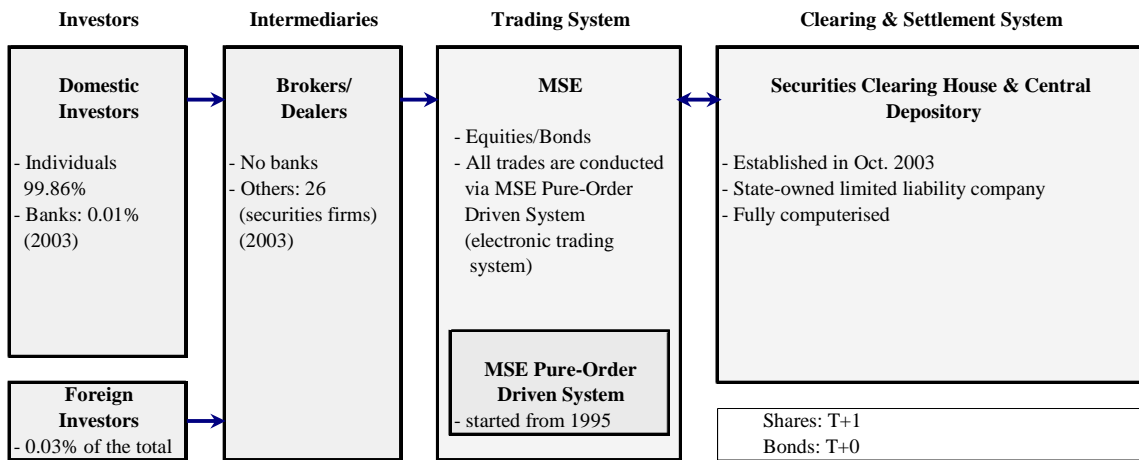


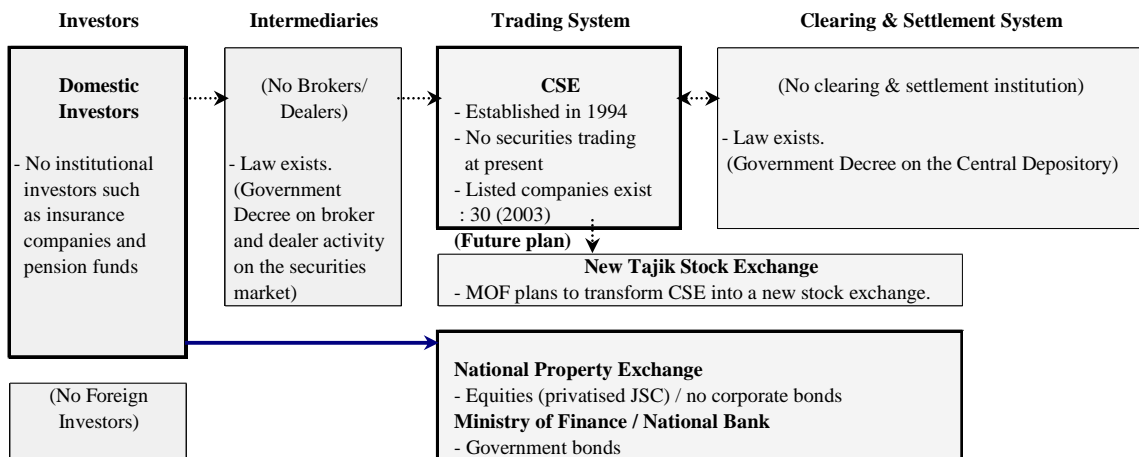
Figure 6: Trading, Clearing and Settlement Scheme in Kyrgyz Republic



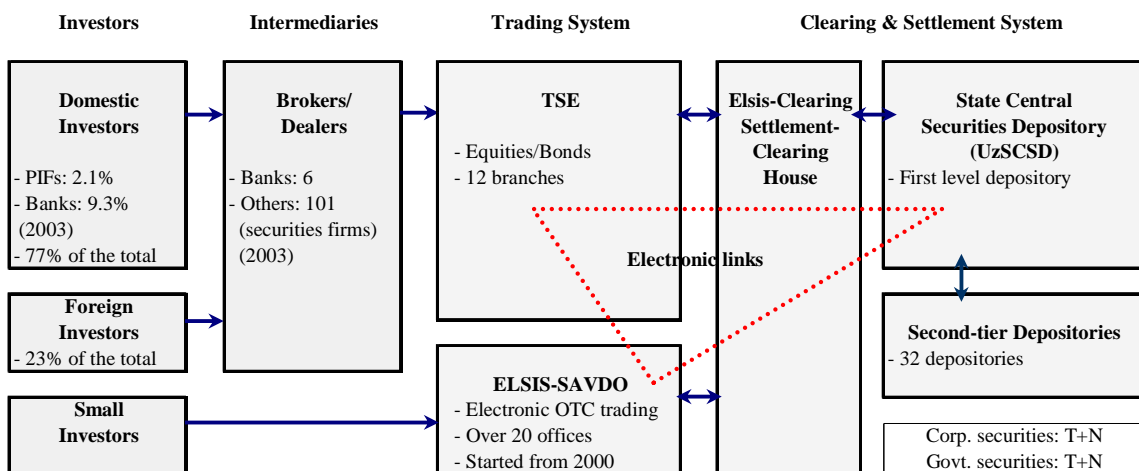
**Figure 7: Trading, Clearing and Settlement Scheme in Mongolia**



**Figure 8: Trading, Clearing and Settlement Scheme in Tajikistan**



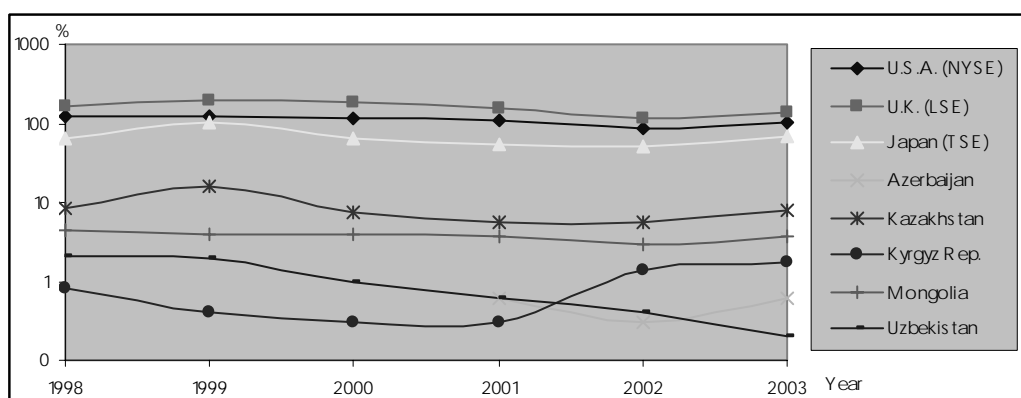
**Figure 9: Trading, Clearing and Settlement Scheme in Uzbekistan**



### 3. Market Performance

As indicated in Figure 10, stock market capitalisation in study countries is quite small in scale as compared to the advanced countries. The ratio of stock market capitalisation to GDP is roughly over 70% in advanced market countries (the New York Stock Exchange (NYSE) and the London Stock Exchange (LSE): more than 100%; the Tokyo Stock Exchange (TSE): around 70% in 2003). However, even in Kazakhstan, the largest market in the Central Asian region, the stock market capitalisation accounts for only 8% of GDP. Those in the remaining countries account for less than 4% of GDP. This means that securities markets in the region are still in an early stage of the development.

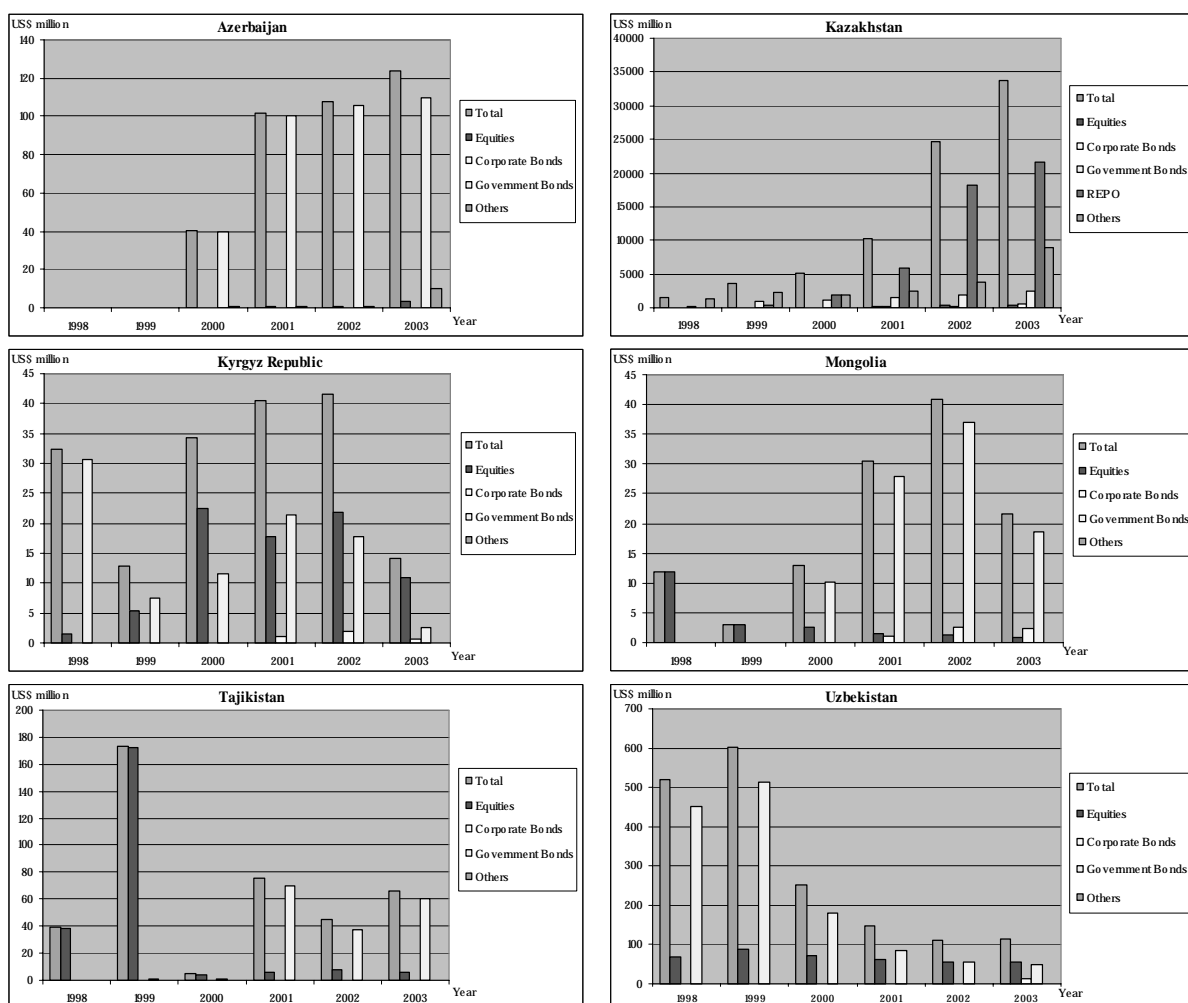
**Figure 10: Market Capitalisation as % of GDP**



(Source) EBRD Transition Report 2003, World Federation of Exchanges, Economist Intelligence Unit, OECD Market Survey 2004

Also, Figure 11 shows that the trading volume of equities, corporate bonds and government bonds in study countries is volatile and quite small in scale, ranging from USD 14 million to 3,400 million in 2003. As a whole, corporate securities markets such as equities and corporate bonds are limited and underdeveloped in the region, though some of the countries have developed their equity markets. Instead, short-term government bonds have dominated the securities markets. Particularly, REPO transactions are quite active in Kazakhstan. This means that the securities markets have taken an important role of the government short-term fund-raising. In other words, the long-term corporate securities market does not work well.

Figure 11: Trading Volume: US\$ million

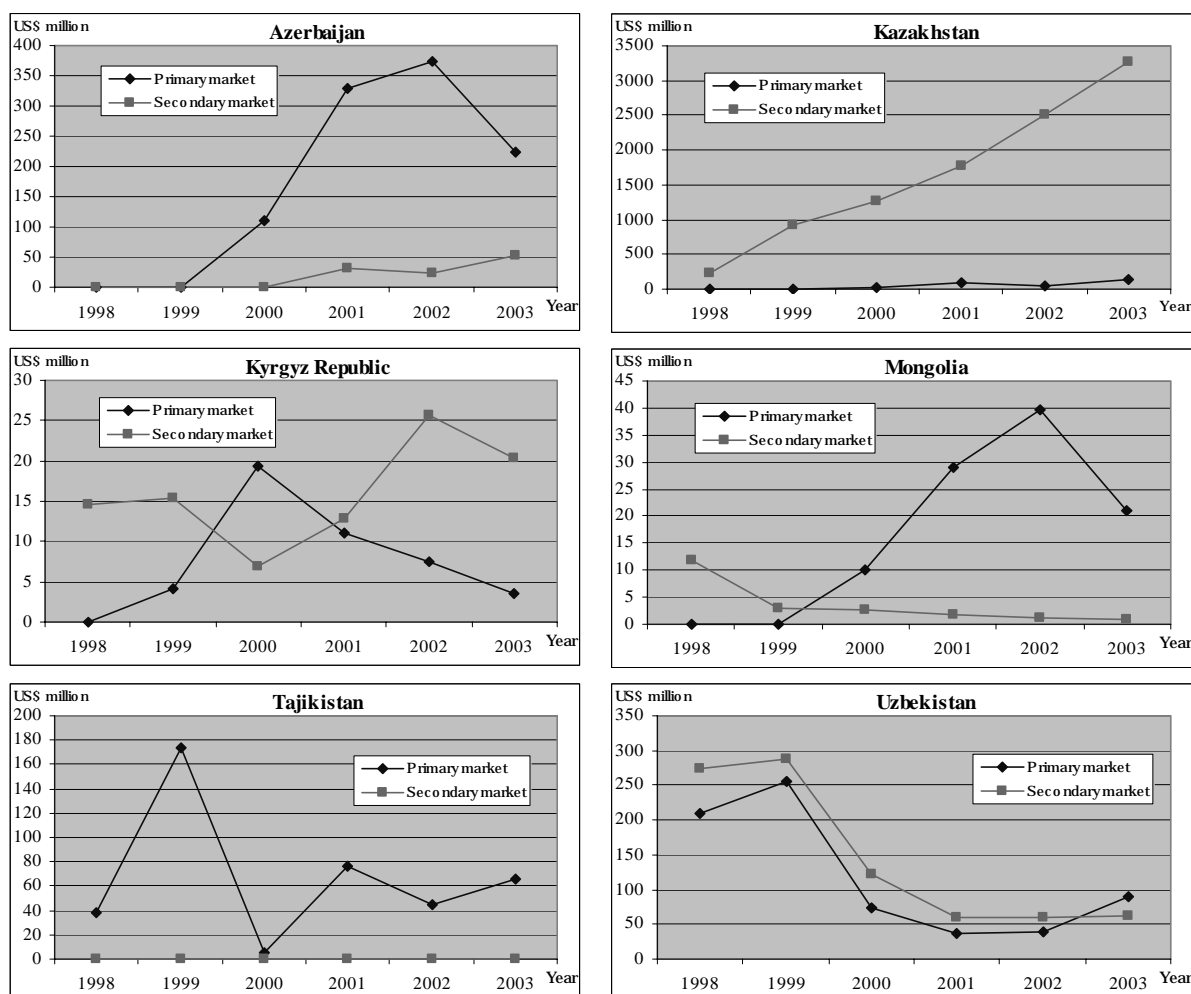


(Source) OECD Market Survey 2004

From Figure 12, securities markets in study countries can be classified into two groups: active and inactive secondary market. The secondary markets in Kazakhstan and the Kyrgyz Republic are relatively active, but as mentioned earlier, the most actively traded instruments are short-term government bonds. In Uzbekistan, the secondary market turnover fell below the primary market turnover in 2003 but it is the opposite trend in domestic currency (Som). By contrast, the secondary markets in Azerbaijan, Mongolia and Tajikistan are quite inactive. Even in the primary markets, the issuing volume is volatile. It is critically important for those countries to secure the stable liquidity of corporate securities to develop their securities markets.



Figure 12: Primary and Secondary Market Turnover: US\$ million



(Source) OECD Market Survey 2004

Table 2 shows the stock price movements, which illustrate the volatility of stock markets in the region. Kazakhstan, Uzbekistan, the Kyrgyz Republic and Mongolia have their own stock price indices. In Mongolia, stock prices are relatively moving higher than the other countries.

Table 2: Stock Price Movement (end-of-year)

	Name of index	1998	1999	2000	2001	2002	2003	Base-date (=100)
Kazakhstan	KASE_Shares	n/a,	n/a,	106.0	104.5	140.2	142.4	12 July 2000
Uzbekistan	TASIX <sup>a</sup>	88.3	78.6	85.1	114.2	136.2	131.9	1 January 2000
Kyrgyz Republic	KSE Index	122.0	84.6	70.1	56.8	59.6	68.8	November 1996
Tajikistan	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Turkmenistan	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Azerbaijan	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Mongolia	TOP-20 <sup>b</sup>	235.0	255.7	469.9	814.0	933.9	895.9	28 August 1995

(Source) OECD Market Survey 2004

(Notes) <sup>a</sup> TASIX: Tashkent Aggregate Securities Index. TASIX in 1998 and 1999 is recalculated based on 1 January 2000.

<sup>b</sup> In Mongolia, price index was named as TOP-75 between year 1995 and year 2002.

The securities market performance in study countries can be summarised as follows: 1) stock market capitalisation in the region is of a quite small scale and growing at quite slow pace; 2) short-term government bonds have still dominated the securities markets in the region; and 3) the corporate securities markets are underdeveloped in those countries (small scale and low liquidity).

#### 4. Regulatory and Supervisory Structures for Securities Markets

The regulatory and supervisory structures for securities markets in the region can be placed into two types in terms of the number of regulators: single regulator and plural regulators (see Table3). In Tajikistan, *the Securities and Foreign Investment Office* was established under the Ministry of Finance, which is to function as a single regulator in the Tajikistan securities market. In Azerbaijan and Mongolia, *the State Committee for Securities (SCS)* and *the Securities and Exchange Commission (MSEC)* are respectively responsible for regulating and supervising their securities markets as a single regulator.

By contrast, in Kazakhstan, *the Financial Supervision Authority (FSA)* was separated from the National Bank of Kazakhstan (NBK), in order to regulate the securities market, banking activities, accumulated pension funds and insurance operations. In parallel with that, *the Ministry of Finance* and *the NBK* still hold the status of regulators in the field of government securities.

Similar to Kazakhstan, Uzbekistan and the Kyrgyz Republic have the plural regulatory and supervisory structures for the securities markets. That is to say, in Uzbekistan, *the Center for Coordination and Control of the Securities Market*, so-called *the Center*, supervises the securities market while *the Securities and Financial Markets Department of the Ministry of Finance* manages and controls laws and regulations related to the securities market. In the government securities market, *the Ministry of Finance* and *the Central Bank* take a role of regulator and supervisor. In the Kyrgyz Republic, *the State Commission on the Securities Market* mainly regulates and supervises the securities market while *the Ministry of Finance* and *the National Bank* take responsible for the regulations and supervision of government securities.

**Table 3: Single and Plural Regulators**

Single Regulator	Plural Regulators
<p><b>Tajikistan:</b> Ministry of Finance (MOF) (Securities and Foreign Investment Office)</p> <p><b>Azerbaijan:</b> State Committee for Securities (SCS)</p> <p><b>Mongolia:</b> Mongolian Securities &amp; Exchange Commission (MSEC)</p>	<p><b>Kazakhstan:</b> Financial Supervision Authority (FSA) , MOF &amp; National Bank of Kazakhstan (NBK)</p> <p><b>Uzbekistan:</b> The Center for Coordination and Control of the securities Market (CSM), MOF &amp; Central Bank (CB)</p> <p><b>Kyrgyz Republic:</b> State Commission on the Securities Market (SCSM), MOF &amp; National Bank (NB)</p>

(Source) OECD Market Survey 2004

Table 4 shows the classification from a viewpoint of the SRO (self-regulated organisation) function. According to the Market Survey, each stock exchange in the region, except for Azerbaijan, works as a self-regulated organisation holding its own rules of the securities market. In Kazakhstan and Uzbekistan, some associations that consist of market participants such as fund management companies and registrars have their own rules as independent SROs.

**Table 4: SRO (self-regulated organisation) function**

SRO	No SRO	Independent SRO
<u>Kazakhstan</u> : KASE <u>Uzbekistan</u> : TSE <u>Kyrgyz Republic</u> : KSE <u>Tajikistan</u> : CSE <u>Mongolia</u> : MSE	<u>Azerbaijan</u> : BSE	<u>Kazakhstan</u> : - Association of Financiers - Association of Assets Managers - Kazakhstan Association of Registry Holders  <u>Uzbekistan</u> : - National Association of Investment Institution

(Source) OECD Market Survey 2004

## 5. Some Thoughts

To encourage the development of securities markets in study countries, it will be beneficial to consider strengths, weaknesses, opportunities and threats (SWOT) in respective markets. Table 5 shows the SWOT analysis of the targeted markets.

As for the strengths, as mentioned earlier, each country has a relatively well-organised market infrastructure such as a sophisticated electronic trading system and central depository system (except for Tajikistan). However, as weaknesses, stock market capitalisations in those countries are quite small in scale as compared to the advanced market countries (world top 5 stock exchanges such as NYSE, NASDAQ, TSE, LSE and Euronext) and market participants are also quite limited. There are few foreign investors and very small scale of listed companies. Short-term government bonds (REPO transactions in Kazakhstan) have dominated the securities markets in the region and the liquidity of corporate securities is quite low. The range of securities products is also narrow. The derivative markets in the region are underdeveloped.

As for the external environment, economic conditions in study countries have been gradually improved. GDP has been growing moderately with decreasing inflation rates but at different speeds country by country. There may be some market opportunities in the process of privatisation. The total population of over 63 million in this region can become potential investors. However, addressing the still remaining income gaps and high poverty rates in the region should be given high priority. Also, the remaining state-owned companies and the laws and regulations regarding excessive protection of domestic investors can be a barrier to development of the securities market in the region.

Taking these facts into consideration, the following three factors may be a key for the successful development of securities markets in study countries.

First, those countries need to consider the way to mobilise individual savings in order to create active secondary market of corporate securities. The appropriate government support measures (state policies, e.g., financial education for market participants) will be necessary in this context.

Second, making the best of institutional investors such as pension funds and privatisation investment funds (PIFs) will well contribute to enhancing the market liquidity and the trading volume.

Third, attracting foreign investors will also help to enhance the market capitalisation.

**Table 5: SWOT Analysis of the Central Asian markets**

	<b>Azerbaijan</b>	<b>Kazakhstan</b>	<b>Kyrgyz Rep.</b>
<b>Strengths</b>	<ul style="list-style-type: none"> <li>- Relatively advanced market infrastructure</li> <li>--Sophisticated electronic trading system (INIST system, but no remote trading)</li> <li>--Central depository system</li> </ul>	<ul style="list-style-type: none"> <li>- Relatively advanced market infrastructure</li> <li>--Sophisticated electronic trading system (Electronic Trading System of KASE)</li> <li>--Central depository system</li> </ul>	<ul style="list-style-type: none"> <li>- Partially advanced market infrastructure</li> <li>--Consolidated electronic trading system (BTS) exists, but there is no electronic trading system in KSE.</li> <li>--Central depository system</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>- Low level of market capitalisation</li> <li>- Still restricted market participants (little foreign investors) (small scale of listed companies)</li> <li>- Heavily depending on short-tem govt. bonds</li> <li>- Derivatives: very restricted</li> <li>- Low liquidity</li> </ul>	<ul style="list-style-type: none"> <li>- Low level of market capitalisation</li> <li>- Still restricted market participants (little foreign investors) (small scale of listed companies)</li> <li>- Heavily depending on short-tem govt. bonds &amp; REPO</li> <li>- Derivatives: very restricted</li> </ul>	<ul style="list-style-type: none"> <li>- Low level of market capitalisation</li> <li>- Restricted market participants (no foreign investors) (small scale of listed companies)</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>- Moderately growing economy</li> <li>- Privatisation scheme</li> <li>- Population: 8.3 m (2003)</li> </ul>	<ul style="list-style-type: none"> <li>- Moderately growing economy (booming oil revenues)</li> <li>- Privatisation scheme</li> <li>- Population: 14.8 m (2003)</li> </ul>	<ul style="list-style-type: none"> <li>- Moderately growing economy</li> <li>- Privatisation scheme</li> <li>- Population: 5.12 m (2003)</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>- Still remaining state-owned companies</li> <li>- Laws and regulations</li> <li>- Globalisation</li> </ul>	<ul style="list-style-type: none"> <li>- Still remaining state-owned companies</li> <li>- Laws and regulations</li> <li>- Globalisation</li> </ul>	<ul style="list-style-type: none"> <li>- Still remaining state-owned companies</li> <li>- Laws and regulations</li> <li>- Globalisation</li> </ul>
	<b>Mongolia</b>	<b>Tajikistan</b>	<b>Uzbekistan</b>
<b>Strengths</b>	<ul style="list-style-type: none"> <li>- Relatively advanced market infrastructure</li> <li>--Sophisticated electronic trading system (MSE Pure-Order Driven System)</li> <li>--Central depository system</li> </ul>	n/a,	<ul style="list-style-type: none"> <li>- Relatively advanced market infrastructure</li> <li>--Sophisticated electronic trading system</li> <li>--E-trading (OTC): Elsis-Savdo</li> <li>--Central depository system</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>- Low level of market capitalisation</li> <li>- Still restricted market participants (little foreign investors) (small scale of listed companies)</li> <li>- Depending on short-tem govt. bonds</li> <li>- Low liquidity</li> </ul>	<ul style="list-style-type: none"> <li>- Low level of market capitalisation</li> <li>- No securities trading in stock exchange (off exchange market)</li> <li>- Heavily depending on short-tem govt. bonds</li> <li>- Low liquidity</li> <li>- Low transparency</li> </ul>	<ul style="list-style-type: none"> <li>- Low level of market capitalisation</li> <li>- Still restricted market participants (little foreign investors) (small scale of listed companies)</li> <li>- Low liquidity (volatile by year)</li> <li>- Low transparency</li> <li>- Double land locked situation</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>- Moderately growing economy</li> <li>- Privatisation scheme</li> <li>- Population: 2.56 m (2002)</li> </ul>	<ul style="list-style-type: none"> <li>- Moderately growing economy</li> <li>- Population: 6.5 m (2003)</li> </ul>	<ul style="list-style-type: none"> <li>- Moderately growing economy</li> <li>- Privatisation scheme</li> <li>- Population: 25.8 m (2003)</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>- Still remaining state-owned companies</li> <li>- Laws and regulations</li> <li>- Globalisation</li> </ul>	<ul style="list-style-type: none"> <li>- State-owned companies (dominant status)</li> <li>- Laws and regulations</li> <li>- Globalisation</li> </ul>	<ul style="list-style-type: none"> <li>- Still remaining state-owned companies</li> <li>- Laws and regulations</li> <li>- Globalisation</li> </ul>

Besides, it will be crucial to improve corporate governance in order to build up investors' confidence to the securities markets in the region. In addition, making the best of the existing advantages such as the electronic trading technology may be effective for those countries to reach the high-yield markets. Hereby, a question comes out: *Is there the possibility of consolidation of stock exchanges in the Central Asian region?*

In this regard, the following two cases in advanced markets would be the good examples for the well-functioning trading schemes: (1) ASX-SGX Co-trading linkage and (2) the consolidated stock markets in Euronext.

### ***(1) Case 1: ASX-SGX Co-trading linkage***

Only one successful case of co-trading is ASX (the Australian Stock Exchange)-SGX (the Singapore Exchange Limited) linkage for the present. This electronic linkage allows investors in Australia and Singapore to co-trade the selected stocks (the most liquid and best-known stocks on each exchange<sup>1</sup>) in each other's market directly, through brokers in their own countries, whenever respective markets are open. The benefits of co-trading system will be to reduce transaction costs and to enhance service quality for investors (e.g., speedy dealings and diversified investment portfolios). This system is well received by investors from both markets. In fact, the number of stocks available for co-trading is currently over 100 stocks in respective markets in response to growing market demand. According to the ASX, "*The main feature is that it allows domestic investors to order purchases and sales of foreign listed stocks in almost the same environment as they deal with domestic stocks.*" This is the core concept of co-trading system. (see Figure 13)

### ***(2) Case 2: Euronext***

Euronext is the world-first cross-border exchange established by mergers of four exchanges (Amsterdam, Brussels, Paris and Lisbon), which provides comprehensive services for cash and derivative markets, from trading to clearing and settlement<sup>2</sup>. Its equity trading via electronic central order book recorded the largest volume in Europe, EUR 1,570 billion in 2002.

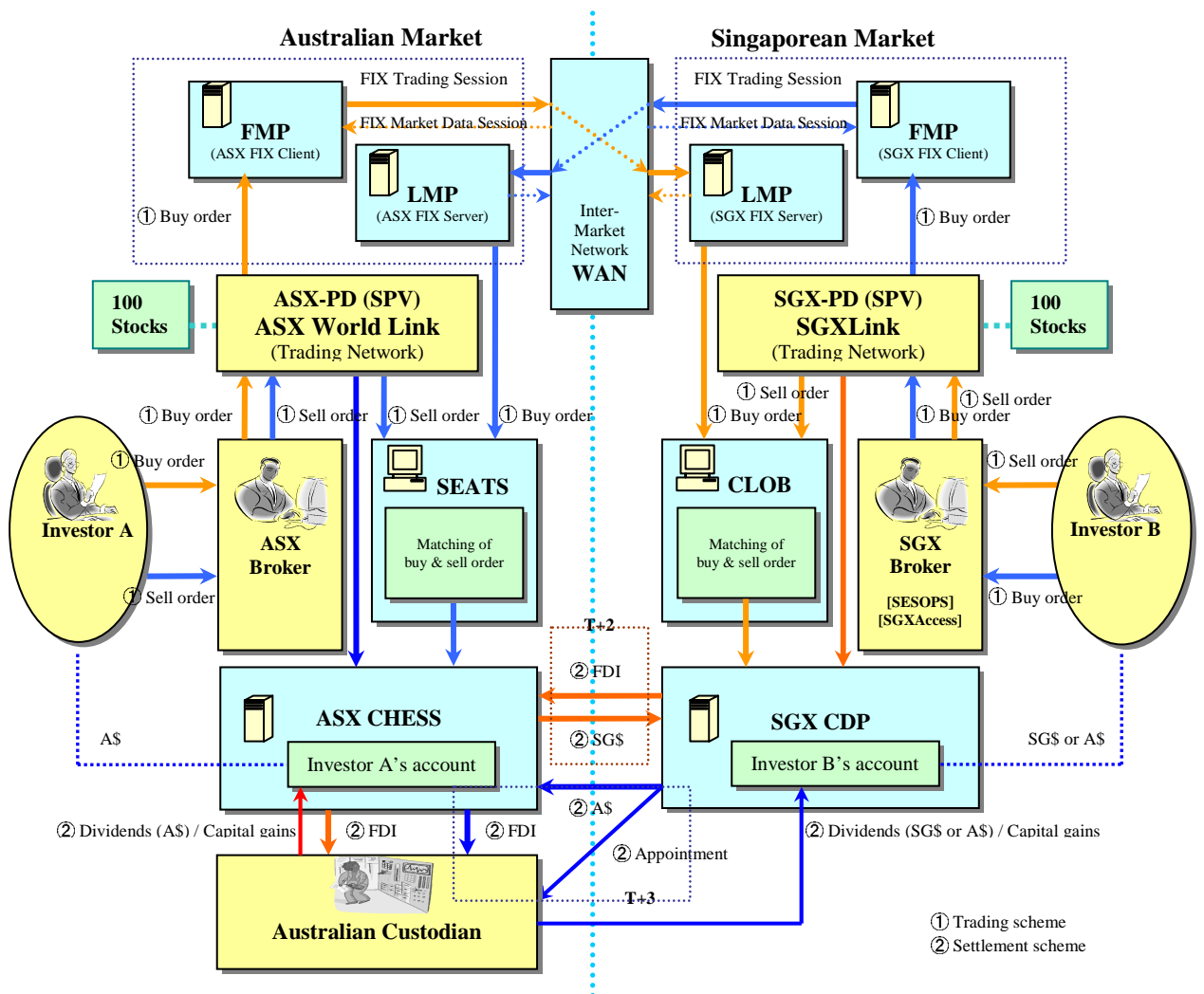
In cash markets, Euronext has traded all listed stocks via a single trading platform *NSC*, which is owned by the AtosEuronext<sup>3</sup> and fully automated platform that allows members either to route their customers' orders electronically or to enter orders manually from computers installed on their premises which are linked to the trading system in Euronext.

*NSC* has a central order book for each stock, matches buy and sell orders electronically, and then transmits trade reports to members in real-time. Currently, over 15 stock exchanges on 4 continents<sup>4</sup> have adopted this *NSC* system for cash and derivative e-trading<sup>5</sup>.

For clearing, Euronext has made use of a single electronic clearing platform *Clearing 21* under a single set of market rules (except for Lisbon; to be determined), which was developed by the Chicago Mercantile Exchange and the New York Mercantile Exchange and is operated by *Clearnet* in Europe. *Clearing 21* is the only tool that can clear both cash and derivative products in real time with a central guarantee. The settlement is currently done by each marketplace through *Euroclear* and *BXS-CIK* but, if the system is integrated, all transactions will be settled through *Euroclear* and *CRESTCo* (a UK-based organisation).

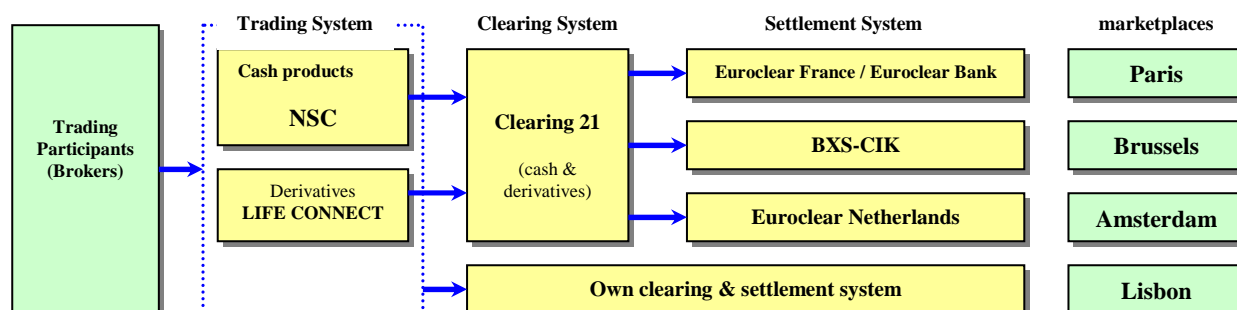
Currently, Euronext has signed cross-membership and cross-trading agreements with the Swiss Stock Exchange in 1999, the Luxembourg Stock Exchange in 2000, the Helsinki Stock Exchange in 2001 and the Warsaw Stock Exchange in 2002, which allows Euronext members to access and trade stocks listed on other exchanges, and vice-versa. (see Figure 14)

Figure 13: Co-trading and Settlement Scheme



- (Notes)
- |                       |  |
|-----------------------|--|
| <b>ASX World Link</b> | ASX Portal Dealer (ASX-PD) for international securities (Special Purpose Vehicle: SPV) |
| <b>SEATS</b>          | Stock Exchange Automated Trading System  |
| <b>CHES</b>           | Clearing House Electronic Subregister System   |
| <b>SGXLink</b>        | SGX Portal Dealer (SGX-PD) for multilateral cross-border trading (SPV)                 |
| <b>SESOPS</b>         | Singapore Exchange Securities Order Processing System (proprietary trading terminal)   |
| <b>SGXAccess</b>      | Securities trading platform  |
| <b>CLOB</b>           | The Central Limit Order Book (screen-based computerized trading system)                |
| <b>FMP</b>            | Foreign Market Proxy (outbound transaction)  |
| <b>LMP</b>            | Local Market Proxy (inbound transaction)   |
| <b>FIX</b>            | Financial information exchange messaging protocol                                      |
| <b>FDI</b>            | Foreign Depository Interest  |

**Figure 14: Trading, Clearing and Settlement Scheme in Euronext**



What are the benefits of a co-trading scheme between ASX and SGX and a cross trading scheme in Euronext? In this regard, three major points can be raised: 1) reducing the transaction costs (cost efficiency); 2) enhancing the service quality for investors (e.g., speedy dealings, diversified investment portfolios and customer-oriented services (because the co-trading system provides investors with the same environment as trading in domestic markets)); and 3) increasing order flows (i.e., increasing liquidity). Those benefits are all backed by the advanced technology.

## Conclusion

To sum up, securities markets in study countries are small in scale and still remain inactive as a whole. Corporate securities markets are in a very infant stage of the development. The best practice towards a well functioning securities market in the region will be to establish a mechanism to further mobilise individual savings to the market. To this end, financial education for market participants is indispensable, which responsibility is mainly in the government.

Taking account of the existing advantage in the Central Asian region, i.e., relatively sophisticated electronic trading technology in the region, the establishment of a cross access trading system such as the above-mentioned co-trading scheme among study countries (i.e., the consolidation of stock exchanges in the region) may be a key factor to vitalise the securities markets in the Central Asian countries, Azerbaijan and Mongolia, as a possibility.

## NOTES

- 1 Selection of co-traded stocks is based on criteria such as share price index, liquidity and market capitalisation.
- 2 Services for cash (equities and bonds) markets: Amsterdam, Brussels, Paris and Lisbon, and for derivative markets: UK (but operational level).
- 3 AtosEuronext is a 50/50 joint venture between Euronext and ATOS-Origin (European IT services company).
- 4 Chicago, Sao Paulo, Mexico, Toronto, Tunis, Singapore, etc.
- 5 In derivative markets, a single electronic trading platform *LIFE CONNECT* is used at Euronext.



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*Annex*  
**FINDINGS FROM THE MARKET SURVEY IN THE CENTRAL ASIAN COUNTRIES,  
AZERBAIJAN AND MONGOLIA**

**1. Market Structure**  
**(1) Basic Structure**

	Stock Exchange		SRO	Electronic Trading System	Clearing & Settlement Institution		Regulator / Supervisor	Independent SRO
	Legal form				Legal form			
<b>Kazakhstan</b>	Kazakhstan Stock Exchange (KASE)	JSC	Yes	Electronic Trading System of KASE  - Started from 1997	1. Central Securities Depository	JSC	1. Financial Supervision Authority	1. Association of Financiers
					2. Kazakhstan Interbank Settlement Center	RSC	2. Ministry of Finance	2. Association of Assets Managers
							3. National Bank of Kazakhstan	3. Kazakhstan Association of Registry Holders
<b>Uzbekistan</b>	Toshkent Republican Stock Exchange (TSE)	CJSC (state-owned)	Yes	EL SIS-SAVDO - CJSC (state-owned) - E-trading for small investors - Started from 2000	1. The State Central Securities Depository (UzSCSD): first level	CJSC (state-owned)	1. The Center for Coordination and Control of the Securities Market (CSM)  2. Ministry of Finance (Securities and Financial Markets Department)	National Association of Investment Institution - NGO
					2. Second tier depositories: 32	n/a,		
					3. "Elsis-Clearing" company	n/a,		
<b>Kyrgyz Republic</b>	1. Kyrgyz Stock Exchange (KSE)	CJSC	Yes	Stock Trade System (BTS)	1. Central Depository CJ	CJSC	1. State Commission on the Securities Market (SCSM)  2. Ministry of Finance - only for govt. securities market 3. National Bank - only for govt. securities market	n/a,
	2. Stock Trade System (BTS)	CJSC	No		2. Stock Trade System (BTS)	CJSC		
<b>Tajikistan</b>	Central Stock Exchange of Tajikistan (CSE) <sup>1</sup>	JSC	Yes	n/a,	n/a,	n/a,	Ministry of Finance (Securities and Foreign Investment Office)	n/a,
<b>Turkmenistan</b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Azerbaijan</b>	Baku Stock Exchange (BSE)	CJSC	No	INIST - Trading network provided by Russian company "INIST"	1. National Depository Center (NDC)	CJSC	State Committee for Securities (SCS)	n/a,
					2. Baku Stock Exchange (BSE)	CJSC		
					3. Partner Investment	Co. Ltd.		
<b>Mongolia</b>	Mongolian Stock Exchange (MSE)	JSC (state-owned)	Yes	MSE Pure-Order Driven System - Started from 1995	Securities Clearing House & Central Depository	LLC (state-owned)	Mongolian Securities & Exchange Commission	n/a,

(Note) CJSC: Closed Joint Stock Company, RSC: Republican State Company, LLC: Limited Liability Company, SRO: Self Regulated Organisation

<sup>1</sup> In Tajikistan, CSE was established in 1994 but there is no securities trading in CSE so far. Currently MOF has planned to transform CSE into the new Tajik Stock Exchange.

**(2) Number of Listed Companies at the end-of-year**

	1998	1999	2000	2001	2002	2003
<b>Kazakhstan (KASE)</b>	18	17	23	33	50	69
Domestic company	18	17	23	33	50	69
Foreign company	0	0	0	0	0	0
<b>Uzbekistan (TSE)</b>	2	2	5	6	6	6
Domestic company	2	2	5	6	6	6
Foreign company	0	0	0	0	0	0
<b>Kyrgyz Republic (KSE)</b>	50	62	68	24	22	18
Domestic company	50	62	67	24	22	18
Foreign company	0	0	1	0	0	0
<b>Tajikistan (CSE)<sup>1</sup></b>	5	10	15	20	25	30
Domestic company	5	10	15	20	25	30
Foreign company	0	0	0	0	0	0
<b>Turkmenistan</b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Azerbaijan (BSE)<sup>2</sup></b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Domestic company	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Foreign company	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Mongolia (MSE)</b>	430	418	410	400	403	402
Domestic company	430	418	410	400	403	402
Foreign company	0	0	0	0	0	0

**(3) Number of Intermediaries at the end-of-year**

	1998	1999	2000	2001	2002	2003
<b>Kazakhstan</b>						
Broker/dealer	73	58	51	51	50	56
Bank	28	26	25	23	23	29
Others	45	32	26	28	27	27
Fund management company <sup>3</sup>	8	7	7	8	9	10
Custodian	9	11	12	11	10	10
<b>Uzbekistan</b>						
Broker/dealer	163	139	114	90	92	107
Bank	4	5	2	3	4	6
Others	159	134	112	87	88	101
Fund management company	n/a,	n/a,	n/a,	n/a,	n/a,	39
Custodian	0	0	0	0	0	0
<b>Kyrgyz Republic</b>						
Broker/dealer <sup>4</sup>	29/13	30/16	25/16	23/20	21/20	17/16
Bank	n/a,	n/a,	n/a,	n/a,	n/a,	7
Others	n/a,	n/a,	n/a,	n/a,	n/a,	26
Fund management company	4	6	10	9	9	10
Custodian	0	0	0	0	0	0
<b>Tajikistan<sup>5</sup></b>						
Broker/dealer	0	0	0	0	0	0
Bank	0	0	0	0	0	0
Others	0	0	0	0	0	0
Fund management company	0	0	0	0	0	0
Custodian	0	0	0	0	0	0
<b>Turkmenistan</b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Azerbaijan</b>						
Broker/dealer	n/a,	n/a,	15	24	21	24
Bank	n/a,	n/a,	14	22	20	20
Others	n/a,	n/a,	1	2	1	4
Fund management company	n/a,	n/a,	0	0	0	0
Custodian	n/a,	n/a,	0	0	0	0

1 In Tajikistan, the data is based on the rating of their trading performance in the secondary market.

2 In Azerbaijan, BSE was established in 2000. No listed companies so far but pre-listed companies (251) are traded.

3 Pension Assets Management Company (PAMC)

4 Some companies work as a broker and a dealer simultaneously. Therefore, simply adding two figures may be duplicated.

5 The Decree of the Government of the Republic of Tajikistan has specified the provisions "on broker and dealer activity on the securities market" and "on the central depository". At present, the Specialised Registrar in the Ministry of Finance is responsible for the custody and technical services and for the registration of securities transactions and share transfers. No specialised intermediaries (brokers/dealers) have yet to be registered.

	1998	1999	2000	2001	2002	2003
<b>Mongolia</b>						
Broker/dealer	41	41	42	42	34	26
Bank	0	0	0	0	0	0
Others	41	41	42	42	34	26
Fund management company	15	16	16	16	2	1
Custodian	0	0	0	0	0	0

#### (4) Investors' Structure in 2003

(Unit: %)

	Domestic investors							Foreign investors	Total
	Individuals	Banks	Insurance company	Pension Fund	PIFs	Others			
<b>Kazakhstan<sup>1</sup></b>	n/a,	65.8	13.7	0.0	20.5	0.0	0.0	n/a,	100.0
<b>Uzbekistan</b>	77.3	6.8	9.3	0.1	n/a,	2.1	59.0	22.8	100.0
<b>Kyrgyz Republic<sup>2</sup></b>	100.0	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	0.0	100.0
<b>Tajikistan<sup>3</sup></b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	100.0
<b>Turkmenistan</b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	100.0
<b>Azerbaijan<sup>4</sup></b>	99.9	2.0	73.0	20.0	0.0	0.0	5.0	0.1	100.0
<b>Mongolia</b>	99.97	99.86	0.01	0.00	0.00	0.00	0.10	0.03	100.0

#### (5) Issuers' Structure in 2003

(Unit: %)

	Open Joint Stock Company			Closed Joint Stock Company			Total
		State-owned	Private		State-owned	Private	
<b>Kazakhstan</b>	100.0	0.0	100.0	0.0	0.0	0.0	100.0
<b>Uzbekistan</b>	90.2	66.9	23.3	9.8	0.9	8.8	100.0
<b>Kyrgyz Republic<sup>5</sup></b>	80.8	n/a,	n/a,	19.2	n/a,	n/a,	100.0
<b>Tajikistan<sup>6</sup></b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	100.0
<b>Turkmenistan</b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	100.0
<b>Azerbaijan</b>	0.0	0.0	0.0	100.0	0.0	100.0	100.0
<b>Mongolia</b>	100.0	83.1	16.9	0.0	0.0	0.0	100.0

## 2. Market Performance

### (1) Market Capitalisation at the end-of-year

(Unit: US\$ million, %)

	1998		1999		2000		2001		2002		2003	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
<b>Kazakhstan</b>	1834.9	8.2	2263.2	15.5	1342.3	7.5	1203.5	5.6	1341.0	5.6	2424.6	7.8
<b>Uzbekistan</b>	n/a,	2.1	n/a,	1.9	31.9	1.0	27.9	0.6	31.2	0.4	14.0	0.2
<b>Kyrgyz Republic<sup>7</sup></b>	9.1	0.8	3.9	0.4	3.8	0.3	4.7	0.3	23.2	1.4	30.7	1.7
<b>Tajikistan</b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Turkmenistan</b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Azerbaijan</b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	32.3	0.6	20.9	0.3	46.7	0.6
<b>Mongolia</b>	39.8	4.4	32.1	3.9	36.9	4.0	37.5	3.7	31.9	2.9	42.4	3.7

(Source) EBRD Transition Report 2003 and OECD research

1 Foreign Investors exist in Kazakhstan but no statistics. Only data for domestic investors is described.

2 There is no statistics. Domestic investors include 21 banks, 10 insurance companies, 1 pension fund and 5 PIFs. No foreign investors.

3 There is no statistics. Insurance companies and pension funds do not participate in the securities market.

4 There is no official data. Those figures are roughly estimated by BSE.

5 State-owned companies: less than 200; Private company: more than 1300

6 In Tajikistan, private joint stock companies accounted for 0.2% of the total.

7 Since 2002, the state-owned shares are included into the total amount of shares.

## (2) Trade Value and Volume

(Unit: US\$ million, million shares/lots)

	1998		1999		2000		2001		2002		2003	
	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume
<b>Kazakhstan</b>	1540.3	163.6	3545.2	555.5	5081.1	2226.0	10244.7	4669.3	24643.4	9265.5	33799.1	44480.0
Equity	26.2	3.7	25.8	7.9	71.0	32.7	147.4	72.1	341.6	69.4	421.1	993.2
Corporate bond	n/a,	n/a,	5.4	6.9	48.8	0.7	168.4	20.6	262.0	111.2	604.2	19417.1
Government bond	201.1	159.9	893.5	467.5	1164.0	1112.6	1536.3	990.2	1951.1	1470.3	2378.0	2006.6
REPO	n/a,	n/a,	434.4	73.2	1987.0	1080.0	5903.9	3586.4	18274.2	7614.6	21523.6	22063.1
Others	1313.0	n/a,	2186.1	n/a,	1810.3	n/a,	2488.7	n/a,	3814.5	n/a,	8872.2	n/a,
<b>Uzbekistan</b>	519.1	n/a,	603.1	n/a,	253.2	n/a,	146.3	n/a,	111.1	n/a,	116.1	n/a,
Equity	67.5	n/a,	88.3	n/a,	72.4	n/a,	61.9	n/a,	55.0	n/a,	54.9	n/a,
Corporate bond	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	n/a,	12.1	n/a,
Government bond <sup>1</sup>	451.6	n/a,	514.8	n/a,	180.9	n/a,	84.3	n/a,	54.5	n/a,	49.1	n/a,
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Kyrgyz Republic</b>	32.3	4.2	12.9	10.3	34.2	173.0	40.4	83.7	41.6	42.5	14.2	48.8
Equity <sup>2</sup>	1.6	4.2	5.4	10.3	22.6	173.0	17.8	83.7	21.9	42.4	10.9	48.8
Corporate bond	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.0	2.0	0.1	0.7	0.0
Government bond <sup>3</sup>	30.7	n/a,	7.5	n/a,	11.6	n/a,	21.5	n/a,	17.7	n/a,	2.6	n/a,
Others	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Tajikistan<sup>4</sup></b>	38.8	n/a,	173.6	n/a,	4.7	n/a,	75.9	n/a,	44.7	n/a,	65.7	n/a,
Equity	38.5	n/a,	172.6	n/a,	3.8	n/a,	5.7	n/a,	7.3	n/a,	5.4	n/a,
Corporate bond	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Government bond	0.3	n/a,	1.0	n/a,	0.9	n/a,	70.2	n/a,	37.4	n/a,	60.2	n/a,
Others	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Turkmenistan</b>	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Azerbaijan<sup>5</sup></b>	n/a,	n/a,	n/a,	n/a,	40.1	0.2	101.8	0.7	107.5	0.8	123.7	2.8
Equity	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	0.9	0.2	0.7	0.3	3.4	2.2
Corporate bond	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Government bond	n/a,	n/a,	n/a,	n/a,	39.6	0.2	100.2	0.5	105.9	0.5	109.9	0.5
Others	n/a,	n/a,	n/a,	n/a,	0.5	0.0	0.7	0.0	0.8	0.0	10.4	0.0
<b>Mongolia</b>	11.9	33.1	3.1	21.4	12.9	35.5	30.6	16.3	40.9	10.6	21.7	8.5
Equity	11.9	33.1	3.1	21.4	2.7	35.4	1.6	15.9	1.2	9.8	0.8	8.1
Corporate bond	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.1	2.6	0.3	2.3	0.2
Government bond	0.0	0.0	0.0	0.0	10.2	0.1	27.9	0.3	37.1	0.5	18.6	0.2
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Government bonds are circulated in Uzbek Republican Currency Exchange.

2 Since 1999, all trades with corporate securities have been conducted through KSE according to the requirements of the law. Therefore, the total value and volume of "Equity" include trades with both the listed companies' securities and the securities related to the unlisted financial institutions.

3 Value of government bonds issued. All trades with government bonds are conducted by the National Bank of Kyrgyz Republic.

4 Off-exchange market. No corporate bonds and others (not issued). Exchange rates (TJS/a US\$): 0.8(1998); 1.2(1999); 1.8(2000); 2.4(2001); 2.8(2002); 3.1(2003) \* EBRD Transition Report 2003 (1998-2002) & Economist Intelligence Unit (2003)

5 In Azerbaijan (BSE), trading of corporate bonds started from January 2004.

### (3) Major Products

	Equity	Corporate Bond	Government Bond	Derivatives	Others
<b>Kazakhstan</b>	- Common stock (A-, B-listing, OTC) - Preferred stock - State Block of Shares (SBS)	- Corporate bond - IFO bond	- Municipal bond - T-bond (MAOKO) - Short-term T-bill (MEKKAM) - Mid-term T-bill (MEOKAM) - Long-term T-bill (MEAKAM) - Indexed T-bill (MEIKAM) -Eurobond	- Undelivered 6 month futures on the rate USD/KZT and EURO/USD	- REPO - Promissory Note - Foreign Exchange
<b>Uzbekistan<sup>1</sup></b>	- Common and preferred stock, traded freely both for UZC and USD	- Corporate bond, traded freely. (3-, 6-, 9-month & 1.5 year)	- State short-term bond (6-, 9-, 12-month) - State mid-term bond (1.5 year & 5-year)	n/a,	n/a,
<b>Kyrgyz Republic</b>	- Common stock - Preferred stock	- Short-term bond - Long-term bond (1 to 3 years)	- Short-term T-bill (3-, 6-, 9-month) - Long-term T-bill (5 to 15 years)	n/a,	n/a,
<b>Tajikistan</b>	- Shares in state-owned and private companies - Registered and bearer common and preferred stock	n/a,	- T-bill (up to 1 year) - Financial Ministry bond (2 issues; 20-year) - National Bank bond (short-term)	n/a,	n/a,
<b>Turkmenistan</b>	n/a,	n/a,	n/a,	n/a,	n/a,
<b>Azerbaijan</b>	- Common stock - Preferred stock	- Short-term bond (3-, 6-month) - Long-term bond (up to 5 years)	- Short-term T-bill (3-, 6-, 9-month)	- Futures (only in 2001)	- REPO on T-bill - Promissory Note - Privatisation checks - Privatisation options
<b>Mongolia</b>	- Common stock	- Short-term bond (6-month, 1 year)	- Short-term T-bond (14 days) - Mid-term T-bill (3 years)	n/a,	n/a,

<sup>1</sup> State short-term bonds are traded on the Currency Exchange from 1996. State mid-term bonds are to be issued from April 2004.

#### (4) Primary and Secondary Market Turnover

(Unit: US\$ million)

	1998		1999		2000		2001		2002		2003	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
<b>Kazakhstan</b>	n/a.	227.3	7.0	917.7	23.3	1260.4	85.1	1767.1	54.7	2500.0	127.6	3275.5
Equity	n/a.	26.2	n/a.	25.8	0.0	70.9	0.7	146.3	16.1	325.5	7.6	413.4
Corporate bond	n/a.	n/a.	n/a.	5.4	18.8	30.0	46.1	122.6	17.2	244.8	88.7	515.4
Government bond	n/a.	201.1	7.0	886.5	4.5	1159.5	38.3	1498.2	21.4	1929.7	31.3	2346.7
<b>Uzbekistan<sup>1</sup></b>	210.5	273.5	255.4	286.9	74.3	122.9	35.7	60.6	38.0	60.8	89.5	62.8
Equity	29.9	2.5	23.8	3.7	14.4	1.9	10.4	1.6	16.8	25.1	55.4	21.4
Corporate bond	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.7	12.1	7.0
Government bond	180.6	271.0	231.6	283.2	59.9	121.0	25.3	59.0	20.5	34.0	22.0	34.4
<b>Kyrgyz Republic<sup>2</sup></b>	0.0	14.6	4.2	15.4	19.3	7.0	11.1	12.9	7.5	25.7	3.6	20.4
Equity	0.0	1.6	4.2	1.2	19.3	3.2	10.2	7.5	5.7	16.2	3.4	7.5
Corporate bond	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.2	1.8	0.2	0.2	0.4
Government bond	n/a.	13.0	n/a.	14.2	n/a.	3.8	n/a.	5.2	n/a.	9.3	n/a.	12.5
<b>Tajikistan<sup>3</sup></b>	38.8	0.0	173.7	0.0	4.7	0.0	75.9	0.6	44.8	0.0	65.7	0.0
Equity	38.5	0.0	172.7	0.0	3.8	0.0	5.7	0.6	7.4	0.0	5.4	0.0
Corporate bond	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.
Government bond	0.3	0.0	1.0	0.0	0.9	0.0	70.2	0.0	37.4	0.0	60.2	0.0
<b>Turkmenistan</b>	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.
<b>Azerbaijan<sup>4</sup></b>	n/a.	n/a.	n/a.	n/a.	111.8	0.0	330.1	32.3	372.4	22.8	223.9	52.8
Equity	n/a.	n/a.	n/a.	n/a.	60.7	0.0	152.1	32.3	251.0	20.9	44.7	46.7
Corporate bond	n/a.	n/a.	n/a.	n/a.	0.0	n/a.	1.5	n/a.	2.5	n/a.	3.2	n/a.
Government bond	n/a.	n/a.	n/a.	n/a.	51.1	0.0	176.5	0.01	118.9	1.9	176.0	6.1
<b>Mongolia</b>	0.0	11.9	0.0	3.1	10.1	2.7	29.0	1.7	39.7	1.2	20.9	1.0
Equity	0.0	11.9	0.0	3.1	0.0	2.7	0.0	1.6	0.0	1.2	0.0	0.8
Corporate bond	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.1	2.6	0.0	2.3	0.2
Government bond	0.0	0.0	0.0	0.0	10.1	0.0	27.9	0.0	37.1	0.0	18.6	0.0

#### (5) Stock Price Movement (end-of-year)

	Name of index	1998	1999	2000	2001	2002	2003	Base-date (=100)
<b>Kazakhstan</b>	KASE Shares	n/a.	n/a.	106.0	104.5	140.2	142.4	12 July 2000
<b>Uzbekistan</b>	TASIX <sup>5</sup>	88.3	78.6	85.1	114.2	136.2	131.9	1 January 2000
<b>Kyrgyz Republic</b>	KSE Index	122.0	84.6	70.1	56.8	59.6	68.8	November 1996
<b>Tajikistan</b>	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.
<b>Turkmenistan</b>	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.
<b>Azerbaijan</b>	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.
<b>Mongolia</b>	TOP-20 <sup>6</sup>	235.0	255.7	469.9	814.0	933.9	895.9	28 August 1995

#### (6) Electronic Trading Value and Volume

(Unit: US\$ thousand, thousand shares)

	1998		1999		2000		2001		2002		2003	
	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume
<b>Kazakhstan</b>												
Electronic Trading System of KASE <sup>7</sup>	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.
<b>Uzbekistan</b>												
ELDIS-SAVDO	n/a.	n/a.	n/a.	n/a.	1853.5	12933	1977.9	5508	575.2	1444	n/a.	n/a.
<b>Kyrgyz Republic</b>												
BTS	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.
<b>Tajikistan</b>												
(no e-trading)	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.
<b>Turkmenistan</b>	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.
<b>Azerbaijan</b>												
INIST	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.	n/a.
<b>Mongolia</b>												
MSE Pure-Order Driven System <sup>8</sup>	11924.6	33073.2	3053.3	21446.7	12858.2	35531.4	30560.6	16340.7	40907.4	10620.4	21708.7	8540.9

1 In Uzbekistan, OTC trading is included in "Equity". OTC trading in 2003: 35.2 out of 55.4 (primary); 8.6 out of 21.4 (secondary)

2 There are both primary and secondary markets in government bond (conducted by the National Bank). No available information for govt. bonds.

3 Off-exchange market.

4 In Azerbaijan, OTC trading is included in "Equity".

5 TASIX: Tashkent Aggregate Securities Index. TASIX in 1998 and 1999 is recalculated based on 1 January 2000.

6 In Mongolia, price index was named as TOP-75 between year1995 and year2002.

7 Over 90% of trades are conducted via computers outside of KASE.

8 All trades are conducted via MSE Pure-Order Driven System.

### 3. Regulations and Supervision

#### (1) Regulations

		Title	Enacted Date	Enforced Date	Publicly Disclosed	Notes
Kazakhstan	Laws	1. Law on State Regulation and Supervision of Financial Market and Financial Organisations	04.07.2003	01.01.2004	10.07.2003	
		2. Joint-Stock Companies Act	13.05.2003	13.05.2003	16.05.2003	
		3. Securities Market Act	02.07.2003	02.07.2003	10.07.2003	
	Regulations	n/a,	n/a,	n/a,	n/a,	
Uzbekistan	Laws	1. On de-etatisation and privatisation	19.11.1991	19.11.1991	19.11.1991	
		2. On securities and stock exchange	02.09.1993	02.09.1993	02.09.1993	
		3. On mechanism of functioning of securities market	25.04.1996	25.04.1996	25.04.1996	
		4. On joint stock companies and protection of shareholder rights	26.04.1996	26.04.1996	26.04.1996	
		5. On depository activities securities market	29.08.1998	29.08.1998	29.08.1998	
		6. On exchanges and exchange activities	29.08.2001	29.08.2001	29.08.2001	
		7. On protection of investor rights on securities market	30.08.2001	30.08.2001	30.08.2001	
		8. On foreign exchange relation	11.12.2003	11.12.2003	11.12.2003	
	Regulations	1. On measures to speed up privatisation of state enterprises and develop securities market	12.06.1995	12.06.1995	12.06.1995	№UP-1164
		2. On additional measures to develop securities market	07.09.1995	07.09.1995	07.09.1995	№UP-1270
		3. On creation of the Center for coordination and control over function of securities market under the State Property Committee of the Republic of Uzbekistan	26.03.1996	26.03.1996	26.03.1996	№UP-1414
		4. On measures for further development of equity market and support of corporations, created on the basic of state property	04.03.1998	04.03.1998	04.03.1998	№UP-1939
		5. On measures for cardinal improvement of the share and of private sector in the economy of the Uzbekistan And other regulations	24.01.2003	24.01.2003	24.01.2003	№UP-3202
Kyrgyz Republic	Laws	1. The Law of the Kyrgyz Republic "On joint stock companies"	27.03.2003	08.04.2003	08.04.2003	
		2. The Law of the Kyrgyz Republic "On the securities market"	24.06.1998	21.07.1998	21.07.1998	
		3. The Law of the Kyrgyz Republic "On the investment funds"	20.02.2003	26.04.2003	26.04.2003	
	Regulations	1. Activity on maintaining a Security Holder Registry	n/a,	n/a,	n/a,	
		2. Activities and Organization of Trading in the Securities Market	n/a,	n/a,	n/a,	
		3. KSE Stock Exchange Trading Rules (Stock Exchange Charter)	15.08.2003	22.09.2003	Yes	
		4. KSE Rules of Securities Listing and Delisting	31.07.2003	01.09.2003	Yes	
		5. Others				
Tajikistan	Laws	1. Law of the Republic of Tajikistan "on joint-stock companies"	23.12.1991	23.12.1991	23.12.1991	No.337 Amended in 1996 & 1997
		2. Law on "securities and stock exchanges"	10.03.1992	10.03.1992	10.03.1992	
		3. Law on "foreign investment in the Republic of Tajikistan"	1991	1991	1991	
	Regulations	(Acts of the Ministry of Finance)				
		1. On licensing of professional activity related to securities and stock exchanges	20.04.1993	20.04.1993	20.04.1993	No.9/1-2
	2. On registration of prospectuses for the issue of securities	12.02.2004	12.02.2004	12.02.2004	No.1-CB	
	3. On reporting the results of securities issues	02.02.2004	02.02.2004	02.02.2004	No.2-CB	
Turkmenistan	Law/Reg.	n/a,	n/a,	n/a,	n/a,	
Azerbaijan	Laws	1. The Civil Code of the Republic of Azerbaijan	28.12.1999	25.08.2000	Yes	№779 The Law on Joint-Stock Companies and the Law on Securities were replaced with the Civil Code on 23.12.03.
		2. The Law of Azerbaijan Republic "On investment funds"	05.01.2000 №245	30.11.1999 №766-1Q	Yes	
		3. The Law of Azerbaijan Republic "On Protection of investors' rights on the securities market"	16.06.2000 №899-IQ	21.10.2000 №407	Yes	



		Title	Enacted Date	Enforced Date	Publicly Disclosed	Notes
Regulations		1.The regulation about issue and registration of the emission securities in Azerbaijan Republic	04.11.1999 №59	04.11.1999 №59	Yes	
		2.The rules of state registration of pawn operations	03.01.2000 №001	03.01.2000 №001	Yes	
		3. The rules of issuing, circulating and redemption of state privatization options	17.01.2000 №010	17.01.2000 №010	Yes	
		4.The rules of participation of the foreign physical and juridical persons on the securities market of Azerbaijan Republic	09.02.2000 №026	09.02.2000 №026	Yes	
		5. The standards of depository activity	10.02.2000 №028	10.02.2000 №028	Yes	
		6. The standards of conducting the register of securities owners	10.02.2000 №28	10.02.2000 №28	Yes	
		7. The regulation about deposit certificates of credit institutions	13.02.2000 №029	13.02.2000 №029	Yes	
		8. The rules of activity of self-regulating organizations on securities market	22.03.2000 №044	22.03.2000 №044	Yes	
		9. The standards of insurance on the securities market of Azerbaijan Republic	24.03.2000 №045	24.03.2000 №045	Yes	
		10. The rules of advertisement on the securities market	10.05.2000 №065	10.05.2000 №065	Yes	
		11. The regulation on organizing and activity of stock exchanges in Azerbaijan Republic and on requirements to stock exchange rules	18.05.2000 №068	18.05.2000 №068	Yes	
		12. Rules of issue and circulation of corporative bonds on the territory of Republic of Azerbaijan	26.05.2000 №072	26.05.2000 №072	Yes	
		13. The regulation on issue, accommodation and circulation of state short-term bonds	28.08.2000 №139	28.08.2000 №139	Yes	
		14. The rules of determination of the mutual obligations (clearing)	29.08.2000 №140	29.08.2000 №140	Yes	
		15. The rules of circulation of foreign emitents' securities in Republic of Azerbaijan	06.09.2000 №155	06.09.2000 №155	Yes	
		16. The rules of issue and circulation of the treasury bills	19.09.2000 №159	19.09.2000 №159	Yes	
		17. The rules of issue, registration and circulation of shares of joint-stock companies, created after transformation from state enterprises	29.09.2000 №167	29.09.2000 №167	Yes	
		18. The rules of elimination the offences and protection of the investors' rights on the securities market of Republic of Azerbaijan	22.11.2000 №189	22.11.2000 №189	Yes	
		19. The rules of circulation of futures in Azerbaijan Republic	08.01.2000 №007	08.01.2000 №007	Yes	
		20. Temporary rules of REPO/BACK-REPO operations with state short-term bonds of the National Bank of Republic of Azerbaijan	07.02.2001 №020	07.02.2001 №020	Yes	
		21. The rules of issue, accommodation and circulation of short-term notes of the National Bank of Azerbaijan Republic	04.06.2001 №49	04.06.2001 №49	Yes	
		22. The regulation about pawn security	17.01.2002 №013	17.01.2002 №013	Yes	
		23. The Regulation about rules of conclusion of buy-sell deals with securities	26.07.2002 №114	26.07.2002 №114	Yes	
		24. Standards of investment securities' emission during the transformation of commercial organizations	06.11.2002 №180	06.11.2002 №180	Yes	
		25. The rules of issue of the speciality certificates' for professional activity on the securities' market	27.11.2002 №190	27.11.2002 №190	Yes	
		26. Regulations on implementation of the broker activity	04.08.2003 №179	04.08.2003 №179	Yes	
		27. Regulations on implementation of the dealer activity	12.08.2003 №189	12.08.2003 №189	Yes	
		28. Regulations on presenting of accountancy by the professional participants of the securities market	30.12.2003 №267	30.12.2003 №267	Yes	
		29. Regulations on maintains of the measures by the professional participants of the securities market in an effort of prevention of dirty money laundry and financing of terrorism in the securities market	09.03.2004 №035	09.03.2004 №035	Yes	
Mongolia	Laws	1. Securities and Exchange law	12.12.2002	01.07.2003	27.12.2002	
		2. Company law	02.07.1999	12.07.1999	12.07.1999	
	Regulations	1. Securities trading rule	27.11.2003	28.11.2003	28.11.2003	Revised
		2. Listing rule	27.11.2003	28.11.2003	28.11.2003	Revised
		3. Membership regulation	27.11.2003	28.11.2003	28.11.2003	Revised
		4. Market Surveillance	27.11.2003	28.11.2003	28.11.2003	Revised

## (2) Supervision

		Frequency (annual)	Number of Illegal Transactions	Methods
<b>Kazakhstan</b>	On-site inspection	n/a,	0	n/a,
	Off-site inspection	n/a,	0	n/a,
<b>Uzbekistan</b>	On-/Off-site inspection	(2001) 916	5056	Financial and other statements examination, on-site inspections, data comparison
		(2002) 765	5404	
		(2003) 492	3754	
<b>Kyrgyz Republic</b>	On-site inspection	apx. 350	n/a,	Inspection of stock companies and securities market professional participants
	Off-site inspection	apx. 1500	n/a,	Monitoring and revealing reports from stock companies and securities market professional participants
<b>Tajikistan</b>	On-site inspection	0	0	There is no on-site or off-site inspection so far under the existing laws.
	Off-site inspection	0	0	
<b>Turkmenistan</b>	On-/Off-site inspection	n/a,	n/a,	n/a,
<b>Azerbaijan</b>	On-site inspection	251 during 2002/2003	n/a,	The Ascertainment of the violations based on applications of the investors (shareholders), execution of the administrative sanctions and disciplines. According the Law on securities of Republic of Azerbaijan and Administrative Code.
	Off-site inspection	4	n/a,	According the Law on securities of Republic of Azerbaijan and Administrative Code.
<b>Mongolia</b>	On-site inspection	n/a,	n/a,	n/a,
	Off-site inspection	n/a,	n/a,	n/a,

### DATA CONTRIBUTORS

<b>Kazakhstan</b>	Kazakhstan Stock Exchange
<b>Uzbekistan</b>	Ministry of Finance of the Republic of Uzbekistan
	The Center for Coordination and Control of the Securities Market
<b>Kyrgyz Republic</b>	Securities Commission of Kyrgyz Republic
	Kyrgyz Stock Exchange
	Ministry of Finance
<b>Tajikistan</b>	Securities and Foreign Investment Office, Ministry of Finance of the Republic of Tajikistan
<b>Azerbaijan</b>	State Committee for Securities
	National Depository Center
	Baku Stock Exchange
<b>Mongolia</b>	Mongolian Stock Exchange
	Mongolian Securities and Exchange Commission

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