

Chronicle of the development of Islamic finance in Kazakhstan

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On the 12th of February, 2009 the Law of the Republic of Kazakhstan “On amendments and additions to some legislative acts of the Republic of Kazakhstan on the organization and activities of Islamic banks and Islamic finance” has been adopted;

- On the 7th of June, 2009 the Law of the Republic of Kazakhstan “On Ratification of the Agreement between the Government of the Republic of Kazakhstan and the Government of the United Arab Emirates on the opening of the Islamic Bank in the Republic of Kazakhstan” has been signed. The law served as the basis for the establishment of the first Islamic bank in the country - JSC “Al Hilal Bank” (100% subsidiary of Al Hilal (UAE));

- **The annual Address of the President of Kazakhstan dated January 29, 2010 “New Decade - New Economic Growth - New Opportunities”:**

“...We need to get to work the local stock market, which by 2020 should become regional centre of Islamic banking in the CIS and Central Asia and enter the top ten leading financial centres in Asia”.

- **Strategic Plan for the Development of Kazakhstan until 2020, approved by the Decree of the President of the Republic of Kazakhstan no. 922, dated February 1, 2010:**

“...As a part of the formation of a full-fledged stock market of Kazakhstan and its integration with the international capital market the Regional Financial Centre of Almaty city will develop further. From a strategic perspective the state will create the necessary conditions for the development of a competitive financial centre of Almaty city that meets international standards, and its entrance in a top ten financial centres in Asia.

... By 2020, domestic stock market will become a regional centre of Islamic banking among the countries of the Commonwealth of Independent States and Central Asia”.

- **Conception of the development of financial sector of Kazakhstan at post crisis period, approved by the Decree of the President of the Republic of Kazakhstan no. 923, dated February 1, 2010:**

“...Further work on implementation ... of the Plan of the development of Regional Financial Centre of Almaty city until 2015, approved by the Government of Kazakhstan no. 90, dated January 30, 2009, will be continued ... As one of the additional sources of resource mobilization Islamic finance will be developed further ...”

- August 2010 – Agency of the Republic of Kazakhstan on Regulation of Activities of the Regional Financial Centre of Almaty city in cooperation with the government bodies of the Republic of Kazakhstan approved the Roadmap for the development of Islamic finance in Kazakhstan for 2010-2012;

- **Speech of the President of the Republic of Kazakhstan at the 38th session of the Council of Foreign Ministers of the Organization of Islamic Cooperation (28th of June, 2011):**

“Islamic Bank was opened in Kazakhstan. We actively promote Islamic finance and the creation of benchmark for Islamic financial instruments in the region. I suggest to ... develop Almaty city as a regional financial centre, where Islamic finance is being used”;

- October 20, 2011 – orders of the President of Kazakhstan on the development of Islamic finance in Kazakhstan no. 61-17.307, have been issued;

- November 17, 2011 – National Bank of Kazakhstan was admitted to the Islamic Financial Services Board (IFSB) as

an associate member;

- March 29, 2012 – Decree of the Government of the Republic of Kazakhstan no. 371 approved the Roadmap on development Islamic finance in Kazakhstan until 2020;
- July 20, 2012 – JSC “Development Bank of Kazakhstan” issued debt securities in accordance with the laws of Malaysia (Sukuk “al-Murabaha”) in the amount of 240 million Malaysian ringgit (about 76.7 million USD), 38% of which was distributed among the Kazakhstani investors.

The legislative framework

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In Kazakhstan the legal framework for the organization of activity of Islamic banks and Islamic finance has been established. Thus, on the 12th of February, 2009 the Law of Kazakhstan “On amendments and additions to some legislative acts of the Republic of Kazakhstan on the organization and activities of Islamic banks and Islamic finance” has been adopted.

The main block of changes concerning the introduction of Islamic finance instruments is related to the Law of the Republic of Kazakhstan “On Banks and Banking Activities in the Republic of Kazakhstan” and aimed at creation of a legal framework for the functioning of Islamic banks, the removal of restrictions preventing the introduction of Islamic banks, determination of the forms and methods of state regulation and supervision of Islamic banks, list and order of the Islamic banking operations.

Changes to the Law of the Republic of Kazakhstan “On securities market” allow the issuance and circulation of Islamic securities (sukuk).

Changes to the Law of the Republic of Kazakhstan “On investment funds” include the possibility of creating Islamic investment funds. At the same time the shares and units of Islamic investment funds are also considered by the Law on Securities Market as Islamic securities.

On 22nd of July, 2011 the Law of the Republic of Kazakhstan “On amendments and additions to some legislative acts of the Republic of Kazakhstan on the issues of Islamic finance” was adopted. According to the law the state was allowed to issue sovereign Islamic securities, as well as the list of corporate issuers of Islamic securities was expanded.

Thus, basic requirements for activity of Islamic banks and issuance of Islamic securities (prohibition of charging fees in the form of interest, funding contrary to the norms of Islam, mandatory presence of the Council on the principles of Islamic finance in Islamic banks and the creation of an Islamic special finance company under the issuance of Islamic securities) has been set.

There are no restrictions on the participation of Islamic banks in corporate equities, as well as restrictions prohibiting Islamic banks engage in any activity other than banking, in the financing of production and trading activities. Thus, Islamic banks are allowed to engage in trading activities and to share profits and losses with their customers.

Moreover, the following Islamic banking products adapted to the institutions of the civil legislation of Kazakhstan, have been identified:

- interest free demand deposits;
- fiduciary money management (investment deposit) (Mudarabah);
- bank lending operations without charging a fee (Qard al-Hasan);
- trade financing (Murabaha);

- financing of production and trading activities on a partnership basis (Musharaka);
- rent (leasing) (Ijara);
- agency services under the Islamic banking activities (wakala).

The conditions for the issuance and circulation of the following types of Islamic securities (sukuk) have been created:

- shares and units of Islamic investment funds;
- Islamic lease certificates (sukuk al-Ijara);
- Islamic participation certificates (sukuk al-musharakah);
- other securities recognized as Islamic securities under the laws of the Republic of Kazakhstan.

At the same time, all legal entities who are residents of Kazakhstan can be issuers of corporate Islamic securities.

In addition, issuance of sovereign Islamic securities has been allowed. In accordance with the Budget Code the issuer of the sovereign Islamic securities is a central government body authorized for the implementation of the budget, which determines the amounts, terms and conditions of each issue of the government securities.

With regard to Islamic banking products there is a separate tax regime providing for tax incentives equivalent to traditional financial transactions (financial transactions are exempt from value added tax).

In order to provide an opportunity to the public to invest in Islamic securities the fee for the processing of electronic orders on transactions with Islamic financial instruments in JSC "Central Securities Depository" has been cancelled.

Moreover, for the further development of Islamic finance in the official list of JSC "Kazakhstan Stock Exchange" a separate sector "Islamic securities" has been created.

Work on the further improvement of the legislation of Kazakhstan is being carried out. A draft law "On amendments and additions to some legislative acts of Kazakhstan on insurance and Islamic finance" was developed. The draft law includes issues of Islamic insurance, amendments providing for recognition of commodity Murabaha as Islamic banking operation, mechanisms and methodologies for tax administration of this operation, as well as acceptance of deposits by Islamic banks on the principles of agency activities (wakala).

In addition, this draft law provides for the inclusion of activities of the development of Islamic finance to the functions of the National Bank of Kazakhstan.

The legal framework for accounting of the operations of Islamic finance includes additions to the chart of accounts (special balance sheet accounts for Islamic finance operations), instructions for accounting and preparation of financial statements by Islamic banks and Islamic special finance companies. Legal basis for accounting in the Republic of Kazakhstan has been developed on the basis of standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in the framework of general principles and foundations of IFRS.

Instructions of the National Bank of Kazakhstan cover virtually all accounting operations of Islamic banks and Islamic special finance companies: Mudaraba, Murabaha, Ijara, Musharaka, Istisna, sukuk.

Following Islamic financial institutions operate in Kazakhstan:

- JSC "Islamic Bank "Al Hilal" which was established in March 2010 in accordance with the Agreement between the Government of the Republic of Kazakhstan and the Government of the United Arab Emirates;
- Islamic Development Bank (IDB), the total investment portfolio in Kazakhstan is about 700 million USD;
- JSC "Fattah Finance" - the first brokerage company which provides financial services in accordance with Shariah and manages Islamic investment funds;
- Islamic Investment Hajj Fund of Kazakhstan aimed at investing the savings of the population willing to do Hajj or Umrah;

- The first Islamic insurance company – Mutual Halal Insurance “Takaful” which was established in 2010;
- Zakat Fund of the Spiritual Administration of Muslims of Kazakhstan, which is the distribution center for the collection zakyat and charitable funds;
- Islamic Corporation for the Development of the Private Sector (IDB) in collaboration with Kazakhstani participants created the first Islamic leasing company in Kazakhstan with a capital of USD 36 million.

More detailed information is available at www.fingramota.kz