

Launching CCP in KASE Markets

*Kazakhstan: Local Markets Development
December 5, 2019*

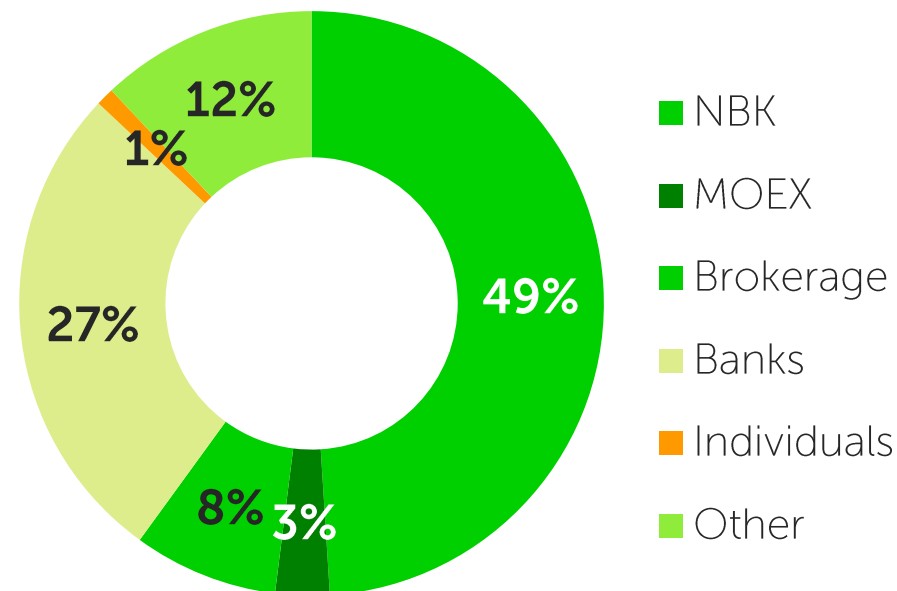
*Alina Aldambergen
Chairperson of the Management Board*

KASE and KACD Shareholder Structure

Kazakhstan Stock Exchange (KASE)

NBRK:	49.1%
MOEX:	3.4%
Financial Institutions:	21.9%
Others:	13%

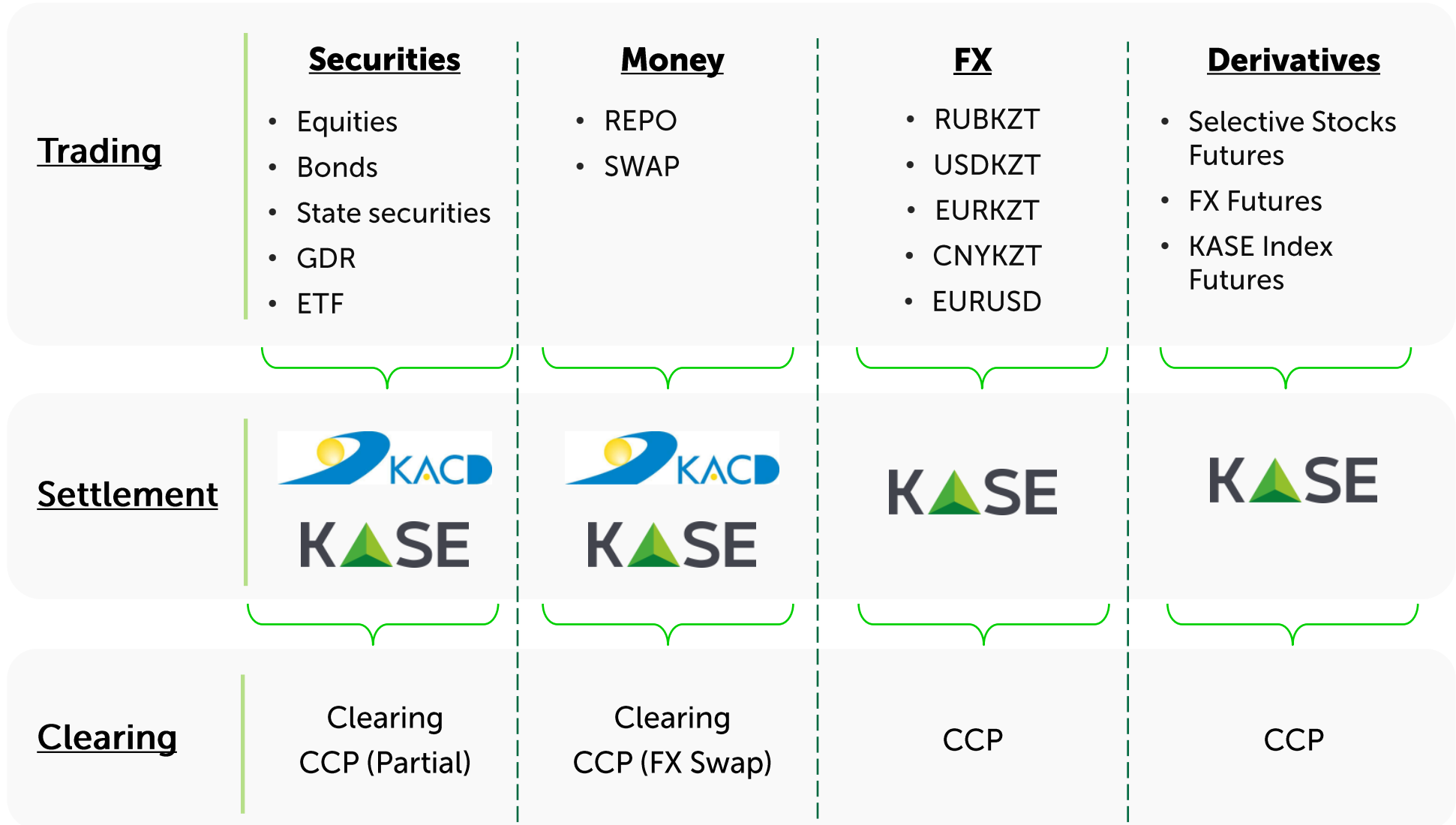
KASE Ownership Structure



Central Securities Depository of Kazakhstan (KACD)

NBRK:	63.2%
KASE:	29.3%
Financial Institutions:	7.5%

KASE Market Infrastructure



International Post-trade Providers

- CCP is an important step to ease access to Kazakh markets
- Providing direct access for foreign investors to Kazakh securities market
- Integration with international financial markets

Established Clearstream link to KACD for state securities in July 2018



Status: Partially Completed
Free payment
DVP – in progress



Status: In progress

Correspondent Banks Network

KASE carries out money settlement in FX, Derivatives markets and will start settlement in Securities/ Money markets after CCP launch.

For Securities Market:

- KACD carries out **securities/money** settlement.
- KASE will carry out **money** settlement **after CCP launch**.

KASE correspondent banks

- National Bank of Republic of Kazakhstan
- Central Securities Depository (KACD)
- Eurasian Development Bank
- "Sberbank" PJSC
- Subsidiary Bank "Bank of China in Kazakhstan" JSC
- "Industrial and Commercial Bank of China in Almaty" JSC
- The Bank of New York Mellon
- Citibank N.A., New York
- Citibank N.A., London
- J.P. Morgan Chase Bank, N.A.
- J.P. Morgan AG

KACD correspondent banks

- National Settlement Depository, Moscow
- "Sberbank" PJSC
- Republican Unitary Enterprise Republican Central Securities Depository, Republic of Belarus
- Central Depository CJSC, Kyrgyz Republic
- Citibank N.A., New York
- Citibank N.A., London
- Euroclear S.A., Brussels
- Clearstream Banking S.A., Luxembourg

Getting Access to KASE Markets

TRADING ON KASE

Only KASE members may participate in trading

Foreign broker can get access to trading on KASE markets:



KASE member



a client of a local broker/dealer and use DMA and SMA services

SETTLEMENT & CLEARING

... to settlement & clearing infrastructure:



a client of Central Securities Depository

or



a client of a custodian bank

Custodian Banks



Membership categories:

44

"Stock"
Category

23

"Derivatives"
Category

32

"FX"
Category

Banks/ IFIs

29

National Bank of the RK:	1
Local Commercial Banks:	26
IFIs:	2

Brokers

23

Local Brokerage	21
Foreign Brokerage	2

Eurasian Development Bank  Евразийский Банк Развития

FX, Securities and Derivatives markets

Interstate Bank  Межгосударственный банк

FX market

"UNIVER Capital" LLC (Russia)

Securities and Derivatives markets



IC "Freedom Finance" LLC (Russia)

Securities and Derivatives markets



Tax Benefits for Foreign Investors

Corporate tax on capital gains

0%

Provided that:

- securities are in the official list and traded by the auction method on the KASE markets

and/or

- it is a state security

Withholding tax on dividends

0%

Provided that:

- securities are in the official list and traded by the auction method on the KASE market

and/or

- as of the day of dividend calculation the taxpayer has held shares for more than 3 years

and/or

- the issuer, paying dividends, is not a subsoil user

Withholding tax on interest

0%

Provided that:

- securities are in the official list and traded by the auction method on the KASE markets

and/or

- it is a state security



A foreign member may conclude deals in the KASE trading system on behalf, on account and in the interest of its clients, except for citizens or legal entities of the Republic of Kazakhstan.

- **Derivatives Market:** since 2012
- **FX Market:** since October 2018
- **Securities Market:** partial launch in December 2019

- **Compliant with 24 principles of IOSCO's PFMI**
- Sufficient KASE own capital* to maintain capital adequacy
 - Own capital: US\$ 28.6 mln
 - Reserved capital: US\$ 4,5 mln

17 Clearing participants in the Securities Market

16 Clearing participants in the Derivatives Market

29 Clearing participants in the FX Market

**>USD
32 bn** Volume of money went through CCP

Note: * As of November 1, 2019

Trading Modes

Market	Trading Mode	Settlement Cycle	Collateral	CCP services
Stock Market	"Orderbook" mode Negotiated deals	T+2 T+0	Full / Partial	<ul style="list-style-type: none"> • Launch IVQ 2019 • Launch IQ 2020
FX Market	"Orderbook" mode	T+0 T+1 T+2	Full / Partial	✓
Derivatives Market	"Orderbook" mode	T+1W T+1M T+3M T+6M	Partial	✓
Money Market (repo)	"Orderbook" mode Negotiated deals	T+0 – T+90	Partial	✓
Money Market (swaps)	"Orderbook" mode	T+1 T+2 T+1W T+1M T+3M T+6M T+1Y	Partial	✓

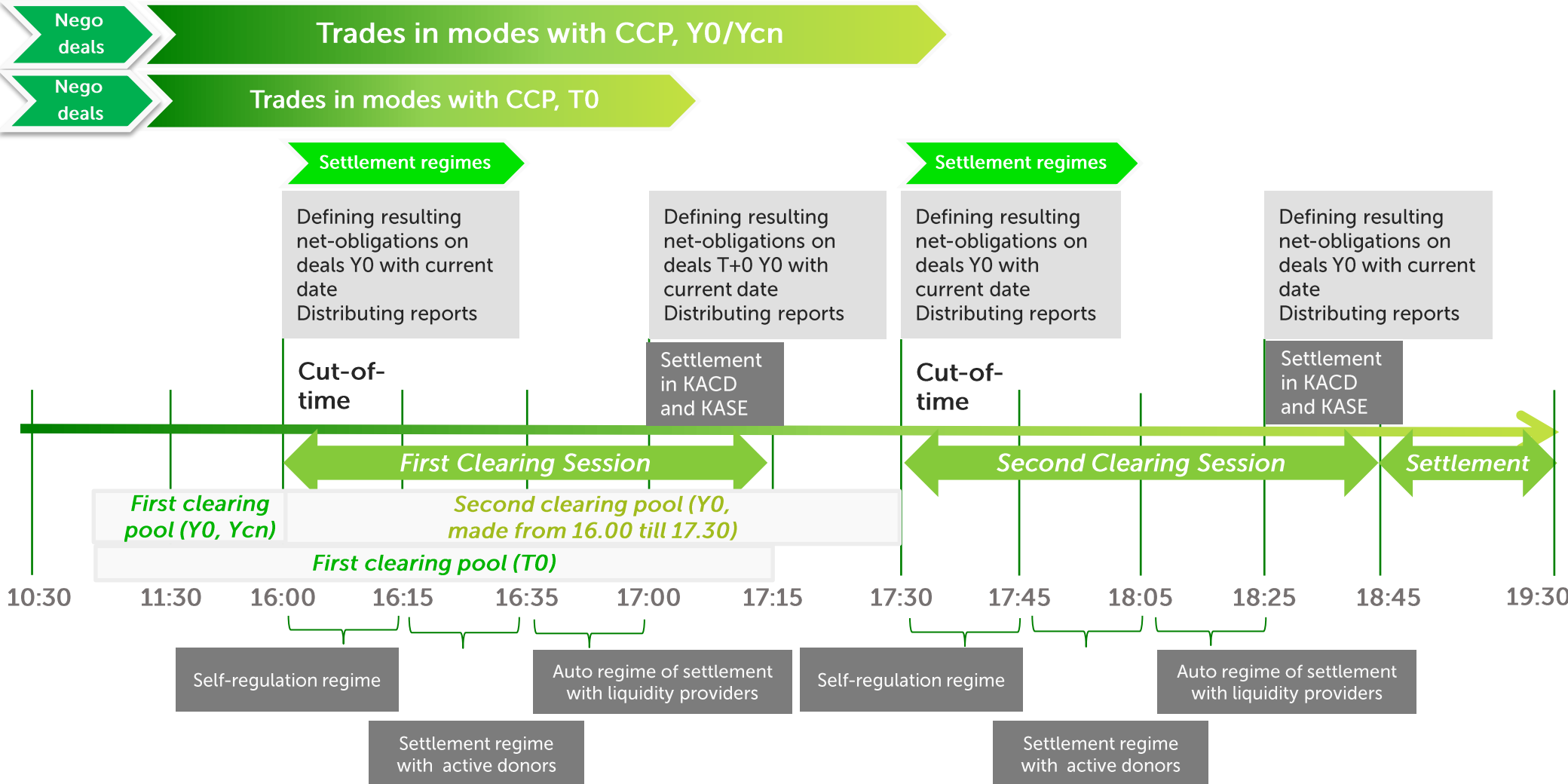
Trading and Clearing Sessions

Markets	Settlement Scheme	Instruments	Trading Hours (Almaty time (GMT+6))
Securities	T+2	shares (1st liquidity class), GS (secondary market)	11:30 – 17:00 trading 15:30 – 17:15 clearing 17:30 – 19:00 clearing
	T+0	Shares (2nd and 3rd liquidity classes), corporate bonds, IFI bonds, GS (primary market)	15:00 – 17:00 trading 15:00 – 18:30 settlement
FX	T+0	CNYKZT	10:15 – 11:00 trading 11:00 – 11:30 clearing 12:00 – 14:00 settlement
		USDKZT, RUBKZT, EURKZT, EURUSD	10:15 – 15:30 trading 15:30 – 16:00 clearing 17:00 – 18:30 settlement
	T+1	USDKZT, RUBKZT, EURKZT, EURUSD, CNYKZT	10:15 – 17:00 trading 17:00 – 17:30 clearing
	T+2		17:00 – 18:30 settlement

Trading and Clearing Sessions (2)

Markets	Settlement Scheme	Instruments	Trading Hours (Almaty time (GMT+6))
Money market (swaps)	T+1, T+2	CNYKZT	10:15 – 11:00 trading 11:00 – 11:30 clearing 12:00 – 14:00 settlement
	T+1, T+2	USDKZT, RUBKZT, EURKZT	11:30 – 15:30 trading 17:00 – 17:30 trading (only for USDKZT on T+1) 15:30 – 16:00 clearing 17:00 – 19:00 settlement
	T+1W T+1M T+3M T+6M T+1Y	USDKZT	11:30 – 15:30 trading 15:30 – 16:00 clearing 17:00 – 18:00 settlement
Money market (repo)	from T+0 to T+90	State and corporate securities	11:30 – 17:00 trading 11:30 – 17:00 settlement 17:00 – 17:30 trading (only for auto repo with GS basket on T+1) 17:30 – 19:00 settlement
Futures	T+1W T+1M T+3M T+6M	Stock and currency futures	10:00 – 15:30 trading 15:30 – 16:00 clearing 16:30 – 17:00 settlement

Securities Trading, Settlement and Clearing sessions



List of T+ Securities admitted to trading with “partial collateral”

Securities	Ticker	Company name
Equities	GB_KZMS	KAZ Minerals PLC
	HSBK	Halyk Bank
	KCEL	Kcell
	KEGC	KEGOC
	KZAP	KazAtomProm
	KZTK	KazakhTelecom
	KZTO	KazTransOil
	US_FRHC	Freedom Holding Corp.
Bonds	BRKZe3, BRKZe4, BRKZe7	Development Bank of Kazakhstan
	HSBK	Halyk Bank
	KMGZe10, KMGZe11, KMGZe12, KMGZe13, KMGZe14, KMGZe15, KMGZe6	KMG
	KZTGe1	KazTransGas
	TMJL	Kazakhstan Temir Zholly
IFI's bonds	EBRDe1	EBRD
State securities	KZ_05_2410, KZ_06_4410, KZ_07_2507	Ministry of Finance of the RK
	OM_01_2908	Sultanate of Oman
	RU_01_2806	Ministry of Finance of Russian Federation

All transactions with CCP are included into multilateral netting:

- Claims and obligations will be netted.
- Cash and eligible securities can be used as a collateral for executed trades.
- Securities will be subject to haircut based on risk applicable to each security.
- Securities Settlement System – KACD.
- Settlement bank – KACD.

Clearing sessions

The first clearing session - 16:00-17:15

For all trades made before 16:00 on the day and 2 preceding days.

The second clearing session - 17:30-18:45

On T0 transactions with securities made on a day from 16:00-17:30.

Management of Cash Accounts

- CCP on securities market keeps clients **money on bank accounts with KACD.**
- CCP separates clients' money in internal system. CCP open accounts for:
 - **own money of participants:**
 - **aggregated money of participant's clients (aggregated account).**
- For participants, who have brokerage and custodian license, **two different aggregated accounts can be opened.**
- **Money transfers upon a money transfer application are executable throughout the day (for money which are not collateralised).**
- **Money** can be **segregated and aggregated** in the trading system.

Collateral Management

Multi-level Collateral Management System:

- Individual collateral (based on current and expected net claims and obligations).
- Reserve funds for each market.
- Guarantee fund for each kind of risk.

An **automated system for measuring risk exposure and ensuring quality of collateral** (including amounts of haircuts).

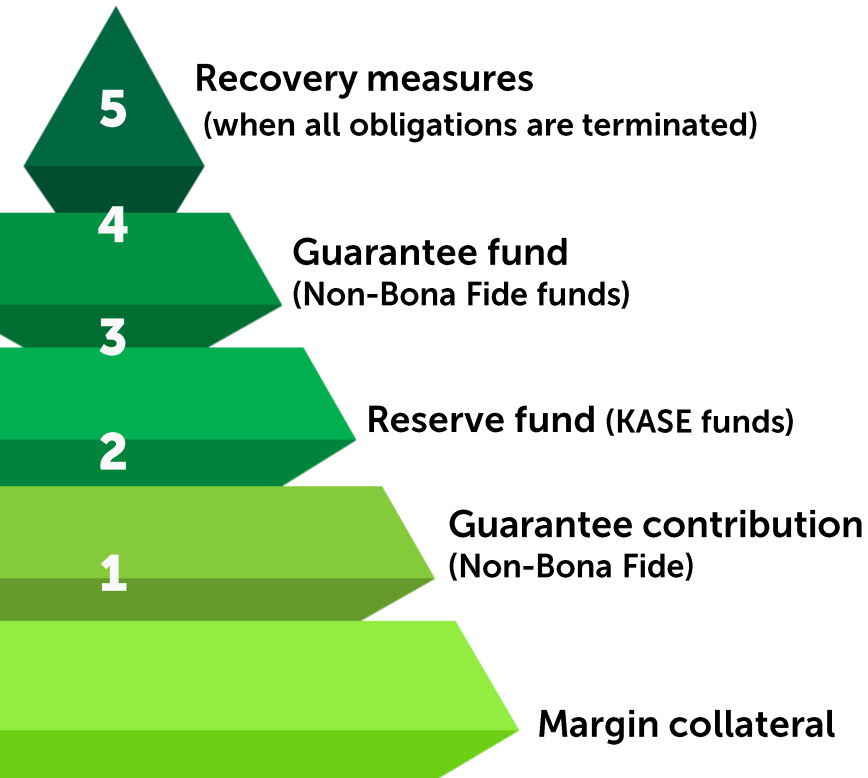
On-line collateral assessment & on-line netting.

Liquidity providers on financial instruments (FX market).

Requirements for the T+ Collateral Securities List:

- Measuring of liquidity position of an instrument
- Assessing the financial state of an issuer
- Ratings by international rating agencies
- Expert assessment of the Market Risks Committee

Default Management



Clearing guarantee funds	Guarantee contribution	Guarantee fund
Stock market - with settlement in KZT	USD 54K	USD 72K
Currency market	USD 65K	USD 1 747K
Derivatives market - currency futures - stock futures	USD 3K USD 5K	USD 72K USD 5K

Clearing reserve funds	Reserve fund amounts
Stock market - with settlement in KZT	USD 207K
Currency market	USD 3 882K
Derivatives market - currency futures - stock futures	USD 440K

The sufficiency of the clearing fund amounts is verified on an annual basis/

Collateral Securities List for T+ Transactions

Securities	Ticker	Company name
Equities	GB_KZMS	KAZ Minerals PLC
	HSBK	Halyk Bank
	KCEL	Kcell
	KEGC	KEGOC
	KZAP	KazAtomProm
	KZTK	KazakhTelecom
	KZTO	KazTransOil
	US_FRHC	Freedom Holding Corp.
Bonds	HSBK	Halyk Bank
	KMGZe11, KMGZe12, KMGZe13, KMGZe14, KMGZe15, KMGZe6	KMG
IFI's Bonds	EBRDe1	EBRD
State securities	KZ_05_2410, KZ_06_4410, KZ_07_2507	Ministry of Finance of Kazakhstan
	OM_01_2908	Sultanate of Oman
	RU_01_2806	Ministry of Finance of Russian Federation

Liquidity Providers for CCP in FX Market

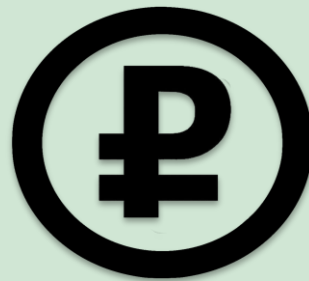
KASE signed **services agreements on of providing liquidity in foreign currencies**, traded on the exchange market.



National Bank
of the
Republic of
Kazakhstan



National Bank
of the
Republic of
Kazakhstan



Eurasian
Development
Bank



Industrial and
Commercial
Bank of China
(ALMATY)



Eurasian
Development
Bank
Kaspi Bank

Undertaken default settlement procedures involving liquidity providers will allow KASE to fulfill obligations towards all trading participants in timely and proper manner.

Transition of the stock market to the new trading system

Trading with CP net settlements in clearing and settlement sessions		Trading without CP gross settlements – on each deal	
<i>1st release in ASTS +</i>	<i>2nd release in ASTS+</i>	<i>Before implementation of the second release ASTS+ in AST TS</i>	<i>2nd release in ASTS+</i>
<p>Trading methods:</p> <ul style="list-style-type: none"> • continuous counter auction • nego trades • discrete auction method <p>Financial instruments:</p> <ul style="list-style-type: none"> • shares, securities of investment funds to be settled in tenge • Eurobonds denominated in USD • GDR to be settled in USD 	<p>Trading methods:</p> <ul style="list-style-type: none"> • continuous counter auction • nego trades • discrete auction method <p>Financial instruments:</p> <ul style="list-style-type: none"> • all securities, including repo with state and corporate securities (without blocking of securities) to be settled in tenge and (or) USD 	<p>Methods of trading in all securities:</p> <ul style="list-style-type: none"> • special trading • subscription • fixing • Frankfurt trading • English auction • Dutch auction <p>Methods of trading in bonds (Eurobonds, IFI, GS, repo with state and corporate securities) to be settled in tenge:</p> <ul style="list-style-type: none"> • continuous counter auction • conclusion of direct deals <p>By the method of concluding nego repo deals in particular shares upon request</p>	<p>Methods of trading in all securities:</p> <ul style="list-style-type: none"> • special trading • subscription • continuous counter auction with repo in GS basket (with blocking) to be settled in tenge • conclusion of nego repo deals in particular shares upon request

Repo with Central Counterparty

- Market participants do not need to establish bilateral credit lines: one limit on the KASE CCP.
- Anonymous trades are available.
- Standard discounts are employed.
- Real-time market repo rates for cash and securities are backed by orders and trades.
- Minimisation of cash and securities assigned for settlement as a result of the netting of obligations/claims across all repo trades with CCP and T+ trades.
- The reduction of demands on the market participant's capital (balance sheet netting of all trades).
- The unified and reliable risk management system (membership criteria, margin requirements, sufficient guarantee funds, and the CCP's capital allow to set a high credit limit for transactions with the CCP).
- Boosting repo market liquidity.
- One counterparty for all market participants (the CCP guarantees settlement of any repo trades to non-defaulting parties).
- Currently available for securities admitted to the List of T+ Securities (admitted to trading with "partial collateral").

Switching to New Systems

- 1 Securities Market – 1st Release Completed**
Launching on MOEX IT System ASTS+ in December 2019
- 2 Securities Market – 2nd Release In progress**
Launching on ASTS+ in 1Q 2020
- 3 FX Market In progress**
Moving to MOEX IT System ASTS+ in 2020
- 4 Derivatives Market In progress**
Moving to MOEX IT System SPECTRA in 2021

Developing CCP

- CCP on all markets operating on new systems**
2019-2021
- CCP as an independent legal entity (KASE & MOEX shareholders)**
2021
- ESMA recognition**
2021 - onwards

Thank you for attention!

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