



# REPUBLIC OF KAZAKHSTAN

## FINANCIAL SECTOR ASSESSMENT PROGRAM

October 2024

### TECHNICAL NOTE ON THE ASTANA INTERNATIONAL FINANCIAL CENTER AND THE KAZAKHSTAN FINANCIAL SYSTEM

This Technical Note on the Astana International Financial Center and the Kazakhstan Financial System for the Kazakhstan FSAP was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed in August 2023.

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# REPUBLIC OF KAZAKHSTAN

FINANCIAL SECTOR ASSESSMENT PROGRAM

September 27, 2024

## TECHNICAL NOTE

THE ASTANA INTERNATIONAL FINANCIAL CENTER AND  
THE KAZAKHSTAN FINANCIAL SYSTEM

Prepared By  
**Monetary and Capital Markets  
Department**

This Technical Note was prepared by IMF staff in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission to Kazakhstan during July 2023, led by Pierpaolo Grippa (IMF) and Pietro Calice (World Bank), and overseen by the Monetary and Capital Markets Department, IMF, and the Finance and Markets Global Practice, World Bank. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at

<http://www.imf.org/external/np/fsap/fssa.aspx>

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## Glossary

AFSA	Astana Financial Services Authority
AIFC	Astana International Financial Center
AIX	Astana International Exchange
AML / CFT	Anti-Money Laundering / Combating the Financing of Terrorism
ARDFM	Agency for Regulation and Development of the Financial Market
ARFC	Almaty Regional Financial Center
BCBS	Basel Committee on Banking Supervision
BCPD	AIFC Bureau for Continuing Professional Development
CIS	Commonwealth of Independent States
CSD	Central Securities Depository
EBRD	European Bank for Reconstruction and Development
FMA	Agency for Financial Monitoring
FSB	Financial Stability Board
FSC	Financial Stability Council
FSAP	Financial Sector Assessment Program
GFC	AIFC Green Financial Center
IAC	AIFC International Arbitration Center
IAIS	International Association of Insurance Supervisors
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ISDA	International Swap Dealers Association
IsDB	Islamic Development Bank
JSIFC	Jurisdictionally-Separated International Financial Center
KASE	Kazakhstan Stock Exchange
MoU	Memorandum of Understanding
NBK	National Bank of Kazakhstan
RNAM	Recognized Non-AIFC Member <sup>1</sup>
STB	Kazakhstan Second-Tier Bank. <sup>2</sup>
UAE	United Arab Emirates
WB	World Bank

<sup>1</sup> A status granted by AFSA that enables non-AIFC licensed firms to onboard the AIFC Astana International Exchange (“AIX”) as a trading member, according to AIX membership rules and approval process.

<sup>2</sup> All banks in Kazakhstan are STBs apart from the NBK which sits in the first tier.

## EXECUTIVE SUMMARY

**The Astana International Financial Center (AIFC) was launched in 2018 with the objective of establishing a leading international center for financial services in Astana, as well as to attract foreign investment and support the growth and development of Kazakhstan and the region.**

Drawing from a model adopted in the Gulf region, the AIFC was established as a distinct and separate jurisdiction operating under its own legal structure, governance arrangements and regulatory framework, based on the common law framework applied in England and Wales and use of English as the working language. The AIFC has established its own dedicated Court, Arbitration Center, and regulatory authority (the Astana Financial Services Authority (AFSA)). Introduction of a legal and regulatory approach that is familiar to international financiers and widely used in global financial markets aims to attract foreign intermediaries and capital to the Center.

**There are multiple interconnections between the AIFC and the domestic financial system in Kazakhstan.** Although clear segregation applies in some areas in relation to services that can be provided from the AIFC to domestic residents (for example, AIFC-licensed intermediaries are prohibited from providing local currency banking and offering traditional deposit accounts), in other areas, such as many aspects of capital market activity and Islamic banking, there is little restriction. Indeed, the AIFC has a specific statutory mandate to support financial development in Kazakhstan in selected sectors. For example, to fulfil the mandate to foster the development of securities markets, as well as to attract foreign capital, the AIFC has established a stock exchange (the Astana International Exchange—AIX) which operates alongside and in parallel to the Kazakhstan Stock Exchange (KASE). A second example of strong linkage is the recent pilot of crypto-assets, which brings together crypto-exchanges licensed and regulated by AFSA and selected domestic Kazakhstan banks supervised by the domestic regulator (ARDFM) and regulated by the central bank (NBK) for payment processing. Moreover, the concept paper setting out the strategy for the development of the financial sector to 2030, signed by the President in 2022, outlines the plan to consider expansion of the list of services offered by AIFC participants to Kazakhstan residents, which would further tighten the interconnections.

**This note reviews the links between the AIFC and the Kazakhstan financial system, and the implications for financial stability.** Given that the AIFC is a separate jurisdiction, the note does not provide any assessment of the regulatory and legal framework in the Center. This would require a separate dedicated exercise. Rather, it examines the interactions and influence of the AIFC on the Kazakhstan financial system, as well as the arrangements for cooperation and collaboration between the domestic financial authorities and the AIFC financial regulators to address potential risks.<sup>3</sup> It sets out recommendations to reinforce financial stability in Kazakhstan.

**Infrastructure has been developed to support a wide range of financial activities in the AIFC.** Initial core pillars (capital markets; asset management; private banking; Islamic finance; green

<sup>3</sup> The main domestic financial authorities involved are the regulatory agency (ARDFM) and the central bank, National Bank of Kazakhstan (NBK).

finance; and fintech) were supplemented to include additional important business lines, such as bank lending in foreign currency and specialist types of insurance (such as reinsurance, catastrophe and cyber). Regulations are in place covering some 35 types of financial and market activities, as well as requirements for firms offering professional services such as legal, accounting, and audit. Specialist centers have been established to support fintech, green finance and Islamic finance. The Court and AIFC International Arbitration Center (IAC) are used actively. By mid-2023, the AIFC had attracted some 2000 registrants, although some 85 percent are non-regulated firms. Some 60–70 financial firms are authorized and prudentially supervised by AFSA.

**Financial activity in the Center remains small, limiting the immediate risks to financial stability.** At end-Q1 2023, financial assets in the Center were some 0.6 percent of GDP. And trading and liquidity on KASE far outstrips that on the AIX. But given the strategy of the Center, service provision is expected to increase and interlinkages with the Kazakhstan financial system to grow, raising the systemic importance of the AIFC, as well as the associated financial stability risks.

**In general, additional policy challenges arise in cases where key financial services in a country may be provided under distinct legal and regulatory arrangements from both a “domestic” jurisdiction and a jurisdictionally-separated international financial center.** The co-existence of two structures creates additional risks. In particular, policies are needed to overcome and address the potential risks of: fragmentation in information; lack of clarity on regulatory responsibilities and boundaries that could lead to gaps, as well as to overlaps and parallel regulatory frameworks for the same activity; misalignment of mandates and objectives that could spur regulatory competition and lower standards; and inconsistencies between regulations and supervisory approaches in the two jurisdictions which could encourage arbitrage. Strong cooperation and collaboration frameworks are needed to mitigate such risks and ensure that authorities work together effectively.

**The Kazakhstan authorities have taken several steps to address such risks.** The Chairperson of the “domestic” regulatory authority (ARDFM) and the central bank Governor participate in the Management Council of the AIFC which sets the strategy. An MoU on information sharing is in place. The agreement on services that can be provided to Kazakhstan residents from the AIFC provides clear separation in some areas. There are cross-jurisdictional working groups on specific topics, such as supervision and the crypto asset pilot. And the 2030 concept paper notes that, to integrate the AIFC into the common financial market in Kazakhstan, synchronization in regulatory standards will be necessary and consistency of regulation ensured.

**While such steps are positive, further enhancements are advisable.** Development of a Financial Stability Protocol would help ensure effective cooperation and collaboration between ARDFM, NBK and AFSA in support of the common goal of financial stability in Kazakhstan, by codifying objectives, responsibilities and working procedures. A review of current data sharing arrangements could help identify enhancements to encourage more proactive sharing of information. Establishing a regular cycle of discussion of financial developments in the two jurisdictions could sharpen risk identification at the national level. A comprehensive review of regulatory responsibilities for permissible financial activities in Kazakhstan would help to identify areas of potential duplication of regulatory frameworks between the domestic and AIFC jurisdictions. Such duplication adds to

uncertainty and costs, as well as creating potential incentives for arbitrage. In some cases, it should prove possible to streamline the arrangements by agreeing that a single jurisdiction should take sole responsibility for a particular activity. Where this is not feasible, and similar activities continue to be provided from both jurisdictions, then the authorities should strengthen the coordination arrangements, aiming to deliver fully consistent regulations and supervisory approaches in line with international standards. Affirming the primacy of the objective of supporting financial stability in Kazakhstan through amendments to the mandates of ARDFM and AFSA would emphasize the paramount importance of stability, as well as guarding against any risks of weakening standards to promote the development of either jurisdiction.

**Table 1. The AIFC and the Kazakhstan Financial System: Main Recommendations<sup>1/</sup>**

<b>Recommendation</b>	<b>Agency</b>	<b>Priority</b>
<b>Reinforce regulatory arrangements</b> to lower the risks of spillover, arbitrage, and gaps arising from the co-existence of separate regulatory frameworks for the domestic financial system and the AIFC. Specifically:	ARDFM, NBK, AFSA	Immediate
<b>Develop a Financial Stability Protocol</b> that would help ensure effective cooperation and collaboration between ARDFM, NBK and AFSA in support of the common goal of financial stability in Kazakhstan, by codifying objectives, responsibilities and working procedures.	NBK, ARDFM, AFSA	Immediate
<b>Review and enhance data sharing</b> by conducting a review of experience with the current data and information sharing arrangements and examine whether amendments are needed to facilitate information sharing to support financial stability analysis and broad financial policy objectives (including: regulation; resolution; supervision; and enforcement).	ARDFM, NBK, AFSA	Short-term
<b>Strengthen risk identification</b> by establishing a cross-agency working group that meets regularly to monitor interconnections and interlinkages between the domestic and AIFC financial systems, and to identify potential systemic risks and policy responses to address them.	ARDFM, NBK, AFSA	Immediate
<b>Review regulatory responsibilities and minimize duplication of regulatory frameworks</b> by undertaking a comprehensive review of regulatory and supervisory responsibilities for permissible financial activities in Kazakhstan, to identify areas of potential duplication of frameworks between the domestic and AIFC jurisdictions for the same activity and to develop options to minimize them. Where feasible, there should be a single regulatory agency clearly responsible for each financial activity.	ARDFM, NBK, AFSA	Short-term
<b>Develop and apply consistent regulation and supervision.</b> Reaffirm commitment to (i) uphold international standards across all regulatory agencies, buttressed by effective supervision and enforcement, and (ii) strengthen procedures to develop and apply consistent (ideally harmonized) regulations in the domestic and AIFC systems in accordance with such international standards, in cases where duplication of frameworks cannot be avoided and where financial services can be provided from both jurisdictions.	ARDFM, NBK, AFSA	Short-term
<b>Affirm the primacy of financial stability in regulatory objectives:</b> As already recommended in the BCP assessment with respect to ARDFM's regulatory and stability objectives, <sup>2/</sup> adjust AFSA objectives to highlight the primacy of supporting financial stability in Kazakhstan.	AIFC Management Council, AFSA	Short-term
<b>Codify FSC participation arrangements to ensure that AIFC participates as needed:</b> Ensure that the AIFC participates in discussions of the Financial Stability Council on relevant topics. Consider the case for an annual discussion at the FSC on interlinkages between the AIFC and domestic financial system, and on associated risks to financial stability in Kazakhstan.	Financial Stability Council	Immediate
<sup>1/</sup> Immediate (within 1 year), Short-term (1-3 years).		
<sup>2/</sup> Kazakhstan FSAP: Detailed Assessment of Banking Supervision.		



## INTRODUCTION<sup>4</sup>

### A. Introduction and Purpose

1. **This technical note (TN) addresses the relationship between the Astana International Financial Center (AIFC) and the Kazakhstan financial system.**
2. **Following the establishment of similar centers in Dubai, Abu Dhabi and Qatar over the previous decade, in 2015, the President of Kazakhstan announced the decision to establish an international financial center, based at a dedicated location in Astana.**<sup>5</sup> The AIFC was launched in 2018, and sets out to play “a key role as a regional center for business and finance, connecting the economies of Central Asia, the Caucasus, the Eurasian Economic Union (EAEU), Western China, Mongolia, the Middle East and Europe.”<sup>6</sup> Drawing from the model adopted in the Gulf region, the AIFC was established as a distinct and separate jurisdiction operating under its own legal structure, governance arrangements and regulatory framework, based on the common law framework applied in England and Wales and using English as working language. The AIFC has its own dedicated Court, Arbitration Center, and regulatory authority (the Astana Financial Services Authority (AFSA)).
3. **There are overlaps and interactions between the AIFC and the domestic financial system.** Although the Center is a separate jurisdiction and some clear segregation from the domestic system applies (for example, AIFC participants are barred from local currency banking and offering traditional deposit accounts to Kazakhstan residents), in other areas, such as capital markets and Islamic finance, there is no such prohibition. Indeed, the AIFC has a specific mandate to support financial development in Kazakhstan in selected sectors. In support of this mandate, the AIFC has established a stock exchange (the Astana International Exchange—AIX), which operates alongside and in parallel to the Kazakhstan Stock Exchange (KASE). A further example of interaction is the recent crypto-asset pilot operated by the AIFC.<sup>7</sup> Moreover, the strategic “Concept for the Development of the Financial Sector until 2030” signed by the President in 2022 outlines the initiative to further expand the list of services offered by AIFC Participants to residents.<sup>8</sup>
4. **The Kazakhstan FSAP is not assessing the AIFC jurisdiction (which would require a separate dedicated exercise).** But as the AIFC impacts the provision of financial services in Kazakhstan, this note examines the interactions and influence of the AIFC on the Kazakhstan financial system, as well as the arrangements for cooperation and collaboration between the domestic financial authorities and AFSA to address potential risks.

<sup>4</sup> This Technical Note was prepared by Nigel Jenkinson (IMF External Expert)

<sup>5</sup> The establishment of the AIFC was a part of the 100 steps announced by the then President to implement institutional reforms and promote development and growth. Steps 24 and 70-73 relate to the Center. [https://www.inform.kz/en/president-nazarbayev-unveils-100-concrete-steps-to-implement-five-institutional-reforms\\_a2782614](https://www.inform.kz/en/president-nazarbayev-unveils-100-concrete-steps-to-implement-five-institutional-reforms_a2782614)

<sup>6</sup> AIFC website: <https://aifc.kz/en>

<sup>7</sup> See the accompanying [Technical Note: The Regulation and Supervision of Crypto-Assets](#).

<sup>8</sup> See [AFSA Annual Report \(2022\)](#).

5. **The note is in two parts.** The first provides an overview of the AIFC. It sets out the objective and structure of the Center, and provides information on the main lines of business, participation and growth to date, and the strategy and plans. The second describes the main interactions and interlinkages with the Kazakhstan financial system, highlights the main policy issues raised, and provides recommendations to strengthen financial stability arrangements in Kazakhstan.

## THE ASTANA INTERNATIONAL FINANCIAL CENTER

### A. Objectives and Structure

6. **The decision to establish a new International Financial Center in Astana formed part of then President Nazarbayev's 100 concrete steps for institutional reform to spur development and growth, announced in 2015.**<sup>9</sup> The new center would be turned "*into a financial hub for the CIS member countries and the entire western and central Asian region*" and "*in the future, the financial hub of Kazakhstan will enter the world's 20 leading financial centers.*"<sup>10</sup> To support this objective, the President announced that the AIFC would be granted a special legal status, entailing the establishment of an independent judicial system within the AIFC jurisdiction, operating on the principles of British law<sup>11</sup> Foreign specialists would comprise the judiciary.<sup>12</sup> The AIFC would operate on a dedicated site, utilizing the infrastructure built for the Astana Expo 2017 exhibition. The development and implementation of legislation for the AIFC territory would be undertaken in English which would be the working language of the Center.

7. **Drawing on the model adopted earlier in the United Arab Emirates (UAE)<sup>13</sup> and in Qatar (the Qatar Financial Center (QFC)), the idea was to create an entirely new financial center, separated jurisdictionally from the domestic financial system.** The new center would offer a legal and regulatory environment familiar to foreign investors and international financiers, based on principles and arrangements that are used extensively in global finance. As in the Gulf examples and other international financial centers, the President also announced that a liberal tax regime would apply in the AIFC, to provide an additional incentive to locate business in the new hub. The broad aim was to provide an attractive environment to encourage foreign investment and to incentivize international financial firms to locate financial activity in the Center. Again, as in the

<sup>9</sup> A previous attempt to establish a regional financial hub in Almaty (the Almaty Regional Financial Center (ARFC) in 2006/07 had relatively little impact on the development of capital markets in Kazakhstan, and was superseded by the announcement to set up the AIFC in Astana.

<sup>10</sup> [https://www.inform.kz/en/president-nazarbayev-unveils-100-concrete-steps-to-implement-five-institutional-reforms\\_a2782614](https://www.inform.kz/en/president-nazarbayev-unveils-100-concrete-steps-to-implement-five-institutional-reforms_a2782614)

<sup>11</sup> Subsequently put into practice by developing a legal framework for the AIFC based on the principles of English and Welsh law.

<sup>12</sup> Subsequently put into practice by appointing a panel of foreign judges to the AIFC, Court trained, qualified, and with extensive practical experience in England and Wales.

<sup>13</sup> Implemented separately in Dubai and Abu Dhabi (the Dubai International Financial Center (DIFC) and the Abu Dhabi Global Markets (ADGM)).

Gulf model,<sup>14</sup> restrictions would be placed on some financial activities with residents (such as deposit taking and on transactions in domestic currency)—to prevent regulatory arbitrage and an undermining of domestic economic policies.

**8. Following the legal work to amend the national statutes and develop the legal framework for the AIFC,<sup>15</sup> and the preparatory work to establish the necessary institutional and regulatory architecture and foundations, the Center commenced operations in 2018.** The statutory objectives of the AIFC are enshrined in a Constitutional Statute;<sup>16</sup> Article 2 highlighting that *“the purpose of the AIFC is to establish a leading international center for financial services.”* The objectives, as specified in the Statute, are quite heavily weighted towards financial development in Kazakhstan, namely:

- Attracting investment into the economy of the Republic of Kazakhstan by creating an attractive environment for investment in the financial services sphere.
- Developing a securities market in the Republic of Kazakhstan and integrating it with international capital markets.
- Developing insurance markets, banking services, Islamic finance, financial technologies, digital assets, electronic commerce and innovative projects in the Republic of Kazakhstan.
- Developing financial and professional services based on international best practice.
- Achieving international recognition as a financial center.

**9. The accompanying mission and vision of the AIFC are spelled out in the latest Annual Report:<sup>17</sup>**

- **Vision:** To become a driver and the main hub for investment and financial innovation in the economy of Kazakhstan for its further growth.
- **Mission:** To contribute to the sustainable economic development of Kazakhstan by providing a unique infrastructure for investments and doing business, a reliable jurisdiction, an independent court and arbitration, as well as supporting innovation and the development of financial products and services.

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<sup>14</sup> The UAE Federal Law No 8 of 2004, which provided the framework for the subsequent establishment of the International Financial Centers in Dubai and Abu Dhabi, highlighted that in relation to banking, companies located in the Centers shall not deal in deposits from the State’s markets, nor deal in the UAE Dirham. <https://www.dfsa.ae/application/files/6615/8211/4065/Federal-Law-No-8-of-2004.pdf>

<sup>15</sup> The constitution of Kazakhstan was amended to enable the creation of a special legal regime for the AIFC: Article 2: clause 3-1. states *“Within the city of Astana, a special legal regime in the financial sphere may be established in accordance with constitutional law.”* <https://aifc.kz/files/legals/12/file/ab8bcf8o-0-3.pdf>

<sup>16</sup> <https://aifc.kz/files/legals/7/file/constitutional-statute-on-the-aifc-with-amendments-as-of-30-december-2022.pdf>

<sup>17</sup> [https://aifc.kz/uploads/Annual%20report%202022/AIFC\\_EN\\_1.07.23.pdf](https://aifc.kz/uploads/Annual%20report%202022/AIFC_EN_1.07.23.pdf)

**10. The AIFC is structured as a separate jurisdiction operating in a distinct physical location in Astana.**<sup>18</sup> Participants must have a physical presence within the enclave specified by the boundaries of the AIFC. Within the jurisdiction, AIFC laws and regulations apply to all commercial arrangements, and are upheld by a dedicated Court and judiciary.<sup>19</sup> As set out below and described in Box 1, the governance, management and work of the Center is taken forward by several Bodies and organizations.

**11. The AIFC jurisdiction is headed by a high-level Management Council, chaired by the President of Kazakhstan.** The Council is the supreme governing body of the AIFC. The Council sets the strategy and has responsibility for *"fostering favorable conditions to establish the development of the AIFC as a leading international financial center."* Two Deputy Chairmen support the Chair: the Prime Minister; and the Adviser to the President of Kazakhstan on economic development and governance.<sup>20</sup> Members of the Council include the Ministers of Finance, Foreign Affairs, and National Economy; the Governor of the National Bank of Kazakhstan (NBK); the Chairperson of the Agency for Regulation and Development of the Financial Market (ARDFM); as well as two external members.<sup>21</sup> Under the Constitutional Statute, the Management Council is authorized to adopt AIFC Acts, as well as to determine the structure of the AIFC Bodies, the composition of the AIFC Court, and the basis for the establishment of the International Arbitration Centre, appoint the management of AFSA, and approve annual reports on the activities of the AIFC, as well as other tasks. The Statute of the Council and composition of the Council are approved by the President.

**12. Leadership of the AIFC is provided by the AIFC Governor, appointed by the President.** The AIFC Governor is a member of the Management Council and is directed by the Council to undertake special administrative and managerial functions. The Governor is also conferred with certain regulatory powers for the purposes of coordinating the functioning of AIFC Bodies, including their interactions outside the Center.

**13. Four AIFC Bodies, established and granted responsibilities and powers by the Constitutional Statute,**<sup>22</sup> **supply the management, legal and regulatory infrastructure of the financial center.** Drawing again from the model in Dubai, these comprise: an Authority tasked with promotion, strategic direction and management of the Center (the AIFC Authority); a commercial court (the AIFC Court), a separate arbitration center (the AIFC IAC); and an integrated financial

<sup>18</sup> The Center occupies 1632 hectares of land centered on the site of the 2017 Expo exhibition. <https://afsa.aifc.kz/en/our-jurisdiction>

<sup>19</sup> The Republic of Kazakhstan retains jurisdiction over criminal and administrative proceedings. Kazakhstan law in relation to Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT) applies to the AIFC (AIFC AML Rules also apply); <https://afsa.aifc.kz/en/anti-money-laundering>.

<sup>20</sup> The current Adviser was previously the President of the European Bank for Reconstruction and Development (EBRD).

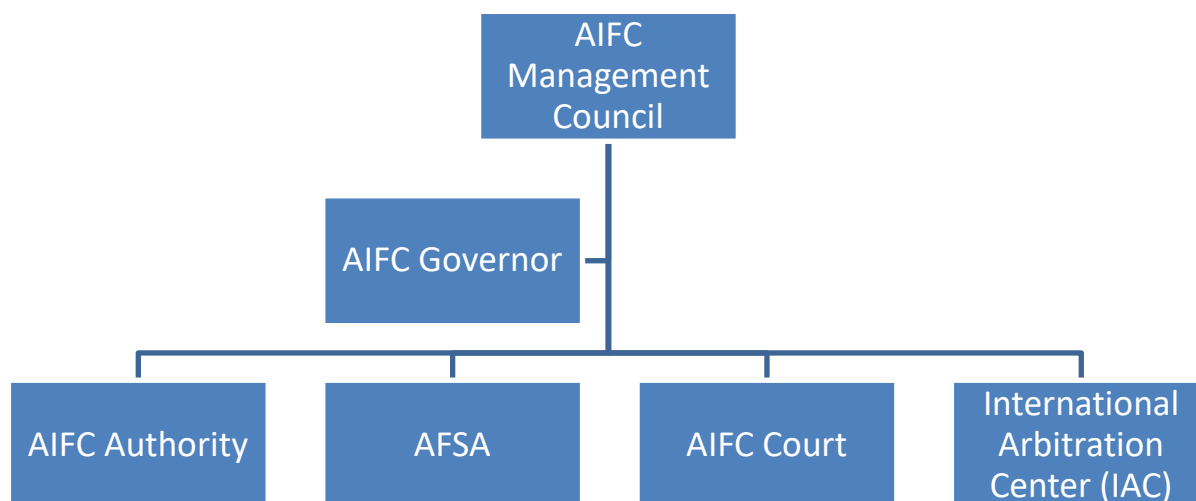
<sup>21</sup> Currently the former Chairman of JP Morgan Chase International, and the Global Head of Public Sector Banking, Capital Markets and Advisory Division at Citigroup.

<sup>22</sup> <https://aifc.kz/files/legals/7/file/constitutional-statute-on-the-aifc-with-amendments-as-of-30-december-2022.pdf>

regulator and registrar (AFSA). The work of the Center is also supported by several organizations set up by the AIFC, though not as formal Bodies specified in the Statute (see Box 1).

### Box 1. The Structure and Organization of the AIFC

The governance arrangements and principal bodies of the AIFC are shown in the Chart below:



- **AIFC Management Council**, chaired by the President of Kazakhstan, is the supreme governing body of the AIFC. The Council sets the strategic direction and fosters the development of favorable conditions for establishing the AIFC as a leading international center for financial services.
- **AIFC Governor**: an official of the AIFC, appointed by the President, with special administrative and managerial functions and regulatory powers for the purposes of coordinating the functioning of AIFC Bodies.
- **AIFC Authority**: formulates the center's development strategy and drafts acts on matters unrelated to the regulation of financial services.
- **AFSA**: responsible for the regulation of financial services and related activities in the AIFC. It also acts as the registration authority. AFSA's purpose is to facilitate business by maintaining the safety and robustness of the AIFC financial system, ensuring that financial markets in the AIFC are fair, efficient and transparent.
- **AIFC Court**: the court for commercial dispute resolution within the AIFC with exclusive jurisdiction over commercial disputes.
- **IAC**: the International Arbitration Center provides an independent alternative to court litigation and operates at the highest international standards to resolve commercial disputes.

The AIFC has established several organizations to support its work. These include:

- **Astana International Exchange (AIX)**: established to develop an extensive and liquid capital market in Kazakhstan and Central Asia by providing clear and favorable conditions for attracting local and foreign investors.
- **Green Financial Center (GFC)**: established to attract investments into the sustainable economy of Kazakhstan and the Central Asian region by using green and sustainable financing tools and providing strategic and business consulting services to the public and private sectors.

### Box 1. The Structure and Organization of the AIFC (concluded)

- **AIFC Tech Hub:** seeks to use the latest financial technologies to future-proof the AIFC’s core business pillars and to develop a vibrant multi-stakeholder fintech ecosystem, bringing together financial institutions, technology partners, fintech companies and investors to help Kazakhstan emerge as an innovative technologies’ leader in the region.
- **Bureau for Continuing Professional Development (BCPD):** promotes the development of human capital within the AIFC ecosystem and beyond.
- **AIFC Academy of Law:** provides legal education programs on the AIFC Law and practice of international commercial law.

Sources: Constitutional Statute <https://aifc.kz/files/legals/7/file/constitutional-statute-on-the-aifc-with-amendments-as-of-30-december-2022.pdf> AIFC Annual Report 2022 [https://aifc.kz/uploads/Annual%20report%202022/AIFC\\_EN\\_1.07.23.pdf](https://aifc.kz/uploads/Annual%20report%202022/AIFC_EN_1.07.23.pdf), and AFSA Annual Report 2022 <https://afsa.aifc.kz/en/annual-reports>

## B. Financial Regulation in the AIFC

**14. AFSA is the integrated regulatory authority for the AIFC.** Established as a formal body of the Center, it has responsibility for the regulation and supervision of financial services and related activities, promoting “*the application of international standard and international best practice*” which is one of the fundamental principles of the Center.<sup>23</sup> The vision, mission, and goals of AFSA are:<sup>24</sup>

- **Vision:** To be a globally respected regulator of financial services in Eurasia delivering a legal and regulatory framework that demands high standards of behavior, inspires innovation, and creates a safe environment, which is trusted by business and investors.
- **Mission:** To establish an environment that delivers fair and transparent financial and capital markets, in which individuals and institutions act with integrity.
- **Goal:** To facilitate business by maintaining the safety and robustness of the AIFC financial system, ensuring that financial markets in the AIFC are fair, efficient, and transparent.

The vision, mission and goals have been translated into 9 specific objectives for AFSA which are highlighted in Box 2.

<sup>23</sup> Other core Principles governing activity in the Center are: Efficiency, Transparency, Integrity and Professionalism. <https://aifc.kz/files/legals/7/file/constitutional-statute-on-the-aifc-with-amendments-as-of-30-december-2022.pdf>

<sup>24</sup> [https://aifc.kz/uploads/Annual%20report%202022/AIFC\\_EN\\_1.07.23.pdf](https://aifc.kz/uploads/Annual%20report%202022/AIFC_EN_1.07.23.pdf)

## Box 2. AFSA Objectives

To deliver the vision and mission, and achieve its goals, AFSA has nine objectives:

1. Regulate, control and supervise financial activities in the AIFC by participants with a view to the maintenance of the safety and soundness of the financial system within the AIFC.
2. Ensure that financial markets in the AIFC are fair, efficient, transparent and orderly.
3. Create fair, transparent and non-discriminatory conditions for AIFC participants, aimed at maintaining fair competition in the financial services market in the AIFC.
4. Foster and maintain confidence in the AIFC's financial system and regulatory regime.
5. Foster and maintain the financial stability of the AIFC's financial services industry and capital markets, including the reduction of systemic risks.
6. Prevent, detect and restrain actions that may cause damage to the AIFC's reputation or to the financial activities carried out in the AIFC by taking appropriate measures, including imposing sanctions.
7. Protect the interest of investors and users of financial services.
8. Implement a regulatory regime in the AIFC that complies with international standards in the sphere of regulation of financial services.
9. Foster development of financial technologies in the AIFC.

Source: Section 7 (Regulatory Objectives of AFSA) of the AIFC Financial Services Framework

[https://aifc.kz/files/legals/553/file/fsfr\\_v9-01.07.2023-with-updated-content.pdf](https://aifc.kz/files/legals/553/file/fsfr_v9-01.07.2023-with-updated-content.pdf) and

<https://orderly.myafsa.com/articles/7.-main-functions-powers-and-objectives-of-the-afsa>, also reproduced in AIFC Annual Report 2022: [https://aifc.kz/uploads/Annual%20report%202022/AIFC\\_EN\\_1.07.23.pdf](https://aifc.kz/uploads/Annual%20report%202022/AIFC_EN_1.07.23.pdf)

**15. AFSA has powers to develop and adopt AIFC Acts which provide the regulatory framework governing the provision of financial and related services in the Center.**<sup>25</sup> AFSA is governed by a Board of Directors, appointed by the AIFC Management Council (the Chair of the AFSA Board) and the AIFC Governor (other members of the AFSA Board).<sup>26</sup> While AFSA is independent of other bodies in its field of competence, it is accountable to the Management Council and AIFC Governor.<sup>27</sup> Senior management (the CEO and 3 senior staff appointed by the Board of Directors) form the Executive Body of AFSA.<sup>28</sup>

<sup>25</sup> The AIFC Regulations are developed by AFSA, subject to public consultations and then reviewed by the AFSA Board of Directors to further recommend to the AIFC Governor for approval and signing. The Regulations enter into force upon signing by the AIFC Governor. The AIFC Rules are developed by AFSA, subject to public consultations and are approved by the AFSA Board of Directors. The Rules enter into force after the approval by the Board.

<sup>26</sup> As at end-June 2023, there were six members of the Board—the Chair and three independent, experienced senior finance professionals from outside Kazakhstan, and two members from Kazakhstan. All members of the Board are non-executive.

<sup>27</sup> <https://aifc.kz/files/legals/409/file/the-structure-of-the-bodies-of-the-astana-international-financial-centre-eng.pdf>

As per the Basel Core Principles for Effective Banking Supervision, it is important that the governance and accountability arrangements of AFSA do not compromise the operational independence of the supervisor.

<sup>28</sup> <https://afsa.aifc.kz/en/Management>



**16. The regulatory framework developed by AFSA for the AIFC covers a relatively broad range of services.** As at end-2022, the framework covered 29 Regulated Financial Activities in the fields of capital markets, asset management, banking and insurance, Islamic financing, and financial technology. In addition, the AFSA regulation and licensing framework covers 6 Market Activities (operating respectively an: exchange; clearing house; digital asset trading facility; loan crowdfunding; investment crowdfunding; and private financing platform) and the provision of 5 Ancillary Services (legal, audit, accounting, consulting, and credit rating).

**17. As well as the financial regulator and supervisor for the AIFC, AFSA also performs the role of registrar.** AFSA has responsibility for the registration, recognition and licensing of AIFC Participants, which are legal entities registered under the Acting Law of the AIFC and recognized by the Center.<sup>29</sup> As well as firms seeking to offer services under the regulatory framework (financial, market, and ancillary) which require an appropriate license from AFSA, the registration framework also allows for firms providing non-regulated services (such as companies selling IT and data services etc.) to apply for registration as AIFC Participants, subject to meeting the appropriate legal and locational requirements.<sup>30</sup> The registrar function in AFSA is a separate unit, distinct from licensing and regulation, in order to minimize any potential conflict of interest between the functions. Indeed, in some other financial centers, such as Dubai, the registration function is allocated to a separate entity, unconnected to the regulatory authority, to ensure that such risks are eliminated.

### C. Principal Business Lines of the AIFC

**18. The initial vision for the AIFC outlined in 2015 highlighted a number of priority sectors, in particular, capital markets, Islamic finance, private banking, and asset management.**<sup>31</sup> Recognizing the importance of financial innovation and technology, and of green finance, these were also singled out as key elements. The AIFC consequently was established with 6 core pillars as set out in the AIFC Annual Report 2019,<sup>32</sup> which remain central to the work of the Center.<sup>33</sup> Six important business lines were added at the inception of the Center forming the current twelve key business areas of the AIFC<sup>34</sup> (Table 2).

<sup>29</sup> <https://aifc.kz/files/legals/7/file/constitutional-statute-on-the-aifc-with-amendments-as-of-30-december-2022.pdf>

<sup>30</sup> [https://afsa.aifc.kz/uploads/afsa\\_registration\\_final.pdf](https://afsa.aifc.kz/uploads/afsa_registration_final.pdf)

<sup>31</sup> Step 71 of the 100 Steps, highlighted the "Development of a strategy for the financial center specializing in serving capital markets and Islamic financing," and the "Development of new types of elite financial services, including in the field of private banking and asset management". [https://www.inform.kz/en/president-nazarbayev-unveils-100-concrete-steps-to-implement-five-institutional-reforms\\_a2782614](https://www.inform.kz/en/president-nazarbayev-unveils-100-concrete-steps-to-implement-five-institutional-reforms_a2782614)

<sup>32</sup> AIFC Annual Report 2019  
[https://aifc.kz/uploads/Annual%20Report/2019/AIFC\\_Annual\\_%20report\\_full\\_eng%20\(1\).pdf](https://aifc.kz/uploads/Annual%20Report/2019/AIFC_Annual_%20report_full_eng%20(1).pdf)

<sup>33</sup> As per the main page of the AIFC website <https://aifc.kz/en>

<sup>34</sup> <https://aifc.kz/en/business-areas>



**Table 2. Kazakhstan: AIFC Principal Business Areas**

- Capital markets
- Asset management
- Private banking
- Islamic finance
- Financial Technology
- Green finance
- Brokerage
- Fund management
- Banking
- Insurance, reinsurance
- Ancillary services
- Holding companies and corporate offices

**19. A crucial consideration conditioning the early development of the Center was reaching agreement with the domestic financial authorities on the range of services that could be provided to Kazakhstan residents, and on the currency arrangements governing business in the AIFC.** As in the Gulf countries with similar centers, restrictions are necessary to avoid the risk of undermining domestic economic policies (capital controls, exchange rate policies and monetary policy) and financial regulations through leakage and arbitrage via the Center.

**20. The Currency Regulations agreed by AFSA, NBK and ARDFM in 2021 set out the governing arrangements.**<sup>35</sup> While the agreement is quite complex, key elements are: that banks in the AIFC can only offer services in foreign currency; and that the services that can be provided by AIFC participants to Kazakhstan residents must conform to agreed schedules which are set out in AIFC rules. Thus, according to the regulations, AIFC participants are allowed to deliver all regulated and non-regulated services<sup>36</sup> to non-residents and to other AIFC participants, provided that currency transactions passing through AIFC banks are only in foreign currency (such transactions may be passed through Kazakhstan commercial banks—known as second-tier banks (STB)—in any currency).<sup>37</sup> In terms of services provided by AIFC participants to Kazakhstan residents, the agreed

<sup>35</sup> [https://aifc.kz/files/legals/417/file/aifc-rules-on-currency-regulation\\_eng\\_2-with-logo.pdf](https://aifc.kz/files/legals/417/file/aifc-rules-on-currency-regulation_eng_2-with-logo.pdf)

<sup>36</sup> Non-regulated activities relate to all activities undertaken by AIFC participants (such as non-financial activities) that do not fall under the AFSA framework of regulation.

<sup>37</sup> <https://aifc.kz/uploads/%D0%91%D0%B8%D0%B7%D0%BD%D0%B5%D1%81/advantages-of-aifc-jurisdiction-for-business-community.pdf>

list includes a range of financial services (banking and payment, insurance, and investment services), combined with a set of related and professional services (as outlined in simplified form in Table 3 below), together with accompanying constraints on currency and banks servicing the payments for the services. For example, under the regulations, AIFC banks cannot open deposits to residents in any currency, except to AIFC participants that are more than 50 percent owned by non-residents,<sup>38</sup> nor can they undertake transactions on behalf of residents relating to the import or export of goods and services, or exchange transactions using the national currency. There are also some limitations on services that can be provided by AIFC Participants to Kazakhstan residents in other sectors, such as insurance.<sup>39</sup> Discussions are continuing between AFSA, NBK and ARDFM on potential amendments to the Regulations, that might expand the list of services that may be provided to Kazakhstan residents.<sup>40</sup>

<b>Table 3. Kazakhstan: Services that can be Provided by AIFC Participants to Kazakhstan Residents that are not AIFC Participants (as of May 2023)<sup>1/</sup></b>	
<b>Name of the service</b>	<b>Currency<sup>2/</sup></b>
<b>Financial services</b>	
<b>Banking and Payment services</b>	
• Islamic banking and financing	Any
• Loans to legal entities in Kazakhstan	Foreign currency
• Opening and maintaining current bank accounts for clients (for lending and investment banking services)	Foreign currency
• Receiving and making payments and/or money transfers using current bank accounts (for permitted services)	Foreign currency
<b>Insurance</b> (Direct voluntary insurance, reinsurance, reinsurance broking, additional types of insurance (title, Islamic etc.), specific risks insurance (climate, cyber, catastrophe, terrorism etc.))	Any
<b>Investment services</b> (investment banking, dealing, brokerage, custody, investment management, trust services)	Any
<b>Related services</b>	
<ul style="list-style-type: none"> <li>• Arranging custody.</li> <li>• Investment advice.</li> <li>• Arranging investment deals.</li> <li>• Advice on credit facility.</li> <li>• Providing investment fund establishment and administration.</li> <li>• Acting as a trustee.</li> <li>• Managing a restricted profit-sharing account based on an Islamic financial contract.</li> </ul>	Any

<sup>38</sup> There are some exceptions for Islamic banks operating in the AIFC.

<sup>39</sup> The AIFC insurance sector focuses on specialist services such as reinsurance, captive insurance and specific risks such as climate, catastrophe and cyber, and is not allowed under the Currency Regulations to offer more traditional motor, property and life insurance. Islamic insurance is permitted, however.

<sup>40</sup> [https://afsa.aifc.kz/uploads/180423\\_Annual%20Report\\_AFSA%202022%20%28003%29.pdf](https://afsa.aifc.kz/uploads/180423_Annual%20Report_AFSA%202022%20%28003%29.pdf)

<b>Table 3. Kazakhstan: Services that can be Provided by AIFC Participants to Kazakhstan Residents that are not AIFC Participants (as of May 2023) (Concluded)</b>	
<b>Professional services</b>	
<ul style="list-style-type: none"> <li>• Legal.</li> <li>• Accounting.</li> <li>• Audit.</li> </ul>	Any
<b>Other activities and services</b>	
<ul style="list-style-type: none"> <li>• Consulting.</li> <li>• Credit rating.</li> <li>• Non-regulated activities.</li> </ul>	National currency <sup>3/</sup>
<p><sup>1/</sup> Source: 2021 Currency Regulations, adopted by the AIFC Governor with the Agreement of the National Bank of Kazakhstan (NBK) and the Agency for Regulation and Development of the Financial Market (ARDFM). <a href="https://aifc.kz/files/legals/417/file/aifc-rules-on-currency-regulation_eng_2-with-logo.pdf">https://aifc.kz/files/legals/417/file/aifc-rules-on-currency-regulation_eng_2-with-logo.pdf</a> The table is a simplified depiction – the details of various restrictions and conditions applicable to the provision of such services to Kazakhstan residents are specified in the detailed Currency Regulations.</p> <p><sup>2/</sup> For all services, those rendered by AIFC participants in domestic currency must be provided using the bank accounts of the participants in Kazakhstan STBs; while services provided in foreign currency may be provided either through their accounts with AIFC banks or with STBs. <a href="https://aifc.kz/files/legals/417/file/aifc-rules-on-currency-regulation_eng_2-with-logo.pdf">https://aifc.kz/files/legals/417/file/aifc-rules-on-currency-regulation_eng_2-with-logo.pdf</a></p> <p><sup>3/</sup> The payments must be made through Kazakhstan STB only.</p>	

## D. Participation in the AIFC and Size of the Center

**21. The AIFC has attracted some 2000 participants since the launch in 2018, although non-financial firms dominate the registrations.**<sup>41</sup> Non-financial firms account for 85 percent of AIFC participants: AFSA report that these firms are mainly engaged in conducting and providing IT services, cryptocurrency mining, data processing and hosting activities, agricultural, manufacturing, non-profit activities, activities of holding companies and other non-financial activities.<sup>42</sup> There are around 280 firms undertaking financial and professional activities that require AFSA—just over half of these are providing ancillary services, while close to 90 firms are registered to undertake financial activities,<sup>43</sup> as well as some 40 firms that are registered participants in the AIFC Fintech Lab (Table 4).

<sup>41</sup> Registrations reached 2000 in mid-2023.

<sup>42</sup> [https://afsa.aifc.kz/uploads/180423\\_Annual%20Report\\_AFSA%202022%20%28003%29.pdf](https://afsa.aifc.kz/uploads/180423_Annual%20Report_AFSA%202022%20%28003%29.pdf) For non-financial firms, the AIFC jurisdiction offers multiple forms of corporate structure that are not available in the 'domestic' jurisdiction, as well as the opportunity to utilize the common-law based legal system. Tax privileges in the AIFC are restricted to financial activities and are not available for non-financial firms. Tax benefits include exemptions from corporate income tax and value added tax on income received from the provision of financial services within the AIFC. The exemption is provided until January 1, 2066 <https://aifc.kz/en/tax-regime>

<sup>43</sup> Some registered firms are not yet active and others, such as representative offices, do not require active supervision.

Number of firms registered in the AIFC	End-2018	End-2019	End-2020	End-2021	End-2022	End-May 2023
<b>Authorized activities</b>	<b>43</b>	<b>127</b>	<b>181</b>	<b>237</b>	<b>267</b>	<b>279</b>
<i>of/which Kazakh</i>	25	72	106	147	173	178
<i>Foreign</i>	18	55	75	90	94	101
o/w Financial activities	9	21	35	62	82	87 <sup>1/</sup>
o/w Ancillary Services	24	83	118	137	144	147
o/w Authorized Market Institutions	2	2	3	3	3	3
o/w FinTech Lab	8	21	25	35	38	42
<b>Non-financial activities</b>	<b>41</b>	<b>204</b>	<b>435</b>	<b>924</b>	<b>1457</b>	<b>1652</b>
<i>o/w Kazakh</i>	30	129	267	545	846	972
<i>Foreign</i>	11	75	168	379	611	680
<b>Total</b>	<b>84</b>	<b>331</b>	<b>616</b>	<b>1161</b>	<b>1724</b>	<b>1931</b>
<i>o/w Kazakh</i>	55	201	373	692	1019	1150
<i>Foreign</i>	29	130	243	469	705	781

<sup>1/</sup> Total number of registered financial firms is 87. These firms intend to obtain a license, out of which 74 firms had already received a license by end-May 2023.

**22. A majority of firms registering in the Center are from Kazakhstan, although foreign registrants provide over 40 percent of the total.** Foreign participation is widely spread geographically; the Center reporting representation from some 75 countries (China, Russia, United Kingdom, and United States are top of the list in terms of the nationality of participation—Table 5).<sup>44</sup>

Country	Number of firms
Kazakhstan	1150
China	190
Russia	104
United Kingdom	53
United States	44
Singapore	30
United Arab Emirates	29
Other Nationalities	331

**23. A similar geographic pattern holds if the focus is narrowed down to the financial firms that have been granted licenses from AFSA to operate in the Center.** Of the 74 financial firms with licenses as at end-May 2023, 47 (or just over 60 percent) are from Kazakhstan, and 27 are foreign firms that have established a presence in the AIFC (Table 6).

<sup>44</sup> <https://aifc.kz/en>

Authorized firms licensed in the AIFC to provide financial activities	Total End-2022	Total End-May 2023
<b>Banks</b>	<b>7</b>	<b>7</b>
<i>o/w Kazakh</i>	4	4
<i>Foreign</i>	3	3
<b>Investment firms</b>	<b>43</b>	<b>47</b>
<i>o/w Kazakh</i>	30	33
<i>Foreign</i>	13	14
<b>Insurance</b>	<b>4</b>	<b>4</b>
<i>o/w Kazakh</i>	3	3
<i>Foreign</i>	1	1
<b>Other financial activities<sup>1/</sup></b>	<b>15</b>	<b>17</b>
<i>o/w Kazakh</i>	6	8
<i>Foreign</i>	9	9
<b>Total</b>	<b>69</b>	<b>74</b>
<i>o/w Kazakh</i>	43	47
<i>Foreign</i>	26	27

<sup>1/</sup> Other financial activities: operating a Representative Office, providing Credit, providing Islamic Financing, providing Money Services, operating a Multilateral Trading Facility, Authorized Market Institutions.

**24. Financial assets in the Center remain small to date, totaling 0.6 percent of GDP at the end of March 2023.**<sup>45</sup> The largest share of assets is held by the AIFC banking sector, although the financial assets of investment firms have quadrupled since the end of 2021, while the assets of the AIFC insurance sector have doubled over this period. (Table 7).

	2020	2021	2022	2023 Q1
<b>Banks</b>	399	1021	774	1168
<b>Investment Firms</b>	9	33	80	137
<b>Insurance Firms</b>	17	19	29	46
<b>Total</b>	<b>425</b>	<b>1072</b>	<b>884</b>	<b>1351</b>

<sup>1/</sup> Source AFSA Annual Report (2022) and updates from AFSA. Data are from 62 firms prudentially supervised by AFSA as at end 2023 Q1.

## **E. Key Developments in Principal Business Areas of the AIFC**

**25. Measured by employment rather than financial assets, capital market activities form the largest financial sector of the Center by some distance.** To deliver on the core objective of developing capital markets, the AIFC has attracted 47 investment firms which have been licensed by

<sup>45</sup> Assets of the Kazakhstan financial system represented slightly more than 60 percent of GDP as at end 2022.

AFSA<sup>46</sup>—together these firms employ over 1000 staff, some 10 times the number employed by the AIFC banking sector (Table 8). Investment firms offer a wide range of services, including some new facilities that were not previously available to Kazakhstan residents, such as multi-currency trading and settlement services.<sup>47</sup>

Name	Number of staff employed			
	2020	2021	2022	2023(end May)
<b>AIFC Participants</b>				
<b>Regulated Activities</b>				
Investment business	442 (estimate)	646	1048	1062 (Q1 2023)
Banking	65 (estimate)	117	95	97 (Q1 2023)
Insurance	14 (estimate)	12	25	25 (Q1 2023)
Authorized Market Institutions <sup>2/</sup>	67	81	98	98
FinTech	48	64	101	95
Ancillary Service Providers	831	1140	1205	1223
<b>AIFC bodies and Organizations</b>				
AIFC Authority	153	136	125	179
AFSA	74	73	77	103
AIFC Court	14	14	14	15
International Arbitration Center	10	13	15	18
<sup>1/</sup> AFSA does not collect information on employment by non-regulated entities as they are not part of the regulated sector. Data on employment by Ancillary Service Providers has been collected by AFSA especially for the FSAP.				
<sup>2/</sup> AIX and Crowdfunding. The AIX Clearing House is outsourced.				

**26. The AIX is a pivotal element of the AIFC capital market development strategy.** At the end of May 2023, the exchange listed 133 issues of securities from 89 issuers, including 20 Exchange Traded Notes (ETNs) linked to external indices.<sup>48</sup> The vast majority (some 85 percent) of issuers on AIX are firms from Kazakhstan (Table 8). Debt capital forms the bulk of new issuance and secondary market trading. In terms of equity capital, however, AIX was actively engaged alongside the Kazakhstan Stock Exchange (KASE) in the large 2022 IPO of KazMunayGaz (which is dual listed on

<sup>46</sup> The investment firms sector includes 13 broker dealers and 26 asset management companies (the remainder provide other types of service).

<sup>47</sup> AIFC Annual Report 2022.

<sup>48</sup> ETNs are linked to global indices such as the S&P500, US Treasury bonds, stocks and bonds of emerging economies etc. The instrument is designed to facilitate global investment by Kazakhstani investors. AIFC Annual Report (2022).

both exchanges)<sup>49</sup>—a similar dual listing approach is anticipated for future IPOs of state-owned firms, which will raise equity volumes on the exchange.

**27. To support trading activity, AIX and AFSA offer a facility to enable firms to trade on the Exchange without being granted an AFSA license and authorization as an investment firm.**

Acquiring Recognized Non-AIFC Member (RNAM) status enables brokers licensed in another jurisdiction (either the Kazakhstan domestic markets, or another country) to offer trading opportunities on AIX to clients.<sup>50</sup> Of the members, 22 are RNAMs and 7 are AFSA authorized investment firms—19 of the 29 trading members are from Kazakhstan, and 10 (all RNAMs) are foreign brokers (Table 9).

**28. AIX has also launched a mobile application (Tabys) to develop the retail investment market in Kazakhstan.** The app enables citizens to invest in local and global stock markets via ETNs, as well as to participate directly in IPOs of state-owned and commercial firms. The number of accounts registered in the AIX Central Securities Depository (CSD) has risen sharply given the increased interest in capital markets and in the service (registered accounts increasing from 160 thousand at the end of 2021 to some 800 thousand by end-May 2023).<sup>51</sup>

**29. Banking activity in the Center remains relatively low to date.** As of end-May 2023, AFSA has authorized seven banks,<sup>52</sup> as well as a handful of specialist firms offering credit, payment and leasing services. In conformance with the Currency Regulations, activities of the banking sector are mainly focused on loans for corporates and trade financing (via the commercial banks of Kazakhstan).<sup>53</sup> Loans form some 60 percent of the total assets of just under \$1.2 billion.<sup>54</sup>

**30. Insurance services also remain small, notwithstanding the significant increase in business since the end of 2021.** Financial assets of the 4 AIFC insurance companies at end-March 2023 were around 1 percent of the assets held by the Kazakhstan domestic insurance sector. The focus of the sector is on reinsurance, captive insurance and new types of specialist insurance, such as climate, catastrophe and cyber.

<sup>49</sup> \$35 million (11 percent) of the \$327 million total IPO was raised on AIX—the bulk was raised on KASE.

<sup>50</sup> <https://afsa.aifc.kz/en/news/note-on-RNAMs>

<sup>51</sup> The total number of active investors on Tabys was 17000 at end-2022 (since its launch up to end-2022 the volume of investments raised on Tabys has exceeded \$3 million). The trading volume in 2022 amounted to \$3.5 million. [https://aifc.kz/uploads/Annual%20report%202022/AIFC\\_EN\\_1.07.23.pdf](https://aifc.kz/uploads/Annual%20report%202022/AIFC_EN_1.07.23.pdf) KASE also witnessed a sharp increase in the number of registered accounts given increased interest by residents in capital market investments.

<sup>52</sup> Including both banks and bank branches. 2 are Islamic banks. The AIFC offers the flexibility for foreign banks to open either a branch or an independently capitalized subsidiary – under the domestic Kazakhstan system regulated by the ARDFM, a foreign bank wishing to enter Kazakhstan must establish a subsidiary. Banks licensed in the AIFC include both branches of foreign banks, as well as fully-capitalized self-standing banks.

<sup>53</sup> Direct financing of export and import business is prohibited under the Currency Regulations.

<sup>54</sup> Source: AFSA.

<b>Table 9. Kazakhstan: AIX—Key Indicators</b>						
<b>AIX key indicators</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>May 2023<sup>1/</sup></b>
<b>No. of listings</b>	<b>14</b>	<b>47</b>	<b>83</b>	<b>134</b>	<b>129</b>	<b>133</b>
<i>o/w Kazakh</i>	10	35	60	100	91	91
<i>AIFC</i>		6	13	21	25	25
<i>Foreign</i>	4	6	10	13	13	17
<b>No. of Issuers</b>	<b>9</b>	<b>31</b>	<b>56</b>	<b>87</b>	<b>85</b>	<b>89</b>
<i>o/w Kazakh</i>	9	19	35	60	54	54
<i>AIFC</i>		6	12	18	21	21
<i>Foreign</i>	-	6	9	9	10	14
<b>Debt capital raised \$mn</b>	-	813	148	708	557	811
<b>Equity capital raised \$mn</b>	64	152	105	-	35	-
<b>Trading volume \$ mn</b>	9	49	59	311	173	111
<b>Trading members</b>	<b>15</b>	<b>23</b>	<b>25</b>	<b>29</b>	<b>30</b>	<b>29</b>
<i>o/w RNAM<sup>2/</sup></i>	13	21	22	25	23	22
<i>o/w Kazakh</i>	11	14	13	13	11	12
<i>Foreign</i>	2	7	9	12	12	10
<i>o/w AFSA authorized firms</i>	2	2	3	4	7	7
<i>o/w Kazakh</i>	2	2	3	4	7	7
<i>Foreign</i>	-	-	-	-	-	-
<b>No. registered accounts in AIX CSD end period</b>	<b>&gt;59K</b>	<b>&gt;62K</b>	<b>&gt;103K</b>	<b>&gt;160K</b>	<b>&gt;500K</b>	<b>&gt;800K</b>
<i>Kazakh</i>	59 209	62 215	102 746	159 751	523 780	817 856
<i>Foreign</i>	313	406	613	675	1145	1429
<i>Other<sup>3/</sup></i>	15	26	32	36	39	37

<sup>1/</sup> As at end period, or for first five months of the year (debt and equity capital raised and trading volume).

<sup>2/</sup> RNAM is a Recognized Non-AIFC Member which is a status granted by AFSA which enables non-AIFC licensed firms to onboard the AIFC Astana International Exchange ("AIX") as a trading member, according to AIX membership rules and approval process. The RNAM status does not enable a firm to offer any financial services in the AIFC or in Kazakhstan other than having access to trading activities in the AIX. <https://afsa.aifc.kz/en/news/note-on-RNAMs>.

<sup>3/</sup> Other includes market makers' accounts and house accounts of AIX trading members and AIX CSD participants (custodians).

**31. Building a hub for the provision of Islamic financial services is a priority for the AIFC, as highlighted at the inception.** To support this work, the Center has published a handbook



offering guidance to prospective providers of Islamic financial services,<sup>55</sup> as well as guidelines on Islamic banking, insurance and financial products,<sup>56</sup> and on Sukuk (Islamic securities).<sup>57</sup> The AIFC also established a Central Shari'ah Advisory Board to assist the Center.<sup>58</sup> The Center also commissioned the preparation of an Islamic Finance Master Plan for Kazakhstan for 2020-2025 with the assistance of the Islamic Development Bank (IsDB).<sup>59</sup> The plan sets out a number of recommendations to help fulfil a target that Islamic finance should form 3–5 percent of total financial assets in Kazakhstan by 2025.<sup>60</sup> As at end March 2023, AFSA has authorized three Islamic financing institutions (two banks and one finance company).<sup>61</sup> AIX also cross-lists Sukuk securities issued by the IsDB and the Qatar International Islamic Bank, as well as offering ETNs that are Shari'ah compliant.

**32. Promoting financial innovation and the development of new financial services is another key objective.**<sup>62</sup> The AIFC Tech Hub spearheads this work, overseeing multiple workstreams to promote innovation and the use of Fintech. The FinTech Lab is a core element, providing a regulatory sandbox for approved firms to test new products and services under a tailored 'live' environment. Firms are subject to regulatory oversight, but do not have to meet full regulatory requirements in the trial phase. Just under 40 firms are licensed by AFSA to operate in the sandbox at any one time (Table 3 above)—a wide range of services have been covered, including: custody; digital asset trading, crowdfunding; money and credit services; operating an exchange and a multiple trading facility; and dealing and arranging investments.<sup>63</sup> Several firms have graduated from the FinTech Lab and have been granted a full regulatory license by AFSA. As well as several firms offering money services, graduate firms have established regulated crowdfunding platforms which are a first for Kazakhstan. Other initiatives of the Tech Lab include a range of services to support and encourage startups, partnership between fintech firms and banks through a fintech

<sup>55</sup> The handbook provides detailed guidance on regulatory requirements and eligibility criteria which need to be fulfilled for each of the plausible and viable business models which are also Shari'ah-compliant. <https://aifc.kz/uploads/%D0%91%D0%B8%D0%B7%D0%BD%D0%B5%D1%81/islamic-financial-business-handbook.pdf>

<sup>56</sup> The Board was established in 2016, prior to the official launch of the AIFC. [https://aifc.kz/uploads/Annual%20report%202022/AIFC\\_EN\\_1.07.23.pdf](https://aifc.kz/uploads/Annual%20report%202022/AIFC_EN_1.07.23.pdf)

<sup>57</sup> [https://aifc.kz/uploads/Islamic%20Finance/Sukuk%20Guidelines\\_V1.pdf](https://aifc.kz/uploads/Islamic%20Finance/Sukuk%20Guidelines_V1.pdf)

<sup>58</sup> [https://aifc.kz/uploads/%D0%91%D0%B8%D0%B7%D0%BD%D0%B5%D1%81/islamic-finance-master-plan-for-the-republic-of-kazakhstan-2020-2025\\_compressed%20\(1\).pdf](https://aifc.kz/uploads/%D0%91%D0%B8%D0%B7%D0%BD%D0%B5%D1%81/islamic-finance-master-plan-for-the-republic-of-kazakhstan-2020-2025_compressed%20(1).pdf)

<sup>59</sup> [https://aifc.kz/uploads/%D0%91%D0%B8%D0%B7%D0%BD%D0%B5%D1%81/islamic-finance-master-plan-for-the-republic-of-kazakhstan-2020-2025\\_compressed\\_percent20\(1\).pdf](https://aifc.kz/uploads/%D0%91%D0%B8%D0%B7%D0%BD%D0%B5%D1%81/islamic-finance-master-plan-for-the-republic-of-kazakhstan-2020-2025_compressed_percent20(1).pdf)

<sup>60</sup> Islamic banks had a 0.2 percent share of assets at the end of March 2023, according to Fitch Ratings <https://www.fitchratings.com/research/islamic-finance/islamic-finance-in-kazakhstan-impeded-by-limited-supply-demand-12-06-2023>

<sup>61</sup> Other AIFC Participants are testing Islamic Fintech products in the Tech Hub and offering professional services linked to Islamic finance, such as consulting and credit rating.

<sup>62</sup> See the accompanying Technical Note prepared for the Kazakhstan FSAP on the "Regulation and Oversight of Crypto Assets" for more information <https://www.imf.org/en/Publications/CR/Issues/2024/04/24/Republic-of-Kazakhstan-Financial-Sector-Assessment-Program-Technical-Note-on-Regulation-and-548230>

<sup>63</sup> <https://publicreg.myafsa.com/fintech/>

accelerator,<sup>64</sup> as well as participation as an affiliate Center for the Fourth Industrial Revolution (C4IR) of the World Economic Forum, a global innovation platform bringing together governments, business, advanced technology startups, civil society, academia and international organizations.<sup>65</sup>

**33. The recent crypto asset pilot project in the AIFC provides another trial of new financial products.** As described in the accompanying Technical Note, the pilot allows for the circulation of both unsecured and secured digital assets—with significant restrictions—serving largely residents in Kazakhstan and utilizing the fiat settlement rails of commercial banks domiciled and registered in Kazakhstan.<sup>66</sup> Under the pilot, 5 crypto exchanges licensed, regulated and supervised by AFSA, partnered with 8 domestically-regulated Kazakhstan commercial banks to allow the exchanges access to fiat settlement while also ensuring that transactions comply with the national currency regulations and controls.<sup>67</sup> The pilot project will be completed by the end of 2023 as the AIFC approves the procedure (mechanism) for interaction between AIFC crypto exchanges and Kazakh banks in coordination with NBK and ARDFM.

**34. The AIFC Green Financial Center (GFC) was established to facilitate the development of green finance in Kazakhstan and Central Asia.** Drawing on guidance of a Green Finance Advisory Council of external experts,<sup>68</sup> the GFC promotes investments in the sustainable economy through green and social bonds and loans. As well as supporting policy development, such as a concept note on green financial instruments and principles,<sup>69</sup> assistance to production of the government’s green taxonomy,<sup>70</sup> and development of the AIX Green Bond Rules,<sup>71</sup> the GFC provides strategic advice and solutions to the government, financial institutions and companies on raising green and sustainable finance, including on Kazakhstan’s capital markets. In 2022, the Kazakh market for such instruments almost doubled to just over \$400 million. The GFC provided support and verification of some 60 percent of the total Kazakhstan market.<sup>72</sup> Green and sustainable instruments were issued on both

<sup>64</sup> <https://tech.aifc.kz/en/fintech-accelerator>

<sup>65</sup> <https://tech.aifc.kz/en/about-c4ir>

<sup>66</sup> “The Regulation and Oversight of Crypto Assets”  
<https://www.imf.org/en/Publications/CR/Issues/2024/04/24/Republic-of-Kazakhstan-Financial-Sector-Assessment-Program-Technical-Note-on-Regulation-and-548230>

<sup>67</sup> <https://aifc.kz/en/news/astana-finance-days-holds-session-the-results-of-the-pilot-project-on-interaction-between-banks-of-kazakhstan-and-crypto-exchanges-registered-in-the-aifc>

<sup>68</sup> <https://gfc.aifc.kz/en/aifc-green-finance-advisory-council>

<sup>69</sup> <https://gfc.aifc.kz/uploads/Concept%20on%20introduction%20and%20development%20of%20green%20finance%20instruments%20and%20principles.pdf>

<sup>70</sup> <https://cis-legislation.com/document.fwx?rgn=137120>

<sup>71</sup> <https://aifc.kz/uploads/Instructions%20on%20green%20bond%20issuance%20Eng.pdf>

<sup>72</sup> The GFC is accredited by the International Capital Markets Association (ICMA) and the Climate Bonds Initiative (CBI) which define standards for green finance. It is recognized by the London Stock Exchange as a verifier of sustainable finance instruments.

AIX and KASE. The GFC is also active in the region, supporting the first issuance of social (gender) bonds in Kyrgyzstan in 2022.<sup>73</sup>

**35. AFSA also authorizes ancillary or professional service firms as participants in the AIFC.**<sup>74</sup> Some 147 firms offering one or more of the 5 recognized services (audit, accounting, legal, consulting, and credit rating) have been licensed by AFSA as at end-May 2023.<sup>75</sup> Such firms support the provision of financial services to AIFC participants. They can also provide services throughout Kazakhstan and externally using the AIFC as a base.

**36. The AIFC Court and International Arbitration Center (IAC) uphold the common law framework of the Center, and provide a forum for resolution of commercial disputes.** Both have been actively used. By 7 June 2023, the Court had completed some 2,174 cases, including 64 AIFC Court Judgements, 415 arbitration awards, and 1695 mediation settlements.<sup>76</sup> Beyond the cases arising from disputes relating to commercial activities in the AIFC, the vast majority were undertaken on an ‘opt-in’ basis where the parties to a commercial dispute agree to use the Court and Arbitration Center as the location for judgement or arbitration/mediation. Indeed, in 97.7 percent of the cases, the parties had business in Kazakhstan and agreed to ‘opt in’ to the AIFC dispute resolution framework, applying Kazakhstani law in 97.5 percent of the cases, AIFC law in 2.3 percent, and other laws including English law in the remainder. Close to half the cases involved a foreign/non-Kazakh investor with business in Kazakhstan. Parties came from 23 countries, including China, India, UAE, and Eurasian countries.<sup>77</sup> Given the extensive use, an AIFC Court and IAC Eurasia Expansion Initiative has been launched recently, supplementing the physical premises in Kazakhstan by new premises in 8 of the Eurasian countries from which users of the AIFC dispute resolution services originate.<sup>78</sup>

**37. Professional financial development is an additional priority of the AIFC.** The Center has established a Bureau for Continuing Professional Development, which provides preparatory courses for internationally recognized financial certifications, as well as developing human capital and creating a pool of local professionals with international recognition, to serve both the AIFC and beyond.<sup>79</sup> Among the range of activities, the BCPD has launched the University of the Future, which is an online platform to provide high-quality training and development solutions for professionals

<sup>73</sup> The GFC is the regional office of the Green Investment Principles of the Belt and Road Initiative in Central Asia. <https://greenfdc.org/green-investment-principle-gip-belt-and-road-initiative/>

<sup>74</sup> <https://afsa.orderly.kz/articles/ancillary-service-provider>

<sup>75</sup> 102 are from Kazakhstan, and 45 from foreign jurisdictions.

<sup>76</sup> <https://court.aifc.kz/en/news/more-than-2-100-cases-resolved-and-enforced-by-the-aifc-court-and-iac>

<sup>77</sup> The AIFC Court and IAC are thus providing services to facilitate the resolution of commercial disputes in Kazakhstan and the region, as well as in the AIFC.

<sup>78</sup> Armenia, Azerbaijan, Georgia, Kyrgyzstan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan.

<sup>79</sup> <https://bcpd.aifc.kz/en/about-us> The AIFC reserve pool contains over 15000 staff with expertise in financial and investment management, audit, AML, project management and human resources. [https://aifc.kz/uploads/Annual%20report%202022/AIFC\\_EN\\_1.07.23.pdf](https://aifc.kz/uploads/Annual%20report%202022/AIFC_EN_1.07.23.pdf)

and corporations in Kazakhstan and the CIS region on a series of financial and business topics,<sup>80</sup> and the Academy of Law, which supports the development of the AIFC legal system by teaching students and professionals the principles of the AIFC law, as well as providing legal education on the practice of international commercial law.<sup>81</sup>

## F. Strategy and Plans for the AIFC

**38. As part of the initial development strategy, the Management Council established several targets for the period until 2025.**<sup>82</sup> Numerical targets were set for raising external capital, and for the registration of participants and regulated firms, alongside objectives to raise external perceptions of the Center as an attractive environment for international business,<sup>83</sup> and to increase the weighting and importance of Kazakhstan in market indices.<sup>84</sup> The objective for external capital was to raise \$10 bn by 2025, of which just over \$ 8bn had been achieved by mid-2023. In terms of overall registrants, the goal of 2000 registrants by 2025 had been met by mid-2023, although less progress has been made in terms of the proportion of regulated financial and professional service sector firms (some 276 firms had been registered by May-2023 against a target of 600 such firms by 2025).

**39. The strategic focus of the AIFC has recently been refined to increase the emphasis on supporting economic growth in Kazakhstan through attracting foreign direct investment.** As highlighted by the AIFC Governor in the 2022 annual report: *"The AIFC is refining its strategy to support Kazakhstan's economic growth more directly through facilitating foreign direct investment and raising foreign and domestic equity and debt capital through the securities market."*<sup>85</sup> Planned initiatives to support the shift in emphasis towards investment attraction include:

- focus on facilitating investment in high priority regions, sectors and investor segments in Kazakhstan;
- accelerate the growth of securities markets through efforts to list and develop new investment opportunities, and increase international fund managers' engagement;
- develop the AIFC's legal and regulatory environment by making the changes required to support the growth of the equity, debt, carbon, funds and asset management markets and place

<sup>80</sup> <https://bcpd.aifc.kz/en/university-of-the-future>

<sup>81</sup> <https://bcpd.aifc.kz/en/academy-of-law>

<sup>82</sup> [https://aifc.kz/uploads/Annual%20report%202022/AIFC\\_EN\\_1.07.23.pdf](https://aifc.kz/uploads/Annual%20report%202022/AIFC_EN_1.07.23.pdf)

<sup>83</sup> Entering the top 50 of the Global Financial Centers Index (GFCI) published by the Z Yen group by 2025 in terms of the business environment component. Astana was ranked 65 in March 2023.

<https://www.longfinance.net/publications/long-finance-reports/the-global-financial-centres-index-33/>

<sup>84</sup> Raising the weight of Kazakhstan in the MSCI Frontier Index to 5 percent by 2025, and obtaining MSCI Emerging Markets status by 2030 (The MSCI Frontier Index weight of Kazakhstan was 8 percent at the end of 2022 thus meeting the first part of the objective.)

<sup>85</sup> [https://aifc.kz/uploads/Annual%20report%202022/AIFC\\_EN\\_1.07.23.pdf](https://aifc.kz/uploads/Annual%20report%202022/AIFC_EN_1.07.23.pdf)

emphasis on attracting new domestic and offshore firms that offer or support these markets, and

- focus on new financial services innovations, such as the development of a digital asset ecosystem, in a way that carefully manages the risk to users and the AIFC.

**40. Over the medium term, the AIFC is expected to contribute to several initiatives highlighted by the President in his Concept note on financial sector development to 2030.**<sup>86</sup> A particular emphasis for the AIFC is to contribute to the development of securities markets to support the financing of the economy, where the report outlines the need to continue further integration of the domestic stock market and the AIFC. Specific goals include:

- Creation of a single liquidity pool between KASE and AIX to increase market depth and consolidate liquidity (by 2030);
- Creation of a consolidated settlement and clearing infrastructure (by 2030);
- Conducting future IPOs of state-owned companies, providing for the potential of both exchanges (ongoing);
- Consideration of expanding the list of financial and professional services that AIFC participants can provide to residents of Kazakhstan, as well as access to the national infrastructure (by 2023);
- Synchronization of regulatory standards, and ensuring the consistency of financial market regulation and coordination of new regulatory initiatives, in order to integrate the AIFC into the common financial market (ongoing);
- Creation of local rating agencies in the AIFC, to diversify from the big 3 international firms and reduce the cost of borrowing (by 2024);
- Adopting measures to support the recognition of the AIFC settlement regime by the International Swaps and Derivatives Association (ISDA) (by 2023), and
- Exploiting the potential of the AIFC regulatory sandbox to test innovative financial technologies, and to activate new tools and services (by 2025).

**41. As well as securities markets, the Concept note also underlines the role of the AIFC in the development of other sectors and instruments over the medium term.** Specific objectives referenced include:

- Proposals for the further development and regulation of crypto exchanges, based on the results of the pilot project and study of international experience (by 2023);

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<sup>86</sup> Presidential Decree 2022: "Concept: development of the financial sector of the Republic of Kazakhstan until 2030" Available in Russian at: [Концепция развития финансового сектора РК до 2030 года \(www.gov.kz\)](http://www.gov.kz)

- Attracting large global banks to the AIFC and increasing their involvement in financing large projects (by 2025);
- Further development of Islamic banking in Kazakhstan, including through the AIFC (by 2026);
- Development of leasing markets, including in the AIFC (by 2025);
- Development of a syndicated lending market (to reduce direct state financing of business), by increasing the attractiveness and participation of AIFC banks, together with Kazakh banks, through regulatory incentives (by 2023);
- Development of an alternative funding market, including through venture funds or crowdfunding platforms registered on the AIFC (by 2024), and
- Promoting innovation in insurance markets, including building and drawing on the experience of AIFC participants (ongoing).

## INTERACTIONS WITH THE KAZAKHSTAN FINANCIAL SYSTEM: POLICY ISSUES AND RECOMMENDATIONS

**42. By objective and design, the AIFC is heavily engaged in deepening and broadening the provision of financial services in Kazakhstan.** As highlighted above, the AIFC statute emphasizes the objective of developing a domestic securities market as well as a broad spectrum of highlighted financial services in Kazakhstan. Moreover, the recently revised strategy for the Center accentuates the goal of supporting the financial and economic development of Kazakhstan, downplaying regional objectives, at least relatively. While financial activity in the Center is small relative to domestic intermediation, successful implementation of the AIFC strategy is likely to raise the significance of such activity over time, further increasing the importance of the Center in providing domestic financial services.

**43. Increasing provision of financial services to Kazakhstan residents from the AIFC raises some potential additional challenges for the management of financial stability risks in Kazakhstan.** New sources of systemic risk may potentially arise from such services, as well as from the web of interconnections and interlinkages between the domestic financial system and that of the AIFC. Spillover risks may be reputational as well as financial given perceived close interconnections between the two jurisdictions. Financial service providers may seek to arbitrage any differences in regulatory regimes between the domestic and AIFC jurisdiction, as well as to exploit any uncertainties and potential gaps in the coverage and perimeters of the two systems. Emerging systemic risks may be harder to identify and analyze. And developing and implementing policies to mitigate such risks may require consistent and coordinated actions across both jurisdictions.

**44. Several steps have been taken to help address the potential additional risks to financial stability in Kazakhstan arising from the growth of the AIFC.** Measures have been taken to strengthen the cooperation and coordination between the domestic financial authorities and those of the AIFC. In particular:

- **Strategic direction:** The Chairperson of the ARDFM and Governor of the NBK both participate in the Management Council of the AIFC which determines the strategic direction of the Center.
- **Information exchange:** In 2020, the ARDFM, NBK and AFSA signed an Agreement on the Exchange of Information (including confidential information). The Agreement enables information sharing to facilitate financial supervision and to support financial stability, as well as to combat money laundering and the financing of terrorism, and other illegal activities and unfair practices.<sup>87</sup>
- **Working Groups:** Several cross-Agency Working Groups have been established, including: Working Group on Regulation and Supervision of Financial Organizations (to ensure consistency

<sup>87</sup> Agreement between the NBK, ARDFM, and AFSA on Exchange of Information, including Confidential Information.

in the approaches of the ARDFM and AFSA); Management Committee on improving the position of Kazakhstan in the MSCI and FTSE indices;<sup>88</sup> and the Working Group on Crypto Assets which developed the arrangements for the pilot between the AFSA-regulated crypto-exchanges and selected ARDFM-regulated Kazakhstan commercial banks.

- **Currency regulations.** As highlighted above (see Table 3), the 2021 Currency Regulations (agreed between AFSA, NBK and ARDFM) set out which financial services may be offered by specified AIFC participants to domestic Kazakhstan residents and in which currency, and which are prohibited.<sup>89</sup>
- **Financial stability:** Although AFSA is not a member of the Financial Stability Council (FSC), an invitation was provided to the AIFC/AFSA to participate in the June 2023 meeting discussion on the crypto-asset pilot and potential next steps. The Governor of the AIFC joined the meeting.<sup>90</sup>

**45. While these steps are positive, further reinforcement and formalization of the financial stability arrangements are warranted to address the heightened risks stemming from the active provision of financial services to Kazakhstan residents from both the domestic and AIFC jurisdictions under different legal and regulatory frameworks.** For example, while the currency regulations restrict AIFC participants from offering certain services to residents, such as banking in local currency and provision of retail banking services,<sup>91</sup> and thus associated stability risks from these activities are contained in the domestically-regulated sector; some other services may be provided only from the AIFC, such as crowd-funding;<sup>92</sup> while other financial services (such as many capital market activities, and Islamic banking) may be (and indeed are) provided by both “domestically-regulated” and AFSA-regulated intermediaries. Moreover, business and operational interconnections between financial intermediaries in the two jurisdictions are increasing, and will increase further under the government strategy for financial services to 2030.<sup>93</sup> Notable examples include: the growing interlinkages between KASE and AIX, and plans to provide one pool of liquidity and a unified clearing and settlement platform; the connections between AFSA regulated crypto-exchanges and Kazakhstan banks; the provision of reinsurance by AFSA-regulated firms to domestic insurance companies; and the joint participation in syndicated lending operations by domestically-

<sup>88</sup> See the accompanying FSAP Technical Note by the World Bank on Capital Market Development <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099041124104518186/p18031011e5d4c01d182281c2aed58895de>

<sup>89</sup> An update of the Currency Regulations is currently under discussion.

<sup>90</sup> Financial Stability Council press release July 2023. <https://nationalbank.kz/ru/news/informacionnye-soobshcheniya/15574>

<sup>91</sup> With the exception of Islamic banking services.

<sup>92</sup> The question as to whether to extend the Currency Regulations to include AFSA-regulated crowd-funding is under active consideration.

<sup>93</sup> Presidential Decree: Concept Note on the Development of the financial sector of Kazakhstan to 2030.



regulated and AIFC banks. The role of the AIFC jurisdiction in the Kazakhstan financial system is thus likely to rise further.

**46. Certain high-level principles may provide a helpful guide in developing and reinforcing domestic financial stability arrangements in cases where a jurisdictionally-separated international financial center (JSIFC), such as the AIFC, is established and is providing extensive financial services to domestic residents.**<sup>94</sup> Such principles include:

- i. All regulatory agencies (domestically and in the international center) should promote financial stability as a primary goal. As highlighted in the Basel Core Principles for Banking Supervision, safety and soundness of the banking system is the primary objective of banking supervision, and any other objective should be subordinate to it.<sup>95</sup>
  - Assigning a primary role to financial stability will guard against pressures to lower regulatory standards in support of other objectives such as financial development and/or the development of business in the international center.
- ii. Data and financial information should be readily shared by all regulatory agencies (domestically and in the JSIFC) to support their regulatory, supervisory, resolution and financial stability responsibilities, while preserving strict commercial confidentiality.
- iii. High standards of financial regulation and supervision, in line with international standards and best international practices, should be applied by all regulatory agencies, both “domestically” and in the JSIFC. Alignment with international standards and best international practices should also extend to recovery and resolution frameworks, recognizing that distinct and separate arrangements for crisis management will apply domestically and in the JSIFC.<sup>96</sup>
  - Implementing and upholding international standards and good practices will ensure high quality regulation and supervision, as well as help to counter any incentives for regulatory competition and arbitrage to attract business.
- iv. There should be clarity of regulatory responsibilities, with clear boundaries and delineation of regulatory and supervisory responsibilities for financial activities and financial institutions. The boundaries should be closely monitored (and adjusted, if necessary) to avoid regulatory

<sup>94</sup> Some adjustments and tailoring of these principles may be required in a case where such a jurisdictionally-separated international financial center is focused on providing services regionally or globally to non-residents, (acting more as a financial entrepôt hub) rather than into the domestic system. For example, in such a case, the first principle may be expanded to recommend that the center supports the promotion of financial stability in all markets in which the center is active.

<sup>95</sup> <https://www.bis.org/publ/bcbs230.pdf>. See also the accompanying FSAP publication “Kazakhstan FSAP: Detailed Assessment of Banking Supervision” <https://www.imf.org/en/Publications/CR/Issues/2024/02/29/Republic-of-Kazakhstan-Financial-Sector-Assessment-Program-Detailed-Assessment-of-545260>

<sup>96</sup> As highlighted in the main FSAP report, the Financial System Stability Assessment (<https://www.imf.org/en/Publications/CR/Issues/2024/02/07/Republic-of-Kazakhstan-Financial-System-Stability-Assessment-544628>), the domestic authorities should avoid any expansion of the national financial safety nets to the AIFC.

gaps. The responsibilities and associated rules, regulations, resolution procedures, crisis management arrangements, and consumer and investor protections (where applicable), should be clear and transparent to financial intermediaries and financial system users.

- Clear responsibilities sharpen the focus and effectiveness of regulation, lowering the risk of overlaps and duplication, as well as of risks, uncertainties and gaps linked to the blurring of responsibilities. At the same time, close and continuous attention to the risks and regulatory perimeter(s) will ensure that any existing or emerging regulatory gaps are rapidly filled. Clarity of regulatory responsibilities and boundaries will also facilitate external communications to intermediaries and system users.<sup>97</sup>
- v. Duplication of regulatory and supervisory frameworks should be avoided wherever feasible. Where possible, there should be one regulatory agency clearly responsible for each activity.
- Lowering the opportunities for individual financial activities to be undertaken either under domestic regulation or that of the international center will not only reduce costly and wasteful duplication of scarce regulatory resources, but will also eliminate the scope for regulatory competition that may give rise to arbitrage and a weakening of standards.
- vi. In any remaining cases where the same activities can be provided under two regulatory authorities, the regulatory authorities should work together and agree a common (ideally harmonized) approach. More broadly, and as a matter of routine, proposals for new regulations and supervisory approaches (by either the domestic authorities or those of the JSIFC) should be shared in advance for comments and feedback from the other regulatory agencies, prior to finalization.
- Agreement and application of a consistent approach to regulation, supervision, recovery and resolution, and enforcement based on high-quality international standards will prevent arbitrage between the domestic and international financial center frameworks, and ensure that regulation, supervision and enforcement are effective.
- vii. The domestic financial authorities and JSIFC regulatory agency should hold regular discussion of risks and spillovers, addressing the potential implications for the safety and soundness of financial institutions and of financial stability more broadly. This may be best delivered by the development and application of a coordination framework that fosters collaboration on the identification of risks to the domestic financial system and to other regulatory and supervisory objectives, and on the development of policy responses to address them.
- Establishing a process and procedure that facilitates the pooling of information and analysis, and that ensures periodic (as well as ad hoc) joint review by the domestic and

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<sup>97</sup> As well as information on required regulatory standards, such communication may also clarify important features such as consumer and investor protection frameworks and safety-net arrangements. As such elements may differ between the two jurisdictions, it is important that both financial service providers and users are provided with such information and are fully aware of the arrangements that apply in each case.

international center regulatory authorities will minimize the possibility of information gaps, and facilitate more effective systemic risk analysis and policy development. Such a framework may be established initially at working level, but with an option to integrate the arrangements into a pre-existing financial stability council or committee as judged appropriate (perhaps as a working group). Extending such a coordination framework to the design and implementation of new financial regulations, by ensuring that domestic authorities are consulted in advance on the development of new regulations by the international center authorities, and vice versa, will help promote the consistency of regulation specified in the previous principle.

- viii. There should be scope for the international financial center authorities to participate in domestic financial stability arrangements (either: periodically; by invitation from the domestic authorities; at the request of the JSIFC regulatory agency; or even as a permanent member).
- Depending on an assessment of the risks to domestic financial stability from the provision of financial services from the international center (which may be provided by the working group highlighted in the previous principle), arrangements may differ from jurisdiction to jurisdiction, as well as over time. For a small international financial center providing relatively few financial services to domestic residents, ad hoc arrangements may be sufficient. At the other extreme, a large international center providing extensive services to domestic residents may be invited to participate on a routine basis.

**47. These principles are set out to provide a guide to identify specific areas where financial stability arrangements in Kazakhstan should be reinforced, given the growing interlinkages between the domestic system and the AIFC, and the planned further expansion of AIFC activities in serving domestic markets.** Additional safeguards will need to be in place for such further engagement to occur while ensuring that the increased financial stability risks in Kazakhstan are successfully mitigated. A preliminary review highlights several areas where frameworks may be strengthened, and provides some specific recommendations for consideration by the authorities.

- **Affirm the primacy of financial stability in regulatory objectives.** The authorities are recommended to review and adjust the mandates of the regulatory agencies (domestically and in the AIFC) to support this principle. The Basel Core Principles assessment conducted for this FSAP highlights this key point.<sup>98</sup> In relation to the AIFC, AFSA has an objective to 'foster and maintain the financial stability of the AIFC's financial services industry and capital markets, including the reduction of systemic risks' (Box 2 above). Amending this to highlight the primacy of fostering and supporting financial stability in Kazakhstan, (and in the future

<sup>98</sup> See accompanying note: "Kazakhstan FSAP: Detailed Assessment of the Observance of the Basel Core Principles for Banking Supervision." <https://www.imf.org/en/Publications/CR/Issues/2024/02/29/Republic-of-Kazakhstan-Financial-Sector-Assessment-Program-Detailed-Assessment-of-545260>

to support the achievement of financial stability by domestic authorities in other jurisdictions where AIFC financial activities gain importance) would be helpful.

- **Ready sharing of data and financial information.** The 2020 Agreement on the exchange of information provides a valuable framework to support financial supervision, in particular, by enabling authorities to make official ‘requests’ to each other to access important data. While it also permits agencies to provide unsolicited information to other agencies even if it has not been requested, the Agreement does not encourage such provision, and the current drafting does not inspire more open sharing of data to facilitate systemic risk identification and broader financial stability analysis. Three years after the Agreement was signed, it would be useful to conduct an ex-post review of the experience and consider whether amendment and updating is needed to enhance the sharing of data and foster financial stability analysis.
- **Application of international standards.** International standards of regulation, supervision and resolution form the basis for both the domestic regulatory framework and the framework in the AIFC. The BCP assessment undertaken for the FSAP contains recommendations to strengthen observance by ARDFM.<sup>99</sup> Re-emphasizing a key point, this FSAP has not undertaken any assessment of the regulatory or policy framework of the separate AIFC jurisdiction.
- **Provision of clear delineation of responsibilities and boundaries, supported by monitoring and rapid adaptation, where warranted, to close identified gaps.** The Currency Regulations specify the permissions and restrictions on the provision of financial services to residents of Kazakhstan from the AIFC. Periodic amendments are likely in the light of financial innovation and experience. The current approach for amendment appears to be relatively ‘reactive’: AIFC/AFSA make a proposal which is then considered and reviewed by the domestic authorities, prior to discussion and a final decision. There may be some merit in developing an earlier and more continuous engagement process on potential financial innovations and amendments to regulatory responsibilities—this would enable the domestic authorities to raise any concerns at an early stage, and thus limit and address differences in expectations, as well as supporting quicker adaptation and implementation of regulatory frameworks where adjustments are collectively supported. Introducing a more formal and transparent analytical framework for assessing the impact of potential regulatory changes would also strengthen such a process. Clarity on responsibilities would also facilitate communications on elements such as complaints and dispute resolution procedures, consumer and investor protection schemes, and safety net arrangements, which are likely to differ across the two jurisdictions, given the different legal and regulatory frameworks.<sup>100</sup>

<sup>99</sup> <https://www.imf.org/en/Publications/CR/Issues/2024/02/29/Republic-of-Kazakhstan-Financial-Sector-Assessment-Program-Detailed-Assessment-of-545260>.

<sup>100</sup> For example, as AIFC banks do not provide retail deposits there is no deposit insurance framework. AIFC banks are also subject to a separate recovery and resolution framework: [https://court.aifc.kz/files/legals/556/file/aifc-recovery-and-resolution-rules- v1\\_01.07.2023.pdf](https://court.aifc.kz/files/legals/556/file/aifc-recovery-and-resolution-rules- v1_01.07.2023.pdf). See also the Financial System Stability Assessment report

(continued)

- Minimization of potential duplication of frameworks and overlaps.** There are several areas where financial services can be provided to Kazakhstan residents from either the domestic or the AIFC system. A particularly striking example is Islamic banking which is currently very small in Kazakhstan (substantially less than 1 percent of financial assets), but which is a priority area for growth (the government has set a target of 3–5 percent of financial assets by 2025). There are currently four licensed Islamic banks in Kazakhstan; two operating in the domestic system, licensed, regulated and supervised by ARDFM, and two licensed and operating from the AIFC. While recognizing that there are costs of adjustment to make any change, the current position seems quite hard to justify as a steady state equilibrium. The authorities are recommended to review all permissible financial activities where there are dual systems of regulation and examine the scope for streamlining regulatory responsibilities.
- Development of consistent (ideally harmonized) regulations where duplication of frameworks cannot be avoided.** The Kazakhstan authorities fully recognize this point: the 2030 Concept note highlights that: *“In order to integrate the AIFC into the common financial market, regulatory standards will be synchronized, the consistency of financial market regulation and the coordination of new regulatory initiatives will be ensured.”*<sup>101</sup> To support this important objective, the authorities are consequently encouraged to establish a framework to deliver stronger cooperation and collaboration on the development of regulation in the cases where there are two regulatory systems and where streamlining is ruled out. Capital market regulations may provide one example, as steps are taken toward closer integration of financial infrastructure and the development of a single pool of liquidity across the two exchanges. Although regulations must be adapted to conform to the different legal frameworks in Kazakhstan and in the AIFC, achieving consistency should be facilitated by the common agreement of all regulatory agencies to apply international standards and best practices.
- Implementation of a coordination framework to strengthen risk identification and policy responses.** While there are arrangements to enhance strategic development (the AIFC Management Council), and support regulation and supervision (the Working Group on Regulation and Supervision of Financial Organizations), as well as Working Groups on specific topics (such as crypto-assets), there is no standing body or arrangement that brings the domestic agencies and AFSA together on a regular basis to discuss emerging risks and market developments, and the associated financial stability implications. Although the AIFC financial system remains relatively small, establishing a standing working group of staff of ARDFM, NBK and AFSA on risk identification and mitigation that meets periodically (quarterly or six monthly) would help to strengthen the quality of risk identification by filling in potential gaps in information and analysis, as well as enabling focus on linkages and

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(<https://www.imf.org/en/Publications/CR/Issues/2024/02/07/Republic-of-Kazakhstan-Financial-System-Stability-Assessment-544628>), which recommends that the domestic authorities avoid any expansion of the national financial safety nets to the AIFC.

<sup>101</sup> Presidential decree: Concept: Development of the financial sector of the Republic of Kazakhstan until 2030.

spillover risks between the two systems. The group could also oversee the review of data sharing arrangements recommended under principle 2 above, ensuring that data and financial information are readily shared by all regulatory agencies to support their regulatory, supervisory, resolution, and financial stability responsibilities, while preserving strict commercial confidentiality.

- **Enabling participation of the AIFC/AFSA in the Financial Stability Council on relevant topics.** The invitation to the AIFC Governor in the June 2023 Council discussion on crypto assets demonstrates flexibility in the current arrangements. Looking forward, consideration could be given to the case for a periodic (at least annual) discussion at the FSC on the linkages between the Kazakhstan financial system and the AIFC and on associated risks,<sup>102</sup> as well as further ad hoc participation as warranted by the topics discussed in future meetings. Such discussions should be underpinned by rigorous analysis of emerging and potential risks.

Implementing the above recommendations will help to mitigate the potential additional risks to financial stability in Kazakhstan generated by the co-existence of the domestic regulated system and that of the legally distinct AIFC jurisdiction.

**48. To provide impetus to implementation, consideration should be given to the development of a Financial Stability Protocol between the domestic authorities and AFSA that sets out the overarching framework and approach to enhance cooperation and coordination in support of financial stability in Kazakhstan, along the principles listed above.** For example, a high-level working group of staff of the ARDFM, NBK, and AFSA, could be established and tasked by the FSC and the AIFC Governor to prepare such a Protocol for deliberation, and for ultimate sign off and publication, as well as to manage and oversee potential workstreams on specific topics. Although progress may also be made incrementally (for example, by setting up a series of workstreams on gaps in the fulfillment of individual principles), the high-level group could provide leadership and momentum to help overcome any inertia and resistance to change.

**49. In conclusion, while financial activities in the AIFC are currently relatively small, should the impact and interactions with the Kazakhstan financial system grow as planned, so will the associated risks.** Policy action is consequently needed to develop and enhance frameworks and procedures to preserve financial stability, to protect consumers and investors, and to ensure financial market integrity and the protection of a well-functioning financial system in Kazakhstan.

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<sup>102</sup> This could be prepared by the working group highlighted in the previous recommendation which could be either folded into the FSC substructure or be a self-standing group.