

## **Kazakhstan: laying the foundations for sustainable investment**

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Kazakhstan, as a full member of the United Nations, adopted the Sustainable Development Goals (SDG) in September 2015. Guided by the SDG, Kazakhstan included sustainable and green economy goals among its priorities in its Strategy-2050 national development plan.

In the same year, the Kazakhstan Stock Exchange (KASE) joined the UN Sustainable Stock Exchanges Initiative (SSE initiative). Today, KASE is one of 104 exchange partners in the SSE initiative. In 2016, we also joined the Sustainability Working Group of the World Federation of Exchanges (WFE).

In 2016, KASE developed a methodology for preparing an Environmental, Social and Governance report in accordance with the SSE initiative recommendations, placing it among the 60 SSE exchanges with written ESG Guidance. The methodology was developed in accordance with widely accepted international standards, such as the principles of the Global Reporting Initiative, Sustainability Accounting Standards Board and International Integrated Reporting Council.

The methodology encourages listed companies to increase their transparency by disclosing three aspects of their activities in annual reports: control over environmental safety, implementation of social responsibility and improvement of corporate governance. In terms of environmental friendliness, the methodology determines the disclosure of such information as material usage, resource consumption, and greenhouse gas emissions. As regards to social responsibility, it requests disclosure of workplace health and safety issues, training and education, diversity and equality. In terms of corporate governance, it mandates a description of the corporate management system, internal controls and audits.

### **Upgrading ESG methodologies**

In 2018, KASE, in partnership with the International Finance Corporation, updated its methodology. The main difference from the initial version was a broader definition of key performance indicators in relation to ESG issues, and industry specifications for the main sectors of the economy, including oil, gas and financial sectors. These industry specifications help companies to apply them in the context of the company's sector, with particular attention to specific business models and resource usage.

In February 2020, we updated our requirements for annual reports that listed companies must disclose and submit to the exchange. Among new conditions were additional disclosure of ESG information. The main provisions of the methodology were included in the requirements for annual reports mainly as recommendations. They apply to companies that fall into the "Main" category of the KASE's official list.

It is important to note that KASE, to ensure gradual and quality adaptation, implements disclosure requirements in phases – from voluntary to mandatory. As the next step, we plan to introduce mandatory ESG reporting.

Our methodology has proved useful to help the market navigate emerging ESG disclosure demands, assist in disclosing ESG information, improve the attractiveness of Kazakhstan companies for foreign investors, and ensure long-term sustainable investment. As a result, 86 out of 150 companies listed

on KASE included ESG disclosure in their 2019 annual reports, and the number continues to grow. Also, there is rising involvement of financial institutions in this process. For example, last year Halyk Bank, the country's biggest, published its first sustainability report and was recognised as the best in the financial sector for sustainability reporting.

### **Ongoing training**

As companies adapt and move from one reporting model to another - from financial to integrated – it is crucial to conduct explanatory activities and training on ESG issues for market participants. Such initiatives are of great educational value and provide an opportunity to build the capacity needed to produce quality sustainability reports.

In recent years, we have been active in implementing ESG related events and training for a wide range of companies. To date, KASE is among 58 participating SEE initiative exchanges that run ESG-related training. We organise events covering critical aspects around ESG disclosure, inviting industry experts and partnering with such international organisations as WFE, SSE initiative, International Finance Corporation, PricewaterhouseCoopers, and others. These events serve as a great tool to promote ESG disclosure among local companies, as well as encourage responsible investment and integration of ESG principles in investment decision-making.

Moreover, providing dialogue between market participants and helping to fill gaps in ESG reporting ensures market transparency and trust, as well as understanding wider climate-related risks and opportunities.

As we have seen in recent years, the green finance market has grown and become more complex due to the variety of instruments and purposes. Therefore, KASE will continue conducting further explanations regarding specific ESG practices and international standards.

Other events supported by KASE also include awards on sustainability. Since 2005, we have been evaluating the annual reports of listed companies and awarding nominees for “striving for transparency”. From 2017, the criteria on the development of ESG principles was included in the exchange's assessment. As well as that, we support a competition for annual reports, including a special nomination for "Best Disclosure of Information on Sustainable Development" that has been organized by our partners since 2018. More than 100 annual reports of Kazakhstan companies are evaluated annually under this initiative.

### **The green shoots of sustainable issuance**

In October 2020, KASE adopted its own sustainable development policy. The policy defines principles to optimise environmental impact through the rational use of resources and create even more comfortable and safe working conditions for our employees. The policy was developed taking into account the provisions of the UN Global Compact and the UN Principles for Responsible Investment.

At present, KASE is reviewing its listing rules and procedures in relation to green and sustainable bonds in the context of requirements to provide an independent assurance of the environmental and social features of the potential bond issuance. For this, we use the standards of the International Capital Markets Association's Green Bond Principles and the Climate Bonds Initiative as guidance.

On July 16, 2021, we held the "Green Finance and the Debt Capital Market" conference, within which the Agency for Regulation and Development of the Financial Market of Kazakhstan, KASE and PwC Kazakhstan signed a memorandum of cooperation on promoting the principles of sustainable financing. The memorandum covers support and consultations on the issuance of first 10 green and social bonds on KASE.

In order to further promote this market segment, KASE plans to approve special tariffs on listing fees for issuers of sustainable bonds. Currently, we have three ESG-related bonds in KASE's official list. In November 2020, the Asian Development Bank (ADB) issued green bonds totalling KZT10.09 billion (~US\$23.7 million) and KZT3.87 bn (~US\$9.1 million) to "finance ADB's portfolio of climate change adaptation and mitigation projects in Kazakhstan". They were the first green bond issuances on KASE and the second in Kazakhstan. In February 2021, ADB issued the first gender bonds in Kazakhstan on KASE and raised nearly KZT8.4 billion (~US\$20.1 million). Proceeds of these bonds will finance the project "Promoting Gender Equality in Housing Finance".

Successful placement of the first sustainable bonds in Kazakhstan was an important stage in the development of a green economy, which is a strategically important course for our country. We believe that the emergence of sustainable instruments will stimulate further market growth and attract investors who consider ESG factors in their decision-making.

In conclusion, KASE, understanding its role in increasing ESG awareness and promoting ESG standards in the local capital market, aims to further facilitate good ESG practices, transparency and encourage companies to become more sustainable on a long-term basis for a better sustainable future for all.

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