

Modernization of Securities Market in Kazakhstan

Zhibek M. Omarkhanova^a, Lyazzat R. Esbergenova^b,
Zhanna A. Makisheva^b and Galia K. Kishibekova^c

^aAbai Karaganda Economic University Kazpotrebooyuz, KAZAKHSTAN;

^bAlmaty Management University, KAZAKHSTAN; ^cNarxoz University, KAZAKHSTAN.

ABSTRACT

The purpose of this research is to study the Kazakh securities market and to consider technologies that could theoretically improve securities market of Kazakhstan. Securities market is an indispensable tool of economic development, purchase and sale of securities. The problem is that in the post-Soviet countries, including Kazakhstan, securities market is characterized by low credibility and outdated technologies. Research methodology is based on economic theory, banking, risk theory and economic security. The authors used several general scientific methods - analysis and synthesis, the ascent from the abstract to the concrete. In addition, the paper was also based on economic and statistical methods, methods of abstract-logical reasoning. Research findings testify to the fact that improvement of the Kazakh securities market demands creation of a wide range of companies, professional managers of commercial real estate, technological and functional improvement of market infrastructure, introduction of new market participants; new types and forms of securities; globalization and availability of any securities market for investors. Moreover, the Kazakh securities market required computerization based on the latest computer technologies and their permanent and synchronous update with the view of providing efficient and reliable innovation.

KEYWORDS

Economic growth; market modernization;
innovation; competitive growth;
conclusion of transactions

ARTICLE HISTORY

Received 27 September 2015
Revised 5 April 2016
Accepted 30 June 2016

Introduction

One of the objective economic features is the level of financial market development, which aims at providing sustainable intersectional reallocation of financial resources and creating an effective mechanism for capital investment in the production sphere (Makeyev, 2010; Omarkhanova, 2006). Liquidity shortages, the growing need of the Kazakh companies in financial resources aimed at maintaining domestic production and strengthening the competitiveness of products and services increases the value of securities market (Gorlovskaya & Miller, 2012; Omarkhanova, 2006). Features of securities

CORRESPONDENCE Zhibek M. Omarkhanova ✉ zhynysova@mail.ru

© 2016 Omarkhanova et al. Open Access terms of the Creative Commons Attribution 4.0 International License (<http://creativecommons.org/licenses/by/4.0/>) apply. The license permits unrestricted use, distribution, and reproduction in any medium, on the condition that users give exact credit to the original author(s) and the source, provide a link to the Creative Commons license, and indicate if they made any changes.

market determine its functioning specificity, which show that cross border capital flows continue to occur during the financial crisis, although being characterized by different volumes, different directions, and even different capacity (Dumas & Allaz, 2013). In today's economy being influenced by financial globalization boom, the value of securities market only increased. On the one hand, studying the nature of financial crises suggests a causal relationship and the impact of securities market mechanism on the real sector of the economy (Das, 2015). On the other hand, in an environment where financial institutions are restricted in their ability to carry out direct lending to the real sector, securities market is able to satisfy the needs of market participants providing available resources (He, Xu & Liu, 2012). Both features of the current financial crisis imply the need for deeper understanding of the processes occurring in the securities market (Xu, 2014). One of the main priorities of anti-crisis programs implies development and channeling the financial flows required for development of the real sector and solution of social problems (Banerji & Das, 2014).

Securities market is an indispensable tool of economic development, purchase and sale of securities (Coffee, Seligman & Sale, 2007; Michie, 2006).

Securities market performs the following important economic functions:

Infrastructural function. Performs the creation of trade networks (Aimurzina, Berstembayeva & Beisenova, 2015; Dumas & Allaz, 2013).

- Investment function. This function refers to banks, broker and dealer companies (Koshkina, Koshkina & Abdulov, 2015; Banerji & Das, 2014).
- Technical functions. These functions refer to subjects that promote conclusion of transactions (Coffee, Seligman & Sale, 2007).
- Informational function. This function refers to information and analytical agencies (Schwartz, 2012).
- The problem is that in the post-Soviet countries, including Kazakhstan, securities market is characterized by low credibility and outdated technologies (Omarkhanova, 2006).

Therefore, the purpose of this research is to study the Kazakh securities market and to consider technologies that could theoretically improve securities market of Kazakhstan

Method

Research methodology is based on economic theory, banking, risk theory and economic security. The authors used several general scientific methods - analysis and synthesis, the ascent from the abstract to the concrete. In addition, the paper was also based on economic and statistical methods, methods of abstract-logical reasoning.

Theoretical basis of this research involved research papers on the development of securities market. The information component included official statistical data referring to the securities market.

Data, Analysis and Results

The key indicator of the securities market in Kazakhstan is the organized market represented by the Kazakh stock exchange - KASE.

Table 1 displays the information regarding issuers in Kazakhstan as of January 1, 2013 whose securities are admitted to trading on KASE.

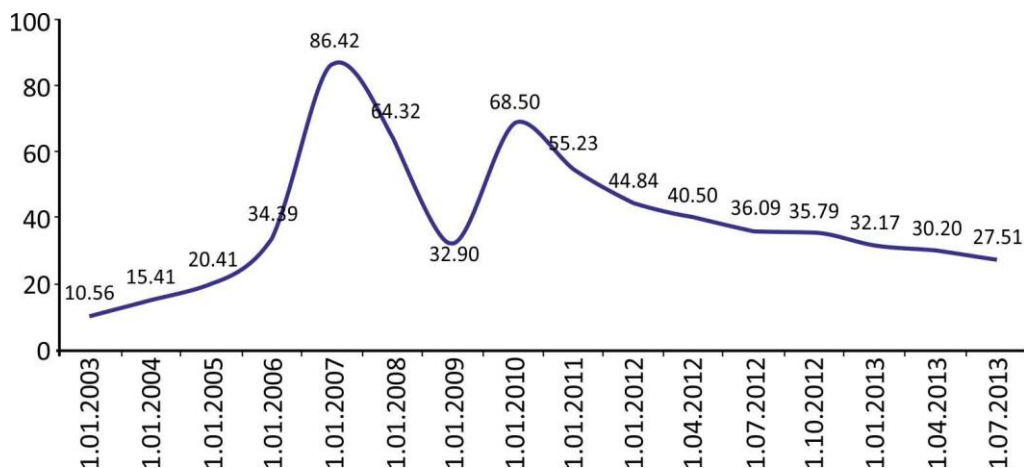
Table 1. Securities admitted to trading on KASE

Sectors	Number of issues	Number of issuers
"Shares"	101	78
"Debt securities"	231	72
"Securities of investment funds"	1	1
"Depository Receipts"	0	0
"Securities of international financial organizations"	2	1
"Government securities"	198	3
"Derivatives" sector	0	0
"Alternative site"	0	0
Total: 533, 129	533	129

The major share of securities admitted to trading on KASE refers to debt securities - 43.3% (231 issues). The "Shares" and "Government securities" sectors make 19.0% (101 issues) and 37.1 % (198 issues), respectively. The share of "Securities of investment funds" makes 0.2 % (1 issue). The share of "Securities of international financial organizations" makes 0,4 % (2 issues).

Total KASE capitalization in corporate securities amounts to 10,114,516 million tenge or 31.2% of GDP. This figure made 11,253,643 million as of October 1, 2012, or 35.8 % of GDP. Thus, one can observe reduction in the stock market capitalization in absolute terms and reduction in the rates of securities market capitalization to GDP (Figure 1).

Capitalization of securities market reflects its low credibility. Thus, in 2012 securities market capitalization to GDP in Kazakhstan totaled 11.7 %, while in Europe and Central Asia (developing countries) in 2012, the same figure was 25.7%, in the world - 76.8 %.



*data taken from the official site of the Ministry of economy and budget planning of the Republic of Kazakhstan (34292 bil.tenge).

Figure 1. KASE capitalization to GDP

Stock market momentum characterizing its liquidity in Kazakhstan in 2012 amounted to 3.33 %. In the developing countries of Europe and Central Asia, the figure is 98.3%, in the world - 99.8%. Capitalization to GDP in the corporate bond market in 2012 was 16.9 %, the rate of turnover - 5.9%.

Information on the volume of transactions on KASE corporate securities is presented in Table 2. Transactions were not conducted in sectors "Securities Investment Funds", "Depository Receipts sector", "Securities of international financial institutions" and "Derivatives".

In general, as the table shows, the volume of transactions with corporate securities increased by 22.1% in the fourth quarter of 2012.

In 2012, 101 auctions were held for government Treasury securities. Issue volume increased by 58.3 % in comparison with 2011 and amounted to 1 066.7 billion tenge, including short-term securities - 80.8 billion tenge, medium - 235.1 billion, long-term - 750, 8 billion.

As of January 1, 2013 the amount of government Treasury securities, denominated in local currency at a discounted price amounted to 2 905.2 billion, an increase over 2012 by 39.7 %, including:

- Short-term securities - 80.8 billion tenge, medium term - 591.0 billion tenge;
- Long-term securities - 2233.4 bln.

The volume of short-term notes for 2012 decreased by 71.1% and amounted to 857.2 billion tenge. Average weighted yield of short-term notes of the National Bank issued in 2012 was at 1.46 % per annum (2011 - 1.21 %), with a weighted average maturity of 153.9 days (2011 - 121.43 days). As of January 1, 2013 short-term notes for 186.1 billion tenge (at a discounted price) were in circulation.

Table 2. Volumes of trades on KASE non-government securities. (mln tenge)

	1 quarter of 2012	2 quarter of 2012	3 quarter of 2012	4 quarter of 2012
original issue	17 877	14 111	35 868	58 145
"Shares" sector	3 923	0	0	27 886
"debt securities" sector	13 954	14 111	35 868	20 359
secondary circulation	74 070	165 024	76 997	86 012
"shares" sector	11 216	117 450	23 257	20 452
"debt securities" sector	62 800	47 432	53 680	64 801
"unlisted Securities" sector	11	41	62	244
"repo" transactions	26 753	26 354	30 348	30 532
"shares" sector	20 676	22 436	20 745	16 196
"debt securities" sector	6 077	3 918	9 603	14 336
Total	118 711	205 530	143 275	174 933

Thus, the analysis of the domestic securities market indicates a lack of its development. Some positive indicators unfortunately are not sustainable. Formation of the stock market in Kazakhstan led to many problems associated with this process. It is necessary to overcome them for the further successful development and operation of the securities market.

Support elements of the competitiveness of the stock market are capitalized consolidated financial infrastructure, stock market capacity providing the growing demand and supply of investment resources; transparency of market

transactions and market participants' behavior conducive to minimize investment risks, high degree of controllability of the market, suggesting a combination of voluntarily observed by market participants and rules standards of good practice and effective state regulation and enforcement, planned for the long term and is actively supported by the positive image of the stock market of domestic and international investors and issuers.

Ensuring competitiveness is an important aspect in such strategic issues as the country's gross external debt regulation, the forthcoming entry of Kazakhstan to the World Trade Organization (WTO), creation of necessary prerequisites for economic and social security.

Inefficiency of the stock market of Kazakhstan and its inconsistency to the needs of the domestic economy, along with a belated response of financial supervisory authorities are the reasons for the country's economic development slowing. Stock Exchange operating in the country unfortunately demonstrated a lack of interest in attracting issuers and processing industries investors, especially small and medium-sized businesses to the operations on the stock market.

According to analysts' conclusion, Kazakhstan plans to attract foreign portfolio investment through the Regional Financial Center of Almaty were not real, that poses particularly acute problem involving medium-sized domestic enterprises into the securities market. It is well known that the most effective financing and the best government support in any sphere is the creation of competitive environment with equal conditions. Honest competition leads to more efficient sector development.

Domestic stock market, unfortunately, is also characterized by low liquidity of the financial instruments secondary market related mainly with the lack of financial instruments traded in the market, underdeveloped market of derivative securities and the insufficient development of the stock market. Many Kazakh issuers are still unwilling to disclose financial information and allow outside shareholders to company management.

Therefore, an indispensable condition for the stock market development and competitiveness is its innovativeness. And there is no doubt that it is impossible to create an innovative economy without significant investment. However, innovation is always a risk. Investors also do not want to risk. However, many qualified investors having substantial equity with significant package of highly liquid securities and acquired great experience in transactions on the stock market may not have been averse to risk investing surplus funds in new, fast-growing high-tech industries. Such investments bring higher revenue from companies shares ownership. But not all issuers implementing innovative projects are at an early stage access to this market.

The task of the securities market developing has always been the center of the President and Government attention, as one of the priorities in the complex of measures of state economic policy.

The ultimate goal of the state programs, concepts and other measures is to expand the range of financial instruments to remove administrative barriers to entry of the company into the organized securities market, improve literacy and to facilitate innovative projects implementers solution to the problem of attracting investment.

The innovations in the securities market are:

- New tools in this market;
- Innovative systems in securities trading;
- Technological and functional improvement of the market infrastructure.

New tools of the securities market are new securities, new types of derivative securities, emerging markets based on new technologies (Makeyev, 2010).

The range of financial instruments (mutual funds shares, index funds, derivative securities, debt securities including securitized bonds, depository receipts) is expanded, more investment opportunities for domestic and foreign investors are created. Creating conditions and introduction of new types of securities into circulation will diversify risks on the organized securities market, but also will help increase market liquidity and the active involvement of retail investors.

Innovations in government securities is represented by the release of their various embedded options: protection against inflation option, option to protect against exchange rate changes, and denominated in foreign currency to attract savings.

Admission to the securities new types trading also allows investors to hedge risks associated with operations in the securities market. For example, in order to attract foreign investors in the Central Asian region and the creation of index funds, derivatives market, a new index Renaissance Capital Central Asia Equity Index was introduced which includes stocks of the Central Asian region.

The mechanism of securitization is underutilized. The law "On securitization" is poorly developed, there are no clear mechanisms for its implementation. While in crisis and widespread default securitization could be a decision. Securitization is the tendency of funds' transition from their traditional forms (savings, cash, deposits, etc.) to the form of securities which functions are the union of small or illiquid assets and their inclusion in the RCB turn supported by reputable financial institutions and companies; trend of converting greater mass of capital in the form of securities; trend of transition some forms of securities in other forms more accessible to a wide circle of investors (Omarkhanova, 2006).

In accordance with global approach (classical) securitization transaction is innovative technique (method) of financing, when:

- A diversified pool of assets (loans or mortgages portfolio) stands out and is deducted from the balance of the credit institution,
- Acquires legal independence by passing to a specially created entity (Special Purpose Vehicle, SPV),
- A legal entity (Special Purpose Vehicle, SPV) carries out its refinancing on the capital market or the money market through the securities issue (Asset-Backed Securities, ABS) (Figure 2).

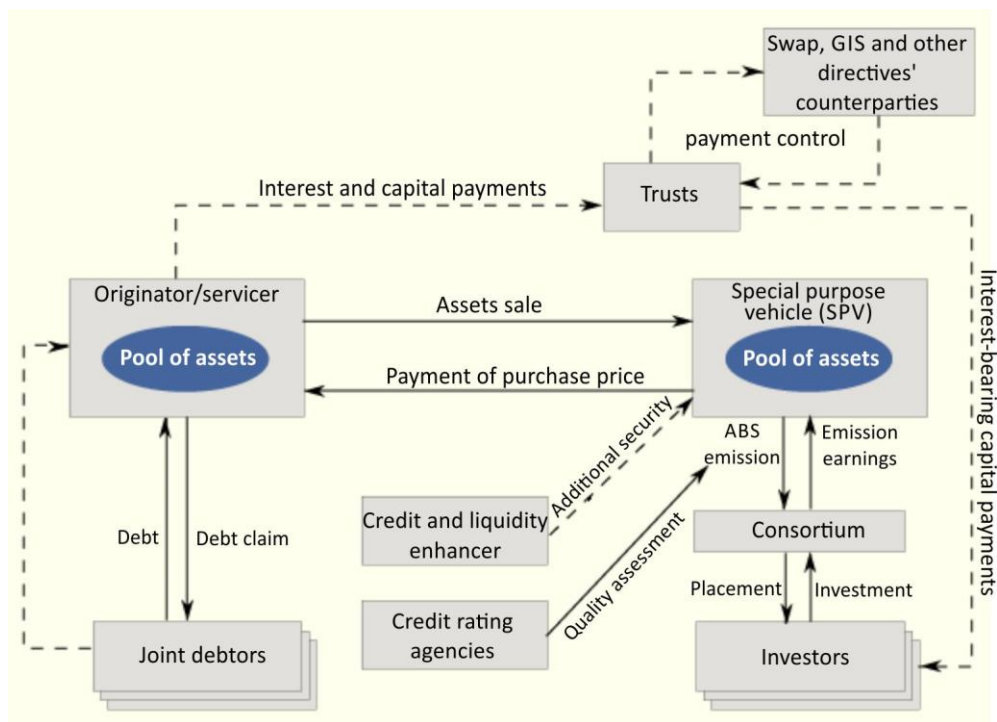


Figure 2. Mechanism of securitization

When considering securitization transactions in civil and competitive tax law legal independence and economic independence of the SPV (SPV) of the originator is crucial. As a result of the assets assignment to legally independent financial structure reliability of assets no longer depends on the originating bank's state and level of overall business risk, thereby achieving the effect of "off-balance sheet" funding. Due to the economic independence of the SPV it is possible to avoid the risk that the assets ceded again due to consolidation should be shown on the balance sheet of the originator. This is important, particularly in the case where the originators act as banks conducting their own securitization of loan portfolios.

Securitization results in: reducing the cost of funds due to a higher rating; improving liquidity, improved asset and liability management, new sources of funds, compliance with capital adequacy, off-balance mode; erosion of credit risks, market expansion, and secondary market for the underlying assets is created.

To solve the problems of payment crisis and default requires the active use of unconventional measures, namely securitization in the near future mutual debts between companies to create market conditions for economic development while minimizing systemic and inflationary risks.

Securitization can occur in the following areas: establishing new rules on property rights in relations between suppliers and buyers, the use of single name papers and transfer notes, the use of government securities, the application of the accounting procedures and rediscounting obligations; start swapping (debt-equity swap); involvement of state property into the process. Enhancing the role of the stock market in the improvement of settlements and

payments in the industry is a means of ordering debts. This involves improving the mechanism of the securities market, but only if it is not a pretext to justify new indiscipline debtors.

Thus, the main problems of securitization in Kazakhstan are: the need to change the regulatory framework, the lack of available infrastructure, low level of awareness among sellers of assets, the lack of standardized pools of assets.

To solve these problems, one should proceed from the following ways to solve them: adaptation of Kazakhstan legislation; business platform for loan securitization, the formation of uniform requirements for the portfolio; pooling standardized portfolios.

In order to involve alternative investments, real estate investment trust was introduced (REIT), the activity of which is provided by regulations acts. Thus, in June 2009, for the first time in Kazakhstan JSC "AIFN "Velikaya stena" issued 12,266 common shares for \$ 1, 472 billion tenge. Investing in real estate funds shares gives both large and small investors the opportunity to participate in a professionally managed portfolio and diversify their risks, because the dynamics of the shares of real estate funds, as a rule, should not be the general direction of movement of the stock market.

Discussion

A.M. Baghdasaryan (2012) believes that the development of securities market requires increase in the amount of capital, increase in investment opportunities, development and integration of trading systems. Also, keeping in mind the information age, one should introduce modern technology, in particular, the eTrade system.

The trading system eTrade gives the ability to monitor trades in real time and instantly react to changing events. Real time means getting information about trading with the same speed with which professional participants of the exchange market get it. Complexity of the financial instruments structure and the underestimation of the risks associated with their production and acquisition were prerequisites for building up systemic risks in the global financial system.

In this regard, it is necessary to regulate the issue and purchase of structured products, the cost and risks of which it is difficult to assess. The results of the process of regulation:

- mandatory principles of full or partial risk incurring the originator (creator) and traceability of risk will be implemented;
- list of authorized derivative financial instruments will be defined;
- requirements to the public offering and disclosure of derivative financial instruments will be defined;
- an outright ban for the use of structured products for the purposes of capitalization and funding of financial institutions will be set;
- mechanisms directly limiting risks of hedging transactions on foreign markets;

- measures taken to establish restrictions on the production and purchase of financial instruments traded in the informal market;
- mechanisms to minimize derivative transactions with speculative will be developed.

The main perspectives of modern securities market at this stage are: the concentration and centralization of capital, internationalization and globalization of the market, increasing the level of organization and strengthening of state control; computerization of the securities market; innovations in the market; securitization; "People's IPO" program; interaction with other capital markets.

Conclusion

In order to develop real estate funds it is necessary to facilitate the creation of a wide range of companies, professional managers of commercial real estate, to create quite a pool of objects for the issue and provide a steady income by renting this property.

For risk diversification, domestic investors will focus on the creation and development of hedge funds as an alternative method of resources allocation in the market from the investor's point of view.

Securities market demands technological and functional improvement of the market infrastructure and modern information systems and networks, implementing new securities market, new types and forms of securities, the processes of globalization and the availability of any securities market for investors.

Computerization of the securities market is using the latest computer technologies and their constant and synchronous updating, and efficient and reliable innovation.

Kazakhstan eTrade system allows individuals and legal entities to make transactions with securities admitted to trading on the Kazakhstan Stock Exchange remotely.

How the system works is quite simple. Operations are performed by using a specially developed service provider (LLP «eTrade.kz») transmission mechanism transit orders. Buying or selling securities, the investor actually transmits trader transit order for an operation. Trader, in turn, is applying to the Exchange trading system to its actual execution based on the obtained transit from the customer order.

Disclosure statement

No potential conflict of interest was reported by the authors.

Notes on contributors

Zhibek M. Omarkhanova is a PhD, Associate Professor of the Economics and Management Department, Karaganda Economic University Kazpotrebsoyuz, Karaganda, Kazakhstan.

Lyazzat R. Esbergenova is a PhD, Associate Professor of the Finance, Accounting and Auditing Department, Almaty Management University, Almaty, Kazakhstan.

Zhanna A. Makisheva is a PhD, Associate Professor of the Finance, Accounting and Auditing Department, Almaty Management University, Almaty, Kazakhstan.

Galia K. Kishibekova is a PhD, Associate Professor of the Management Department, Narxoz University, Almaty, Kazakhstan.

References

- Aimurzina, B. T., Berstembayeva, R. K., Beisenova, L. Z. (2015) Directions of Stock Market Activation for Financial Support of Kazakhstan's Economy. *Actual Economic Problems*, 170, 327.
- Baghdasaryan, A. M. (2012) Problems of securities market development in transition economies. *Bulletin of South Ural State University. Series: Economics and Management*, 44(303), 37-44.
- Banerji, D. & Das, R. (2014) *Understanding the Impact of Securities Markets Reform on the Economy of Brazil*. In B. Christiansen (Eds.). *Handbook of Research on Economic Growth and Technological Change in Latin America*, 21, 339-349.
- Coffee, J. C., Seligman, J., Sale, H. A. (2007) *Securities regulation*. Harvard: Foundation Press. 82p.
- Das, S. (2015) Euro Issues & Indian Primary Securities Markets: An Empirical Study. *The International Journal of Business & Management*, 3(7), 96-101.
- Dumas, B. & Allaz, B. (2013) *Financial Securities: market equilibrium and pricing methods*. New York: Springer. 385p.
- Gorlovskaya, I. G. & Miller, A. A. (2012) Conceptual Bases of Regional Securities Market Formation and Development. *Bulletin of the Ural State Economic University*, 44(6), 37-44.
- He, C., Xu, Q., Liu, Y. (2012). A New Portfolio Optimization Model In Securities Market: Empirical Evidences From China. *Advances in Information Sciences & Service Sciences*, 4(4), 46-54.
- Koshkina, O. V., Koshkina, N. V., Abdulov, R. E. (2015) The Impact of Financial Instruments of the Foreign Exchange Market on Capital Migration in Kazakhstan. *Asian Social Science*, 11(14), 10-15.
- Makeyev, Y. N. (2010) The development of innovative financial products in the financial crisis. *Actual problems of modern business economic development. Proceedings on the basis of the All-Russian Scientific and Practical Conference*, 99-101.
- Michie, R. C. (2006) *The global securities market*. Oxford: Oxford University Press. 399p.
- Omarkhanova, Zh. M. (2006). *Securitization as a necessary factor for the market economy*. Almaty: Mir. 47p.
- Schwartz, R. A. (2012) *The electronic call auction: Market mechanism and trading: Building a better stock market*. New York: Springer Science & Business Media Press. 484p.
- Xu, J. (2014) Manager Power and Decision of Capital Expenditure: Empirical Research from China's Securities Market. *Proceedings of the Seventh International Conference on Management Science and Engineering Management*. Springer Berlin Heidelberg, 1079-1093.