List of questions for the attention of Mr Kairat Kelimbetov,

**the Governor of Astana International Financial Centre**

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| *Almaty: EBRD Office, 41 Kazybek Bi street,*  *3 entrance, 3 floor, conference-hall* | ***Date****: March 2, 2016*  ***Time***:*16.00-17:30* |

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| 1. Investment climate in RK, current situation, prospects;   Kazakhstan has a favourable investment climate. Today, Kazakhstan is among the 50 most competitive countries of the world. According to the Global Competitiveness Index Report 2015-16 years, Kazakhstan is ranked 42nd; according to the World Bank «Doing Business 2016» Report, Kazakhstan is ranked 41st.  Official statistics show that gross inflows of foreign direct investment to Kazakhstan amounted to $215 billion for the period from 2005 to H1 2015. The Netherlands, the USA, China, Switzerland, France, UK are the main investors in Kazakhstan. The largest volumes of FDI inflows are directed to mining and quarrying, professional, scientific and technical activities, manufacturing industry, wholesale and retail trade, and other industries.  The AIFC will further promote the increasing FDI inflow into the country by providing  favourable privileges for investors:  -modern infrastructure on the basis of EXPO international exhibition scheduled to be held in Astana in 2017;  -tax exemption for 50 years (corporate income tax on income from financial and auxiliary services, individual income tax, land tax, property tax);  -free office rent for 2 years;  -simplified visa and labour regimes for participants and employees of the AIFC as well as  -connection of Astana with key financial centres around the world via direct flights.   1. Financing of investment projects at the expense of assets of International financial centre in Astana, criteria of selection, requirements;   The aim of the AIFC is to help attract domestic and foreign investment in Kazakhstan's economy by creating a favourable environment for investment in the financial services industry, develop Kazakhstan’s capital market, and ensure its integration with international capital markets. Financing of investment projects, identifying selection criteria and requirements will be done by AIFC participants.   1. Islamic financing – the area of application for industrial enterprises (this direction in the activity of IFC of Astana is quite not clear, so that they should explain how we as the large metallurgical enterprise can use mechanisms in this direction)?   The establishment of a robust financial canter is the key condition for securing further growth of the Republic of Kazakhstan. Industrial enterprises are in the dire need in investments for modernization of production and the increase of production capacity. Islamic finance may become an additional and alternative source for attracting investments from Middle East, South East Asia, Europe, USA into Kazakhstani economy through the development of Islamic banking, capital markets, and asset management.  Large metallurgical enterprises can use various mechanisms of Islamic banking:   * Current and investment accounts for placing temporary free funds; * Trade financing facilities for renewal and expansion of fixed assets, working capital financing; * Partnership financing facilities for investment project financing; * Service instruments for investment agency, guarantee receiving and asset management.   Islamic capital markets provide an opportunity for industrial companies to raise wholesale financing for the implementation of investment projects and programs through securitization of tangible assets, ownership of usufructs, *etc*.   1. What role should enterprises of real sector play in the operation of IFC of Astana, what products can they use for the increase in production capacities?   Major joint ventures in oil and gas sector and in mining and metallurgical complex (for example, Tengizchevroil, Karachaganak Petroleum Operating, North Caspian Operating Company, PetroKazakhstan, ERG, KAZ Minerals, Kazatomprom and others) can finance working capital and investment programs in terms of "local content" through the AIFC stock exchange.  AIFC stock exchange will offer a wide range of high quality and liquid financial instruments. In addition, Islamic financing mechanisms will be introduced. Companies whose sectoral affiliation and financial ratios conform to *Sharia* screening criteria will have access to capital from Middle East, South-East Asia, Europe and the USA. At present time the *Sharia* screening is provided by the global platforms such as FTSE, S&P, Dow Jones, MSCI.  To increase production capacity industrial enterprises may employ Islamic securities mechanisms based on the securitization of tangible assets, ownership of usufructs and investment projects.  Perspective instruments for large-scale industrial enterprises in Kazakhstan are the following:   * *Sukuk* *murabaha* (raising funds for the purchasing assets); * *Sukuk ijara* or Islamic rent certificates (securitizing of the leased assets); * *Sukuk* *musharaka* or Islamic participation certificates (raising funds for implementing joint projects on the basis of profit and loss sharing principles); * *Sukuk istisna* or Islamic projects certificates (raising funds for financing of individual projects production / construction). |
| 1. What is the basis for recognition and enforcement of the judgments of the AIFC Court outside of Kazakhstan and Eurasian Economic Union? 2. What is the basis for having a separate court system (i.e., the AIFC Court) without amending the Constitution? 3. What is the basis for having foreign judges in the AIFC Court without amending Article 79.3 of the Constitution under which only citizens of Kazakhstan can be judges? 4. Will the local judges in the AIFC Court simultaneously be judges in the regular state courts of Kazakhstan?  Who will pay to the foreign and local judges in the AIFC Court? 5. Who will appoint the judges of the AIFC Court and what will be their status (i.e., whether they will enjoy the same level of protection and benefits (protection from arrest, imposing of administrative measures, etc.) as the judges of regular state courts)?   Answer:  The existence of transparent, clear, and predictable enough practice of law enforcement is a cornerstone, where the trust of all market participants to one or another financial centre is being built. The international financial centres’ (New York, London, Hong Kong, Dubai, Singapore) control system is based on the principles of the so-called English law. The system, built on the basis of English case-law, is the most transparent for the majority of financial market players and significantly reduces the barriers to enter the market.  In turn, the full development of the AIFC as a competitive financial centre with the active involvement of international investors and companies is impossible without providing international standards of law.  Therefore, the Constitutional Law of the Republic of Kazakhstan “On Astana International Financial Centre” provides the use of English common law in the AIFC territory. An obligatory element of rights protection for the AIFC participants will be the creation of an independent financial court with qualified judges with practical experience in countries with the jurisdiction of English law (Singapore, Dubai, Hong Kong). Independent AIFC jurisdiction based on English law, will affect the civil, commercial, corporate law, the regulation of labour relations, securities market, trust management.  It should be noted that the successful example of the spread of English law and the system we have described above could be found within the Dubai International Financial Centre (DIFC). Therefore, we are applying the DIFC experience in the implementation of such a system in the AIFC. Not by coincidence the DIFC Courts are our consultant on such-specific direction.  Within the framework of partnerships with DIFC Courts all issues, including qualification requirements for judges, their status, the judges selection, execution of judicial decisions, etc. will be worked out, and will find a solution. We expect the AIFC Courts to start functioning fully-fledged on the AIFC territory in the beginning of 2018. |
| *One of the action plan is: To determine measures to stimulate joint ventures, finance the “local content” program through Kazakhstan Stock Exchange by placement of the securities.*   1. It is not clear how KASE operations and listing will be integrated to AIFC?   A new high-tech exchange platform based on international best practices in the field of global exchange industry will be created in the AIFC.  The new exchange infrastructure will allow trading in securities, commodities, and derivatives, and carrying out listing, organization of trading, registration, clearing and settlement procedures.  Trading in securities of listed companies will be based on the platform of a renowned IT-developer of stock exchange, clearing and settlement technology with a recognized global brand, which will provide global investors with access to securities of AIFC issuers under comfortable conditions (through trading terminals already in use).  Since capital markets are one of the major strategic directions of AIFC development, for which the necessary infrastructure will be created (regulator, market, independent court and arbitration centre) and due to the negligible total trading volume of the stock and bond market on the Kazakhstan Stock Exchange, which is primarily a currency stock exchange, it will be reasonable not to break down liquidity and to concentrate capital markets in the new AIFC stock exchange.   1. Will there be any stimulation from any quasi state fund to finance the capital market at the beginning? Or any tax incentive for the financial institutions to make the securities attractive due to their long-term character?   To ensure successful development of the AIFC we plan to carry out policy-driven privatization of the most attractive companies of the JSC "National Welfare Fund" Samruk-Kazyna" through IPO with the requirement to place at least 25% of the total outstanding shares on the AIFC Stock Exchange. We also plan to conduct SPO of “blue chips” with increase of the share of capital in free float to no less than 25% of the outstanding shares.  Tax exepmtions apply to capital gains and coupon payments in accordance with the Constitutional Law №438-V PK "On the Astana International Financial Centre dated December 7, 2015 ". |
| * + - 1. What will be the interaction between AIFC and the Kazakhstani markets of financial services?   Both local and foreign players can be registered as AIFC participants as long as they provide services in line with the core pillars of the AIFC development. We have determined the core pillars of the AIFC based on best practices and experience of the international financial centres. These are:  -capital markets  -asset management  -private banking  -Islamic finance  -financial technology  Commercial banks will NOT be members of the AIFC, except for their arms that provide services in the field of asset management, private banking, wealth management, and Islamic finance.  Providers of ancillary services such as law, audit, accounting and consulting can also be registered at the AIFC.   * + - 1. If the AIFC chooses a cooperative model for interacting with other financial centres over a competitive one, how does this reflect in the future requirements for dual listings of securities at the AIFC platform and elsewhere?   Conducting a privatization program through an IPO on the AIFC Stock Exchange is necessary to attract foreign investors. Dual listing on the stock exchange of the international financial hub usually leads to foreign investors’ investment into securities of issuers in the area of international financial hub, as it is easier, more familiar and does not require to make additional efforts.  In cooperation with JSC "Samruk-Kazyna" and global investment banks, we are planning to find the most optimal and balanced approach, which would allow ensuring an inflow and active participation of foreign investors to the AIFC, at the same time providing a sufficient volume of funding for privatized companies.   * + - 1. What is the future role of the National Bank and the National (Oil) Fund in the AIFC's development?   Resources of the national funds (primarily the National Fund of the Republic of Kazakhstan and Unified Accumulation Pension Fund) can be used to develop the local market and expertise in the area of asset management through allocation of the leading international asset management companies in AIFC. Development of asset management pillar will also enable laying the foundation for deepening of Kazakhstan’s capital markets. |
| 1. What is the roadmap for the AIFC implementation? What is the timeline for introducing different parts?   For the practical implementation of the AIFC initiative the National Bank of Kazakhstan and the Government of the Republic of Kazakhstan have elaborated Joint Action Plan for the development of the AIFC in the long term. We have already initiated work on this matter with all relevant authorities in Kazakhstan.  The proposed structure of the AIFC includes four AIFC bodies, infrastructure organizations, as well as organizations engaged in financial activities in AIFC (licensed to operate by an authorized body responsible for the regulation of financial services and operations of members of the AIFC).  To date, a legal entity - JSC “AIFC Authority”, which oversees the conditions of day-to-day activities of the AIFC and represents its interests, has been established.  In the near-term there are also plans to establish the Astana Financial Services Authority, which will be responsible for the regulation of financial services and related activities in the AIFC. In addition, work is scheduled to begin on preparing the necessary legal framework for the establishment of the AIFC courts and Arbitration Centre. As known, justice within the AIFC will only be carried out by the AIFC courts. The courts will be independent in their activities and separate from the judicial system of Kazakhstan.  Starting from 2018 the AIFC will locate on the basis of the international exhibition EXPO-2017 Astana, as well as begin an active work to attract participants, which will be provided by offices with rent exemption for up to 2 years.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_   * AIFC: partner to other financial centres. To ensure AIFC success, AIFC should be ‘partners’ rather than ‘competitors’ to other financial centres, such as London and Dubai, and it is critical to develop close links with the other financial centres already now, when the AIFC is being developed. These established centres and financial institutions and professional services firms active in these centres, will bring a wealth of knowledge and commercial activity. Formulating and implementing this collaboration should be a cornerstone of the AIFC strategy. EBRD is committed to facilitate this directly as well as on the platform of recently signed Memorandum of Understanding between the National Bank of Kazakhstan / TheCityUK / EBRD, that provides framework for supporting establishment of regulatory framework, strategy and other elements of the AIFC. * Close links between AIFC and domestic financial sector. Close link between the AIFC and domestic financial sector, and more developed financial sector in Kazakhstan are critical for success of the AIFC; the AIFC should not follow Dubai model and ensure very clear separation between the activities on financial centre and domestic financial sector. These links will not only facilitate development of the AIFC, but perhaps more pertinently facilitate development of domestic markets. the AIFC can become an anchor for development of the domestic financial sector, and broader economy; it can become an anchor for reform. EBRD is already supporting the NBK in development of the domestic financial, and more generally supporting the Government on structural reforms; under the AIFC, the Bank is fully committed to work on helping to establish effective linkages between the domestic market and AIFC, particularly through helping to establish adequate regulatory framework for such areas as capital markets, money and derivatives markets and corporate governance. * AIFC: role in developing Green Financial System. Development of the financial system in Kazakhstan that is able to effectively support financing of renewable and energy efficiency investments, and more broadly introducing mechanisms for activities aimed at reducing climate change (such as carbon trading) should be a key priority of the Government and other stakeholders. The AIFC is well placed to play a key role in this process, both through developing necessary instruments (such as ‘green bonds’) and regulatory framework, as well as becoming one of the ‘sponsors’ of this process. EBRD is closely engaged with the Government of Kazakhstan on the Green Economy, and the Bank is committed to help leverage the AIFC to further improve financing of activities aimed at climate change reduction. |
| 1. What kind of investor base would the AIFC be targeting primarily, e.g., global / regional / domestic institutions, asset managers, or retail? Will there be different regimes and regulations applicable to those types of investors? What kind of licensing requirements will apply to those investors under the new model?   AIFC will be targeting domestic, regional and global investors (both institutional and retail) that provide services in line with the core pillars of the AIFC development, which include capital markets, asset management, private banking, Islamic finance and financial technology.  The main idea is to create a marketplace which will allow access to both local and foreign investors. It is going to be a regulated market, therefore, it will comply with necessary FATFA and FATCA requirements, as well as IOSCO principles.   1. How will AIFC co-exist with KASE, if at all? What will happen to the existing issuers and instruments currently traded on the KASE following introduction of AIFC?   One of the goals of the AIFC is to develop Kazakhstan’s stock market. In order to achieve this, favourable conditions for capital market development (including the creation of a new regulator and the regulatory environment, the establishment of effective exchange, clearing and settlement systems, privatization, etc.) will be provided in the AIFC.  We think it will be reasonable to transfer capital markets to the new AIFC stock exchange. Existing issuers and instruments traded on KASE can be transferred to the AIFC stock exchange provided they meet requirements and regulation imposed by the AIFC, including requirements for the free-float. At the same time, an Alternative Investment Market will be created by analogy with the London Stock Exchange in order to allow companies with lower free-float to be traded on the stock exchange.   1. What would be the incentives given to the non-resident asset managers and investment funds to localize their presence to AIFC?   In order to localize the largest and most experienced global investment banks and asset management companies in AIFC, National and Pension Fund assets will be made available to these companies to invest partially in financial instruments traded in AIFC. In addition, asset management companies and investment funds will participate in the privatization program in the stock market. Tax exemptions on capital gains and coupon interest on bonds will be also provided in AIFC.   1. Do you envisage foreign currency-denominated instruments being traded on AIFC and if so, in what format? For example, do you envisage stocks being quoted in currencies other than KZT?   We plan to create a multi-currency platform, and the issuer can choose funding currency he would like to attract. This is particularly important for debt financing instruments. |