

2nd CAREC Capital Market Regulators' Forum

31 October—1 November 2023

Almaty, Kazakhstan

Summary Brochure



Central Asia Regional Economic Cooperation Program



Asian Development Bank



The Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market



Kazakhstan Stock Exchange



Kazakhstan Central Securities Depository

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Executive Summary

The Second Central Asia Regional Economic Cooperation (CAREC) Capital Market Regulators' Forum (CMRF) was held in Almaty, Kazakhstan, on 31 October – 1 November 2023.

Jointly organized by the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market, the Asian Development Bank, Kazakhstan Stock Exchange, and Kazakhstan Central Securities Depository, the event brought together key CAREC policymakers to discuss the proposed CMRF Roadmap, lessons from the Asian Bond Markets Initiative, innovations in capital market infrastructure for effective regional cooperation, and the role of capital markets in climate finance.

The Forum concluded with the announcement of regularization of CMRF, and its renaming as the CAREC Capital Market Development Forum (CMDF).

Opening Speeches

“Hosting an event of this level demonstrates how important strengthening regional cooperation is today, in order to develop cross-border capital markets, expand access to finance, and support private sector development in the CAREC region.” said Ms. Madina Abylkassymova, Chairperson of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market. “Our Forum can become an effective platform for increasing competence in matters of cross-border capital flows.”



“The capital markets place a critical role in economic development by pooling the domestic savings and mobilizing foreign capital for productive long-term investment. Deeper and more efficient capital markets are therefore very crucial to mobilize domestic savings, complementing the traditional bank lending.” said Ms. Xiaohong Yang, Deputy Director General of the Central and West Asia Department, Asian Development Bank.

SESSION

1

CAREC Capital Market Landscape and the Proposed Roadmap

Mr. Ying Qian, ADB Consultant, presented the CAREC Capital Market Landscape Study which is a stocktake of CAREC members' economic development trends, financial sector issues, and capital market issues. The SWOT analysis finds opportunities for regional cooperation as well as opportunities for capital markets to contribute to green and sustainable recovery in the region.

Building on the CAREC Capital Market Landscape Study as well as lessons in capital market development and regional cooperation in capital market development in other regions, Mr. Noritaka Akamatsu, ADB Consultant, presented the proposed outline of the Roadmap for CMRF. Mr. Akamatsu raised points for consideration and decision by CAREC members for CMRF's design and focus, taking also into account CMRF's alignment with the CAREC 2030 Strategy, including its institutional framework and protocol for implementation.

Mr. Muhammad Asif Jalai Bhatti, Executive Director of the Securities and Exchange Commission of Pakistan, revisited the topics and outcomes of the first CMRF, and suggested areas for consideration for CMRF's way forward. The key issues in Pakistan's capital markets were also discussed.

Ms. Mariya Khajiyeva, Deputy Chairperson of Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market, highlighted the developments and achievements of Kazakhstan's capital markets – encompassing its growth, and legal and regulatory changes – and their alignment within the framework of the CAREC 2030 Strategy. She also acknowledged CMRF as the platform for CAREC to support the needs of the national regulators in terms of policy development and common practices, in consistency with international standards including of IOSCO, as well as to help establish a common framework to facilitate cross-border transactions.



Open Discussion Take-aways

- CAREC members agreed on the need to regularize and formalize the CAREC Capital Markets Regulators' Forum (CMRF). Details on the frequency of the Forum meeting, governance structure, agenda, and ADB's role whether as a leader or conveyor of CMRF are yet to be decided.
- Majority of the CAREC members agreed to rename the Capital Market Regulators' Forum (CMRF) to Capital Market Development Forum (CMDF).
- CAREC members support the revision of the Roadmap.



1. Mr. Ying Qian, Former Director of ADB, Consultant, ADB
2. Mr. Noritaka Akamatsu, Former Senior Advisor of ADB, Consultant, ADB
3. Mr. Muhammad Asif Jalal Bhatti, Executive Director of the Securities and Exchange Commission of Pakistan
4. Ms. Mariya Khajiyeva, Deputy Chairperson of Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market
5. Open discussion moderated by Ms. Lyaziza Sabyrova, Regional Head, Regional Cooperation and Integration Unit, Central and West Asia Department, ADB

SESSION 2

Lessons from the Asian Bond Markets Initiative (ABMI) - Regional Cooperation Initiative for Capital Markets Development

The Asian Bond Markets Initiative (ABMI) was launched in 2003 by the ASEAN+3¹ governments to develop local currency bond markets and address the issues that caused the Asian Financial Crisis. An example of regional cooperation for capital market development and integration, ABMI's various activities address issues encompassing supply-side, demand-side, legal and regulatory framework, and financial market infrastructure. This includes the Credit Guarantee and Investment Facility, and the ASEAN+3 Bond Market Forum (ABMF) which is a platform that brings the public and private sector together.

The Credit Guarantee and Investment Facility (CGIF) is an initiative under ASEAN+3's ABMI and is funded by the ASEAN+3 governments and ADB. It provides credit guarantee to help ASEAN+3/ ASEAN's corporate bond market development. It also enables cross-border bond issuances and investments as the unfamiliarity of the issuer in the foreign market as well as sovereign credit ceilings can be overcome with a CGIF guarantee. A similar facility or arrangement in CAREC can potentially support cross-border investments by sovereign wealth funds within the region.

¹ASEAN+3 consists of the Association of Southeast Asian Nations (ASEAN) member states (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam) plus the People's Republic of China, Japan, and the Republic of Korea.



Discussion Take-aways

- High net-worth individuals (HNWIs), as part of the professional investor base, can play an important role although specific design to include HNWIs as professional investor depends on the country's context.
- Favorable regulatory treatment of CGIF-guaranteed bonds is a work in progress.
- While Azerbaijan's capital market remains bond-dominated, mainly government bonds, it is putting in place all the necessary legal frameworks as well as market infrastructure to support its capital market development, including those for the corporate bond market and the equity market.
- The Mongolian corporate bond market is developing rapidly since the establishment of the OTC market. Three key issues remain for its capital market development, however: the lack of institutional investors, the need to increase the number of securities including the resumption of the government securities market, and the facilitation of green and other thematic bond issuances.



1. Mr. Satoru Yamadera, Advisor, Economic Research and Development Impact Department, ADB, delivered his presentation on ABMI via online
2. Mr. Dong-Woo Rhee, Chief Finance Officer, Credit Guarantee and Investment Facility
3. Ms. Umeyra Ibrahimova, Head of Capital Market Policy and Supervision Department, Central Bank of Azerbaijan
4. Ms. Javkhlan Ivanov, Chief Operations Officer, Mongolian Stock Exchange



SESSION

3

Innovations in Capital Markets Infrastructure for Effective Regional Cooperation

Fintech has the potential to change financial intermediation substantially, disrupting it with new business models empowered by technologies including intelligent algorithms, blockchain, big data, cloud computing, and artificial intelligence. Cloud computing and the process of service externalization are universal trends that underpin all aspects of innovations. Fintech applications can benefit CAREC by complementing the region's bank-based system with both deeper capital markets, and more cross-border financial integration promising benefits.

Commodity risk management has gained renewed interest after the COVID pandemic. It is relevant to the CAREC region as many CAREC member countries have high commodity exports concentration and are vulnerable to boom-bust cycles. Commodity risk management allows producers/exporters a natural hedging position and to manage price exposures more efficiently.

Kazakhstan shared their experiences on tokenization of securities. The main benefits of tokenization of securities include high level of data storage security due to a distributed ledger data storage system, elimination of additional intermediaries throughout the entire process of issuing and circulating tokenized securities which will lower cost, enable the high level of automation, increase the speed of settlement and transaction, realize the expansion of investor base, and increase in information transparency.





1. The panel table, with Mr. Aidyn Dauletbak, Director of the Securities Market Department, Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market (fourth from left), as Moderator.
2. Mr. Giorgi Kvirikashvili, Former Prime Minister of Georgia, Consultant, ADB
3. Mr. Ying Qian, Former Director of ADB, Consultant, ADB
4. Mr. Idel Sabitov, Deputy Chairman of the Management Board, KASE Clearing Center
5. Mr. Davron Maksudov, Deputy Director of the National Agency for Promising Projects of the Republic of Uzbekistan



Discussion Take-Aways

- Advancements in technologies need to be accompanied by enhanced legal framework for data usage, robust compliance and regulatory reporting, network effect leveraging application programming interface (API) and distributed ledger technologies (DLT), evolving data standards to leverage big data and machine learning techniques, and partnership between institutions, fintech and regulators.
- Primary commodity producing and exporting CAREC member countries can consider local currency denominated or USD denominated commodity-linked bonds linked to their major export commodities such as oil, copper and coal, etc. Commodity-linked bonds offer natural hedging opportunities and smooth out boom-bust cycles. The enhanced credit rating of these bonds addresses the major concern of investors in the region.

SESSION 4

Role of Capital Markets in Climate Finance for Sustainable Development

The panelists in this session discussed CAREC member countries' policies towards promoting climate finance for sustainable development, issues, and challenges in creating enabling environment, regulatory framework, market infrastructure and incentive system for public and private institutions. The panelists also explored potential new avenues for collaboration among CAREC member countries.

The panelists noted that the capital markets can play a significant role in supporting the green and low carbon transition of the economy by guiding economic green transition through comprehensive information disclosure, supporting the technological innovation of green industries, and mobilizing capital from across the society to promote green transition.

The People's Republic of China has made advances in promotion of green investment. The total issuance of green bonds has reached 646.6 billion yuan. Pakistan issued green bonds in 2021. However, due to low investor base, loose enforcement mechanism, lack of awareness, and natural disasters, the promotion and progress in green finance has been limited.

Discussion Take-Away

- The session concluded that gradually the corporates will understand the importance of sustainable disclosure, and regional cooperation in sharing the experiences, highlighting the challenges, and learning from each other.



1. Mr. Fagen Zhu, Division Director, Division of International Organizations, Department of International Affairs, China Securities Regulatory Commission, People's Republic of China
2. Ms. Ainura Murzataeva, Deputy Chairman Head of the State Service of Regulation and Supervision of the Financial Market, Ministry of Economy and Commerce, Kyrgyz Republic
3. Mr. Syed Muhammad Zuhair Jafar, Section Officer, Investment Wing, Ministry of Finance, Pakistan
4. Ms. Aysoltan Durdyeva, Deputy Head of Department for Licensing and Control over Licensing Activities of Turkmenistan, Ministry of Finance and Economy, Turkmenistan

Way Forward and Closing Session

Mr. Nariman Mannapbekov, Country Director, ADB Kazakhstan Resident Mission summarized and provided the following key take-aways from the Forum:

- to regularize and formalize the Forum with changed title, Capital Market Development Forum (CMDf).
- to ensure the effective functioning of CMDf as a capital markets development platform in the region, the ADB will need to continue its support of CMDf.
- to have a structured and formalized governance for CMDf. These may include a need to create either working groups and/or a steering committee.
- to request the ADB Team to suggest possible initiatives for CMDf to consider implementing.



Participants expressed their interest to learn more about other similar platforms such as the Asian Bond Markets Initiative (ABMI) and Credit Guarantee and Investment Facility (CGIF), especially the lessons learned from their members.

Participants have requested ADB and ADB Team will revise the Roadmap, in consultation with the members. This Roadmap will lay out the proposed governance structure of CMDf, new regional cooperation initiatives in capital markets, and pipeline projects.



Ms. Mariya Khajiyeva, Deputy Chairperson of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market, delivered the Closing Remarks for the Forum.

“...Today, we had a unique opportunity to discuss with all the participants the prospects of the CAREC capital market and the proposed Roadmap for the regulators of the capital market. Every one of us learned something new, something useful to continue developing our markets.”



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About the Central Asia Regional Economic Cooperation Program

The CAREC Program is a partnership of 11 countries—Afghanistan, Azerbaijan, the People's Republic of China, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan—to promote economic growth and development through regional cooperation and supported by development partners. ADB hosts the CAREC Secretariat at its headquarters in Manila.



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