



Public Regulation and  
Supervision Service  
of Financial Market  
under Government  
of the Kyrgyz Republic



# Financial Defined Contributions in the Kyrgyz Republic

# Components of the current pension provision

## Solidarity

- is implemented by the Social Fund of the Kyrgyz Republic

## Required funded

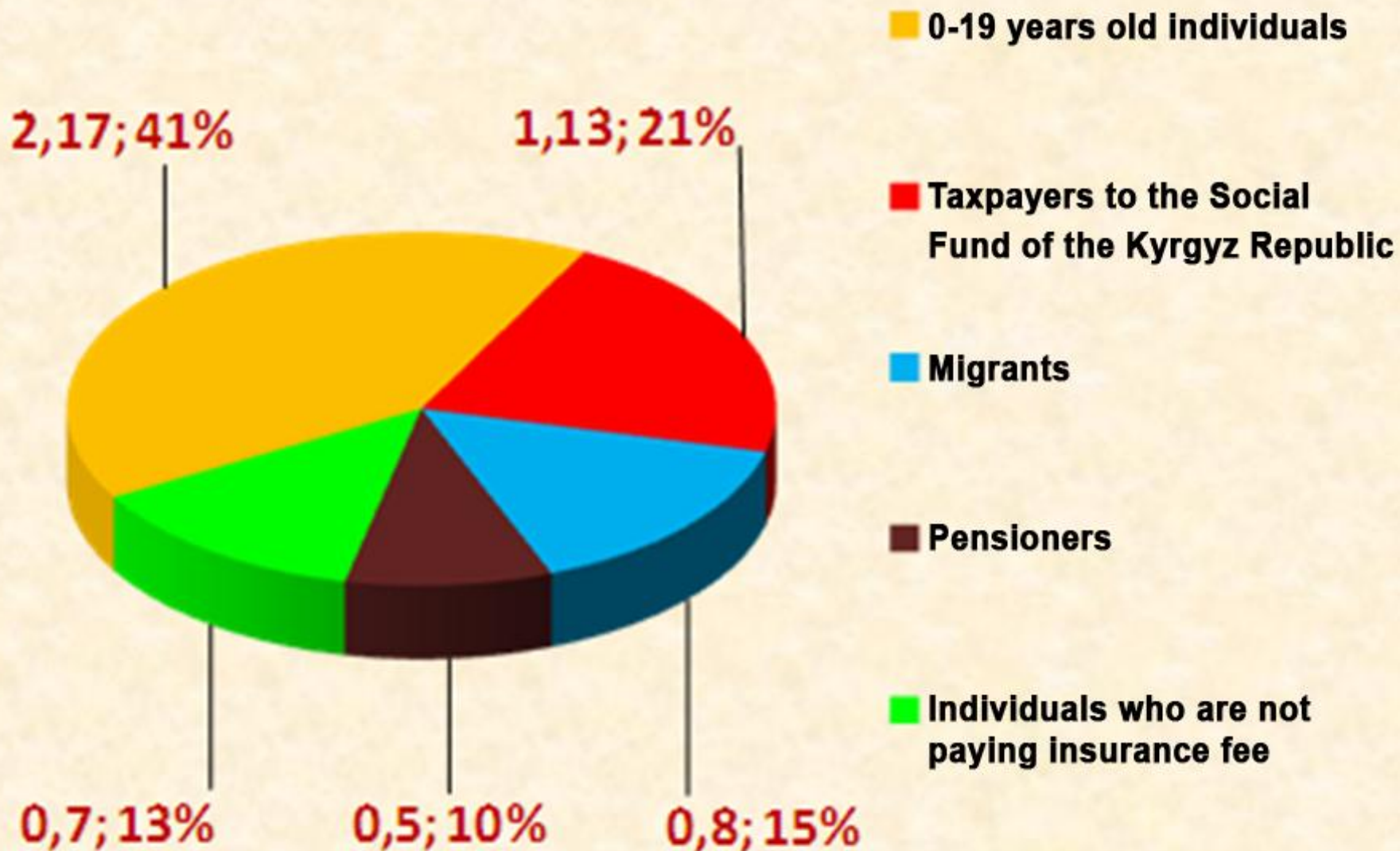
- is implemented by the Social Fund of the Kyrgyz Republic (provided by the concept of 2008)

## Voluntary

- is regulated by the State Financial Supervision (provided by the Kyrgyz Republic Law on Non-State Pension Funds”)

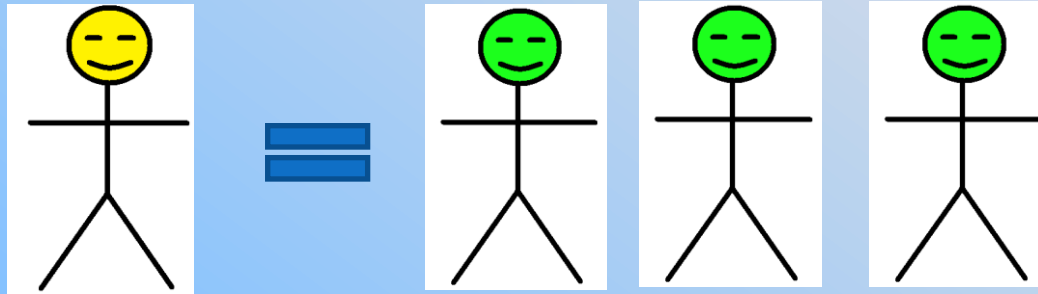
# STRUCTURE OF THE COUNTRY'S POPULATION (ONLY 5.3 MILLION OF PEOPLE)

ACCORDING TO THE NATIONAL STATISTICAL COMMITTEE



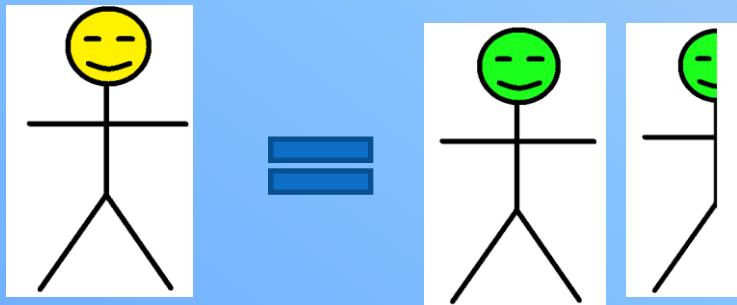
# Coefficient of contingency

- ▶ According to International Labor Organization:



**1 Pensioner = 3 Employees (payers)**

- ▶ Situation in the Kyrgyz Republic:



**1 Pensioner = 1,2 Employees (payers)**

# Concept of introduction of funded part in the Kyrgyz Republic pension system

(approved by Decree of the Kyrgyz Republic President in 2008)

Objective – transition to a new model of the pension system by introducing funded component in distribution pension system

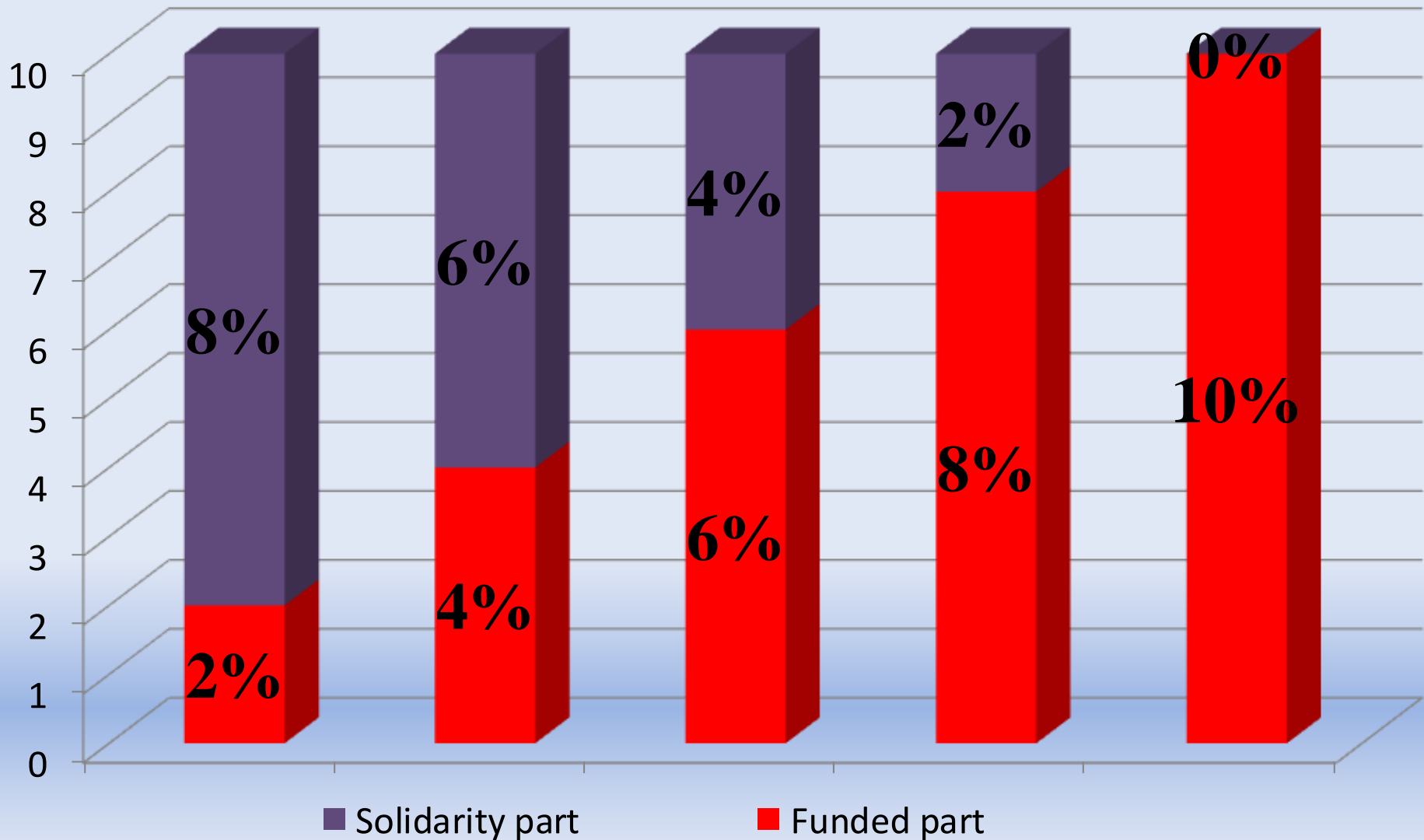


Result – funded component of pension system in the Kyrgyz Republic is introduced from January 1, 2010

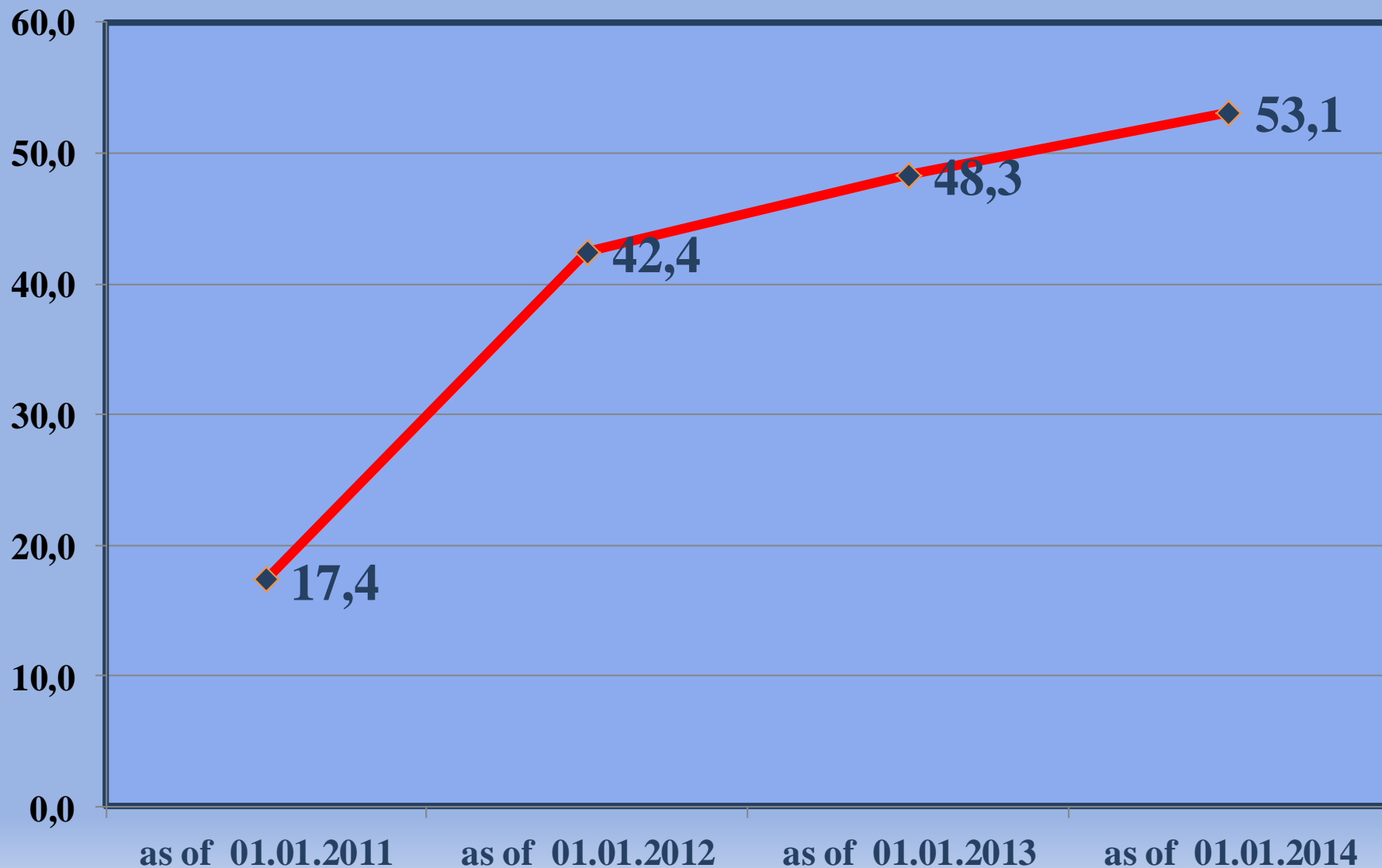


Contributions of citizens to the Social Fund of the Kyrgyz Republic have been increased from 8 to 10 percent, where 2 percents are funded part of the pension

# Ratio of solidarity and funded part



## Funded part of pension, 2% (million \$)



# **Non-State Pension Fund**

State pension system consists of non-state forms of organization of pension provision.

It is regulated by the Kyrgyz Republic Law on Non-State Pension Funds in the Kyrgyz Republic (2001).

Non-State Pension Fund (NSPF) – special organizational-legal form of non-profit organization of pension provision of citizens on a voluntary basis.

# Non-State Pension Fund

- operates independently of the state pension provision system and in addition to it;
- **main task of the activity** – voluntary non-state pension provision of individuals (citizens) on the basis of pension contracts;
- **activity (functions):** accumulation of pension contributions, consideration of pension obligations, placing the pension assets for the purpose of their building and paying non-state pensions to recipients.



**“Kyrgyzstan”  
Non-State Pension  
Fund**

**(IT HAS BEEN OPERATIONG SINCE 1995)**

# **Pension assets (thousands \$)**

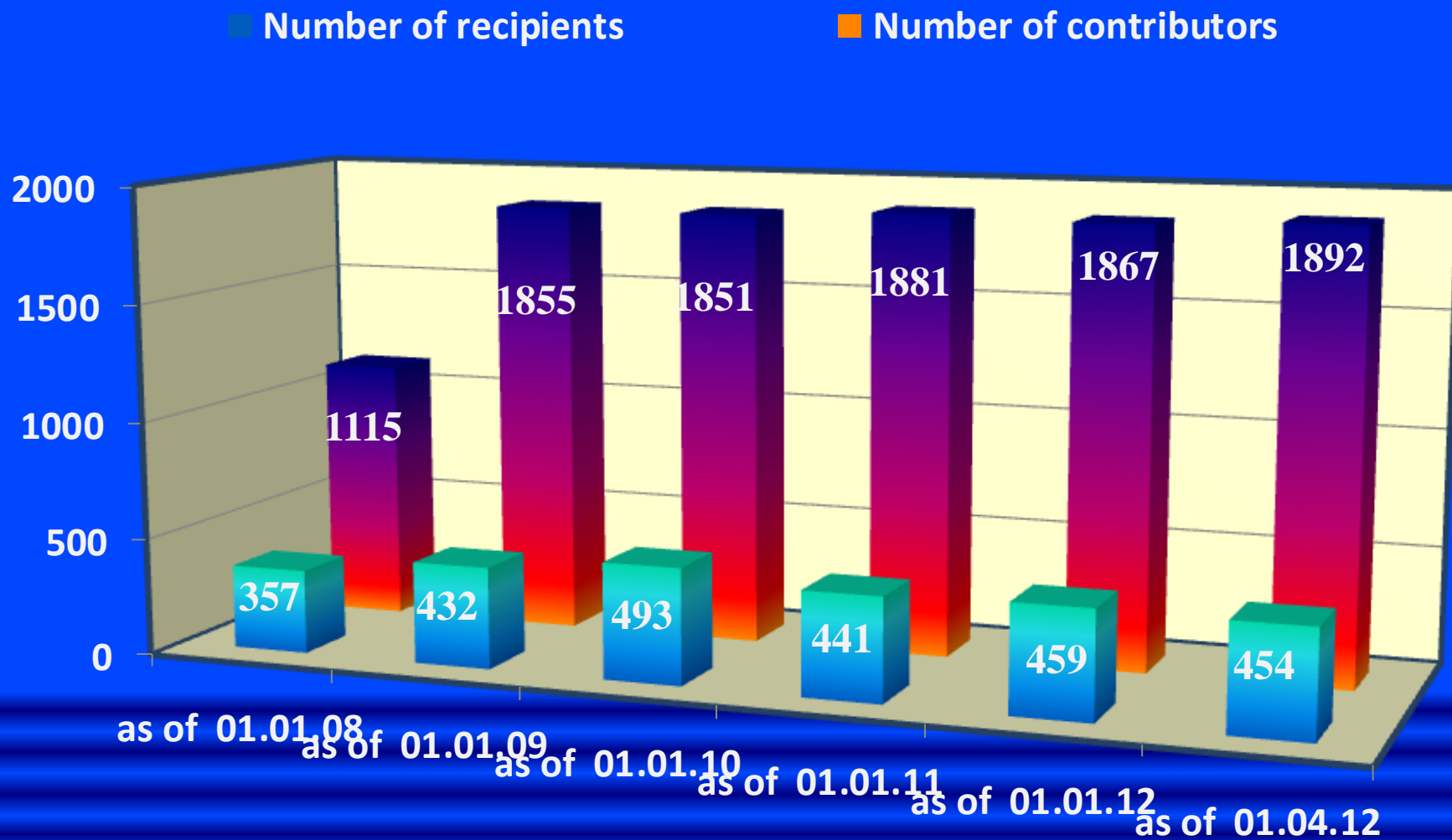
**(forecast for 2012 – 515 thousands \$)**



# **Financial indicators of “Kyrgyzstan” Non-State Pension Fund as of 01.04.2012**

- **Authorized capital – 158 130 \$**  
*(must be at least 107 525 \$)*
- **Owner’s equity – 122 580 \$**
- **Pension assets – 500 580 \$ of them:**
  - **deposits of commercial banks – 43 010 \$**
  - **real estate – 457 570 \$**

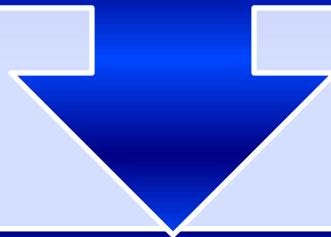
# Dynamics of contributors and recipients of “Kyrgyzstan” NSPF



# Main achievements

**Concept of introduction of funded part in the pension system of the Kyrgyz Republic**

**(approved by Decree of the Kyrgyz Republic President in 2008)**



**Allows participation of non-state pension funds in mandatory funded pension insurance system**

# **Basic problem of development of non-state funded pension provision is:**

**Imperfection of regulatory framework for the regulation of funded pension system and the investment of pension savings.**

**Lack of consciousness of the population of the benefits of NSPF**

**Need to improve financial literacy and investment culture of the population**

**Low salaries of citizens.**

**In order to improve regulatory framework for regulation of funded pension system by the State Financial Supervision it is developed:**



**Draft of the Kyrgyz Republic Law on Funded Pension Funds in the Kyrgyz Republic**



**Draft of the Kyrgyz Republic Law on Amendments to the Kyrgyz Republic Law on State Financial Supervision**



**Draft of sublegislative regulations**

# Current structure for placement of pension savings of NSPF:

## Structure of investment assets

Internal financial tools	_____ %
--------------------------	---------

External financial tools of non-residents	_____ %
---	---------

<i>Requirements for structure of assets (in detail):</i>	
--	--

Securities of the Government, National Bank, municipal bonds	_____ %
--	---------

Corporate bonds	_____ %
-----------------	---------

Deposits of commercial banks	_____ %
------------------------------	---------

Shares of issuers – residents	_____ %
-------------------------------	---------

Shares of issuers – non-residents	_____ %
-----------------------------------	---------

Investing in gold	_____ %
-------------------	---------

# Proposed structure for placement of pension savings of NSPF:

## Structure of investment assets

Internal financial tools	Not less than <b>70 %</b>
--------------------------	---------------------------

External financial tools of non-residents	No more than <b>30 %</b>
---	--------------------------

<i>Requirements for structure of assets (in detail):</i>	
--	--

Securities of the Government, National Bank, municipal bonds	Not less than 40 %
--	--------------------

Corporate bonds	No more than 30 %
-----------------	-------------------

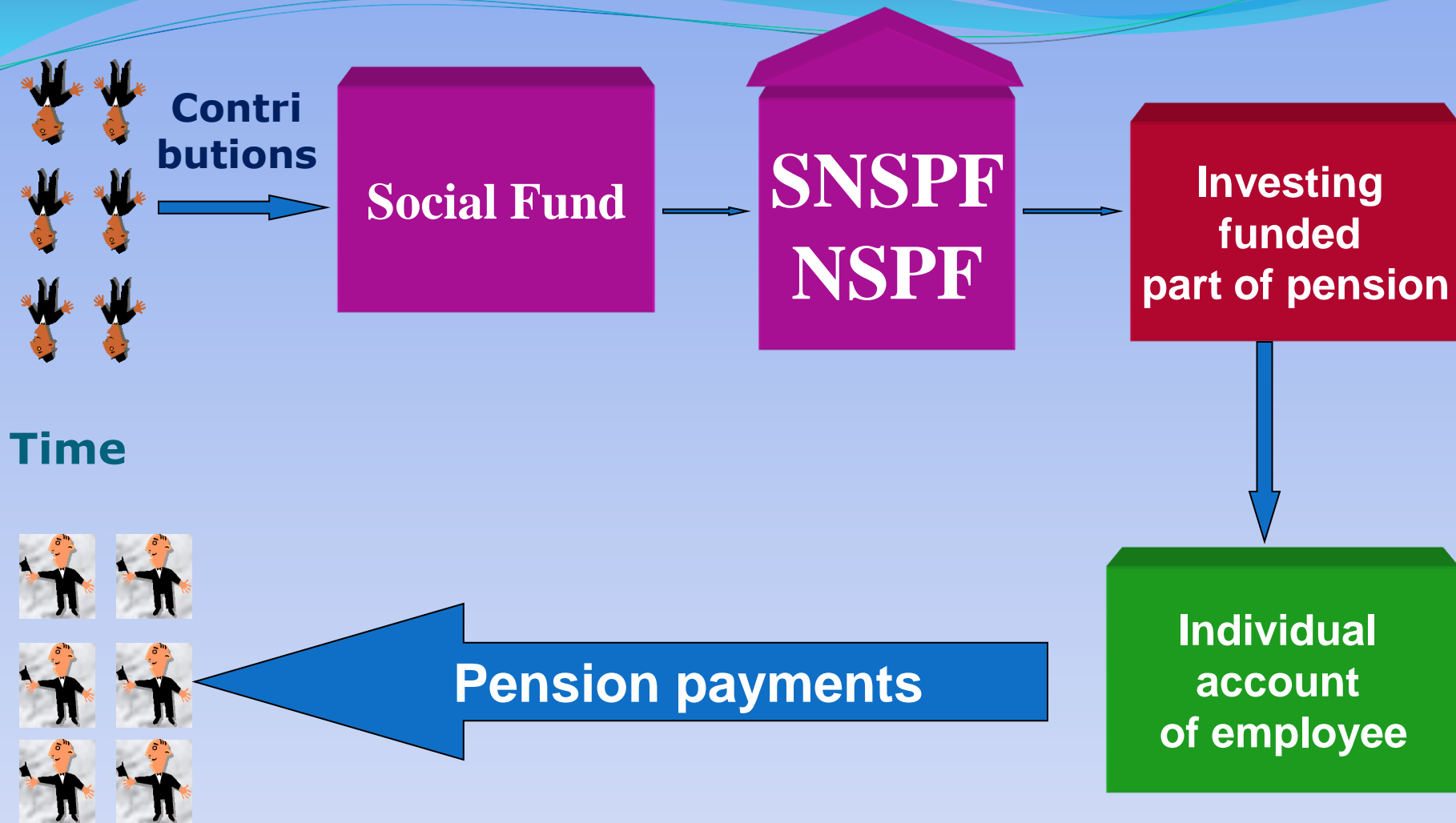
Deposits of commercial banks	No more than 30 %
------------------------------	-------------------

Shares of issuers – residents	No more than 40 %
-------------------------------	-------------------

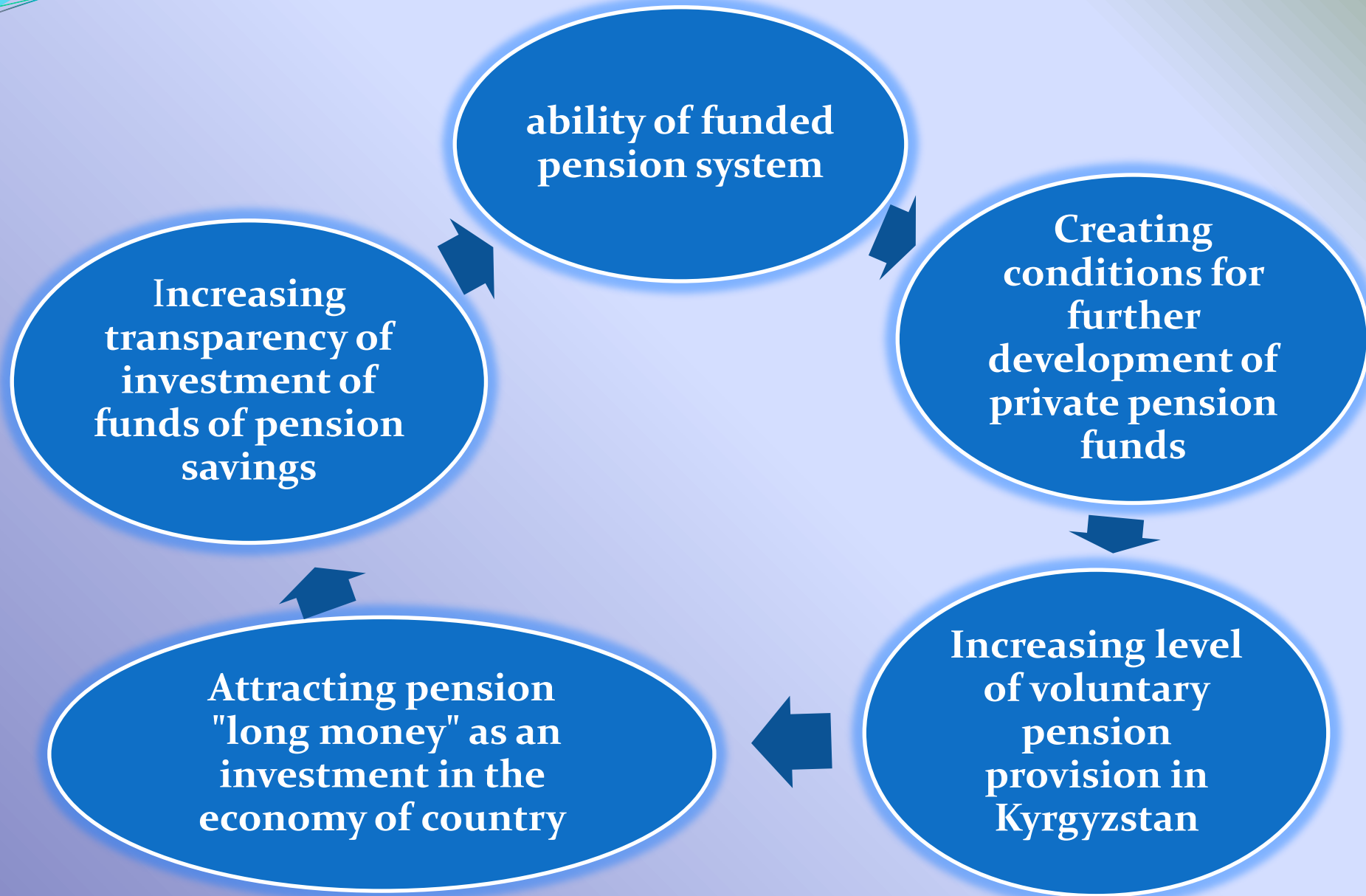
Shares of issuers – non-residents	No more than 20 %
-----------------------------------	-------------------

Investing in gold	No more than 30 %
-------------------	-------------------

# Operation principle of funded system



# Expected results:



**State Financial Supervision**  
is conducting a single state policy  
in the field of:

```
graph TD; A[State Financial Supervision is conducting a single state policy in the field of:] --> B[SECURITY MARKET]; A --> C[NON-BANK FINANCIAL SECTOR]; A --> D[ACCOUNTING AND AUDIT];
```

**SECURITY MARKET**

(organizers of the trade on the security market, brokerage, Investment funds, depository, clearing, dealer activity, Maintaining a register of holders of securities, management of investment assets, issuers of securities)

**NON-BANK  
FINANCIAL SECTOR**

(insurance market,  
non-state pension funds,  
gambling and lottery  
activity)

=====

*Monitoring and  
Supervision Department of  
non-bank financial  
institutions (4 persons)*

**ACCOUNTING AND  
AUDIT**

(auditing,  
Introduction of IFRS)

# Supervision of NSPF activity

- Supervision is carried out through on-site inspections (planned, unplanned)
- Supervision is carried out through desk audits:
  - 1) monthly reporting - financial results (number of depositors, beneficiaries, pension assets, liabilities, share capital);
  - 2) quarterly reporting - report on the deployment of pension assets;
  - 3) annual reporting – 1) + 2) + balance sheet

# **Supervision of NSPF activity**

- **Kyrgyz Republic Law on the Procedure for Conducting Audits of Businesses dated May 25, 2007 № 72**
- **Regulations on the procedure for conducting audits of businesses (approved by the Kyrgyz Republic Government's Decision dated November 6, 2007 № 533)**

# Supervision of NSPF activity

- State Financial Supervision has developed criteria by which it is assessed the degree of risk in the implementation of activity of private funded pension funds.
- In Kyrgyzstan, taking into account the magnitude of risk all business entities fall into one of three levels of risk: high, medium and low.
- Activity of private funded pension funds is classified as high level of risk, and therefore their frequency of planned inspections is not more than once a year.
- *For information: for entities with an average risk level - no more than once in three years, for entities with low risk level - less than once every 5 years.*

# NSPF checklist

- Establishment of (formation) Fund
- Formation of the Fund's authorized capital
- Compliance of the Fund's functions with Law
- Compliance of the Fund's rules with Law
- Compliance of pensions contracts with Law
- Compliance of the Fund's duties with Law
- Respect by the Fund for the rights of investors and recipients of the Fund
- Accounting and Reporting
- Fund's assets
- Fund's reserve fund
- Fund's pension assets and their allocation
- Management of the Fund's pension assets
- Storage of the Fund's pension assets
- Distribution of the Fund's investment income
- Management and monitoring agencies of the Fund of its activities

# Supervision of NSPF activity

- Due to the fact that in the future it is provided participation of private funded pension funds in the compulsory pension system, it is necessary to strengthen and tighten the control and surveillance activities of NSPF.
- It is provided development of the necessary drafts of regulations that establish:
  - ✓ requirements for entities of a funded pension system (controlling companies, depositaries, NSPF);
  - ✓ requirements for investing pension funds to diversify retirement savings;
  - ✓ requirements for reporting;
  - ✓ mechanisms for the preservation of pension savings.



**Public Regulation and Supervision  
Service of Financial Market  
under Government  
of the Kyrgyz Republic**



***Thanks for your attention!***