



## Santiago Principles Self-Assessment

### JSC Samruk-Kazyna

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#### **Pillar 1**

#### **Legal framework, objectives, and coordination with macroeconomic policies**

##### **Principle 1 Description:**

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).
  - 1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.
  - 1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

##### **Principle 1 Implementation:**

Joint Stock Company Sovereign Wealth Fund «Samruk-Kazyna» (hereinafter – S-K) was founded in accordance with the Decree of President of the Republic of Kazakhstan dated 13 October 2008, ? 669 «?n some measures on competitiveness and sustainability of national economy» and by the Decree of the Government of the Republic of Kazakhstan dated 17 October 2008 ? 962 «?n measures on realization of the Decree of President of the Republic of Kazakhstan ? 669»; by merging two joint stock companies Kazakhstan Holding for the Management of State Assets SAMRUK and KAZYNA Sustainable Development Fund.

It performs its functions according to the Law of RoK "On Sovereign Wealth Fund" (hereinafter -Law on SWF), "On Joint Stock Companies" (hereinafter – Law on JSC), S-K Charter, and other respective laws of Republic of Kazakhstan (RoK).

S-K fulfils its activities in accordance with laws of the Republic of Kazakhstan, Law on

SWF, S-K Charter and internal documents of S-K.

The Government segregates its powers of the Sole Shareholder of the S-K from its powers related to state regulatory functions.

Legal relationships between the S-K and the Government are specified in the Law on SWF, S-K Charter, Agreement between Government and the S-K approved by Decree of the Government dated 14 December 2012 ?1599 and S-K Corporate Governance Code and relevant industry legal acts. The key features of the SWF's legal basis and structure are specified in the Law on SWF.

The S-K Charter, Law on SWF, Agreement between Government and the S-K, CG Code are publicly disclosed.

### **Principle 2 Description:**

The policy purpose of the SWF should be clearly defined and publicly disclosed.

### **Principle 2 Implementation:**

The purpose of S-K is to increase the national wealth of the Republic of Kazakhstan, by increasing the long-term value of the companies within the Group of S-K, effective management of assets belonging to the SK Group.

The purpose and objectives decreed in the Law on SWF and publicly disclosed on S-K's website.

The objectives fixed in Article 4 of Chapter 1 of Law on SWF:

1. Improving competitiveness, market value and profitability of the companies within the S-K Group;
2. Introducing best corporate governance practice to the S-K Group;
3. Fostering the development and implementation of innovative processes and technologies in the S-K Group;
4. Attracting investment to the Republic of Kazakhstan, creating conditions for investment activity of organisations belonging to the S-K Group;
5. Developing and implementing strategic projects of national, inter-sectoral and regional scale, and participating in programmes designed to modernise and diversify the national economy;
6. Participating in programmes aimed at promoting entrepreneurship, as well as improving the investment climate in Kazakhstan, aligned with government policy;
7. Participating in the implementation of socially important and industrially innovative projects that promote sustainable development of the economy of the Republic of Kazakhstan.

Article 5 Chapter 1 of the Law on SWF specifies principles for S-K's operations:

1. Safeguarding the interests of the state as the sole Shareholder of the S-K;
2. Ensuring the profitability, efficiency, transparency and accountability of S-K and its group companies;
3. Having consistent and efficient decision-making and implementation;

#### 4. Investing with due social responsibility

S-K also launched the Transformation Programme in October 2014.

Through the Transformation Programme, S-K seeks to move from the position of administrator of state assets to a strategic holding company and active investor. The Transformation programme is publicly disclosed on S-K web-site.

#### **Principle 3 Description:**

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

#### **Principle 3 Implementation:**

S-K's activities are guided strictly by its stated mandate: to increase the national wealth of the Republic of Kazakhstan by increasing the long-term value of the companies within the S-K Group. The coordination of S-K's activities with the domestic fiscal and monetary authorities is limited by the control function on tranches from the National Fund and national budget received by the S-K within its mandate.

#### **Principle 4 Description:**

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

#### **Principle 4 Implementation:**

The Government is the sole shareholder of S-K and S-K pays dividends to the Government. S-K receives government funding in accordance with the norms of the Budget Code of Republic of Kazakhstan for financing infrastructure projects under the state programs.

The sources of S-K's funding are opened in publicly disclosed annual financial statements.

#### **Principle 5 Description:**

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

#### **Principle 5 Implementation:**

All the relevant statistical data pertaining to the S-K fund is regularly and timely disclosed.

1. To the Government as Sole Shareholder in accordance with the Law on JSC, Law on SWF, Charter of S-K and CG Code S-K issues annual reports approved by the Board of Directors.
2. To the Government and government agencies, information is available in special portal according to the Decree ?1384 approved by the Government on 31 October 2012. Data is disclosed in the following reports:
  - Quarterly information on debt structure and repayment schedule
  - Quarterly statements on cash flow from National Fund tranches
  - Monthly information on investments progress
  - Monthly information on investments financed from Republican budget
  - Monthly information on Republican budget loans
  - Information on implementation of Development Plan of the S-K; etc.
3. To the Government as the regulator in according with the industry legal acts and regulations.

## **Pillar 2**

### **Institutional Framework and Governance Structure**

#### **Principle 6 Description:**

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

#### **Principle 6 Implementation:**

The Law on SWF sets up the following governance framework in S-K where each level of governance has clear competencies and responsibilities:

Superior Body – Sole Shareholder

Governing Body – Board of Directors (hereinafter – BoD)

Executive Body – Management Board (hereinafter – MB).

According to the Law on SWF, one of the key principles of interaction between owner and S-K is that interference by the public authorities to the operational activities of the S-K or its portfolio companies is not permitted, except for cases provided by the laws of the Republic of Kazakhstan.

#### **Principle 7 Description:**

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

#### **Principle 7 Implementation:**

According to the Law on SWF and the S-K Charter, the sole shareholder of S-K is responsible for the approval of the Charter of S-K, CG Code, its long-term strategy, annual financial reports, and appointment of members of the BoD.

The Law on SWF also states that the Sole Shareholder appoints the S-K CEO. The Sole Shareholder is also responsible for decisions on the sale of shares of companies and the transfer of these shares in trust management. It also decides on the liquidation, reorganisation of portfolio companies.

On 15 April 2015, the Government approved new Corporate Governance Code aimed to ensure growth in long-term value and sustainable development of S-K. The CG Code is disclosed on S-K website.

#### **Principle 8 Description:**

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

#### **Principle 8 Implementation:**

The BoD sets policies aimed at achieving S-K's objectives: investment policy, risk management, corporate social responsibility, information disclosure, debt policy etc. The BoD has reasonable and adequate authority to carry out its functions. It is empowered to approve and monitor of medium-term development plans, to approve the annual budget, increase in S-K's liabilities, and acquire shares of other entities. The BoD establishes committees and appoints members of the MB. The minimum standard of competency for the members of the BoD, as well as BoD's role, responsibilities, terms of office, are set out in the Regulation of the BoD.

S-K's BoD comprises of members of Government, CEO, independent directors and other persons. The Chairman of the S-K's BoD is, ex officio, the Prime Minister of the Republic of Kazakhstan. The size of the S-K BoD is determined by the Charter. Independent directors should comprise at least two-fifths of the total number of members of BoD.

The role and functions of the Chairman of S-K's BoD and Chairman of MB are clearly segregated and set out in S-K's Charter. Members of S-K's BoD who are state officials shall not receive separate remuneration for their membership of the BoD and its Committees.

#### **Principle 9 Description:**

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

#### **Principle 9 Implementation:**

S-K's long-term strategy is approved by the Sole Shareholder (Government) by Decree #1202 dated 14 September 2012. The BoD oversees its implementation. MB is in charge of its implementation and has adequate authority within its power to make investment decisions, staffing and financial management. There is a separation of duties between

Sole Shareholder, BoD and MB regarding investment decisions.

**Principle 10 Description:**

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

**Principle 10 Implementation:**

The accountability framework for S-K operations is defined by the Law on SWF, Charter of S-K and Corporate Governance Code.

**Principle 11 Description:**

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

**Principle 11 Implementation:**

S-K issues an annual report according to the Corporate Governance Code and Kazakhstan Stock Exchange listing rules and best international standards. Accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) at a time set by the Law on JSC.

**Principle 12 Description:**

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

**Principle 12 Implementation:**

S-K's consolidated financial statements are audited annually by an external auditor as well as financial statements of portfolio companies included in the consolidation. The audit is made in accordance with International Standards on Audit (ISA). Selection of the external auditor is carried out in accordance with the Procedure of Auditor Selection, approved by the BoD of S-K. The Procedure provides transparency of procedures, the auditor's compliance with the requirements of qualification and competence

**Principle 13 Description:**

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

**Principle 13 Implementation:**

As outlined in the CG Code (2015) and the Code of Ethics (2010), S-K should comply with the highest ethical standards and implement appropriate procedures to ensure that all employees and partners of S-K comply with these standards. The BoD should maintain high standards of business ethics. The Head and members of the MB should demonstrate

high standards of ethical behaviour and be role models for the employees. They should inform the BoD of any breach of the Code of Business Ethics by members of MB. A member of MB who has breached the Code of Business Ethics may not be a member of the MB of any other company of S-K group.

S-K established professional and ethical standards and made it known to governing bodies, management and employees. In order to strengthen these standards in 2016 S-K introduced Compliance and Ethics function, hired compliance officers and plans to introduce broad compliance and ethics program.

**Principle 14 Description:**

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

**Principle 14 Implementation:**

All dealing with third parties for the purpose of the SWF's operational management is based on economic and financial grounds and follows clear rules and procedures. S-K has Procurement Rules to deal with purchases by S-K that describe procurement procedures. Relations with external managers and external services are defined in relevant procedures and contracts. In addition, Policy on due diligence of third parties is planned to be implemented in 2016-2017 which will cover all third parties.

**Principle 15 Description:**

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

**Principle 15 Implementation:**

S-K conducts activities in other countries in compliance with all applicable regulatory and disclosure requirements of the countries in which S-K operates.

**Principle 16 Description:**

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

**Principle 16 Implementation:**

S-K's governance framework and objectives are defined and publicly disclosed in the special Law on SWF, Agreement between Government of RK and S-K and Corporate Governance Code. The Law on SWF says "no interference allowed by public authority in the operational activities of the S-K and its' portfolio companies, except for cases stipulated by laws of the Republic of Kazakhstan"

**Principle 17 Description:**

17. Relevant financial information regarding the SWF should be publicly disclosed to

demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

**Principle 17 Implementation:**

S-K's audited consolidated and stand-alone financial accounts, supported by an analysis of variances are publicly disclosed and available on S-K website as well as the Financial Statement Depository of Ministry of Finance of RoK.

S-K audited consolidated financial accounts are also available on Kazakhstan Stock Exchange (KASE).

**Pillar 3**

**Investment and Risk Management Framework**

**Principle 18 Description:**

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

**Principle 18 Implementation:**

SK's Investment Policy establishes the uniform requirements for investment operations of the fund. The Investment Policy was approved by the BoD in 2014. The policy has a clear objective: SK's investment operations are aimed at increasing the value of the portfolio companies over the long term, in compliance with the Law on SWF. S-K has implemented appropriate risk management regulated by internal documents. The Investment Policy does not provide an investment strategy per se but outlines the key approaches in the implementation of investment activities that takes into account the following activities: strategic planning, corporate governance, the medium term planning, risk management, investor relations, and monitoring.

The Investment Policy describes the process of how S-K will analyse and monitor the risks of investment projects for risk management. S-K and its portfolio companies may undertake socially significant and industrially innovative projects that promote sustainable economic development in line with state policy. This is decreed as one of the objectives of the S-K according to the Law on SWF.



S-K does not delegate its investment decisions to external institutions. Investment decisions are mainly taken by the Corporate Bodies/Authorities of S-K.

The investment policy of S-K is not a public document. However, the main principles and guidelines of the policy are disclosed in S-K's Strategy document which can be downloaded on S-K's website.

**Principle 19 Description:**

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

**Principle 19 Implementation:**

According to SK's Investment Policy, the fund's investments and its portfolio companies operations should be carried out in accordance with the principle that the internal return on investments should be higher than their Cost of Equity (CoE). The CoE is approved by the decision of the MB of the S-K on an annual basis. Each portfolio company is provided by its own level of CoE based on the peer's bench-marking.

S-K's Investment Policy clearly states that S-K and/or its portfolio companies can implement low-margin projects initiated by the Government of the Republic of Kazakhstan. For these projects, there may be full or partial government funding and/or government guarantees on corporate loans on the terms and conditions stipulated by the budget legislation of the Republic of Kazakhstan. These cases shall be considered by the S-K's BoD and the BoD makes decisions on the source of funding. Another way of funding of low-margin projects is through public-private partnerships: including concession agreements, operating leases, the provision of government subsidies, loans, guarantees, and other mechanisms. According to the Corporate Governance Code, low-margin and socially significant projects are the subject of public disclosure in annual reports of the S-K and Portfolio Companies.

The Corporate Governance Code is based on the legislation of Republic of Kazakhstan, OECD Guidelines for State-Owned Enterprises, UK Corporate Governance Code and international best practices.

**Principle 20 Description:**

20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

**Principle 20 Implementation:**

S-K does not seek to take advantage of privileged information or inappropriate influence in competing with private entities. S-K's corporate strategy includes the requirement to direct investments into the creation of new sectors. This strategy is backed by a "yellow pages rule" and Entrepreneurship Code of Republic of Kazakhstan which limits the government's involvement in areas where the private sector operates.

#### **Principle 21 Description:**

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

#### **Principle 21 Implementation:**

S-K exercises its ownership rights in portfolio companies through the segregation of duties set out in the S-K Charter, the Law on SWF, the Law on JSC, as well as Charters of portfolio companies and unified policies and regulations for portfolio companies.

#### **Principle 22 Description:**

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

#### **Principle 22 Implementation:**

S-K has a risk management policy that sets out guidelines for all S-K group companies on the identification, assessment and mitigation actions for the risks. This framework is developed in line with COSO standard. The effectiveness of S-K's consolidated risk management system is annually evaluated by Internal Audit and is assessed by an external auditor every three years. Currently, the Risk Management Department is responsible for internal control, responsible for maintenance of internal control system within the organisation.

S-K has embedded "Three lines of defence" in accordance with FERMA standards. This provides a clear distinction between all control functions, their interaction and support. S-K introduced a new function – compliance – to address money laundering, corruption and other ethical threats to the S-K. Internal audit is directly responsible to the BoD, whereas the executive board is responsible for overseeing risks, internal controls and compliance. This system provides an additional assurance for the BoD and shareholders on the effectiveness of S-K's risk management and internal control functions. As part of the risk-

management reporting system, S-K has a consolidated risk register. Risks must be identified at least annually, for these risks business owners develop the mitigation plans, the status on which are monitored on a quarterly basis and reported to BoD, this Risk Register is applicable to all portfolio companies and ensures that risks affecting the Group are reported.

The S-K's Risk Management Policy is published on S-K's website, the key risks for the S-K are regularly reported as part of the annual report.

**Principle 23 Description:**

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

**Principle 23 Implementation:**

There is an annual reporting to the BoD on the evaluation of portfolio companies based on a special Assets Evaluation Methodology that uses benchmarking analysis.

**Principle 24 Description:**

24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

**Principle 24 Implementation:**

This is the second self-assessment done since 2014. S-K plans to review self-assessment annually.

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