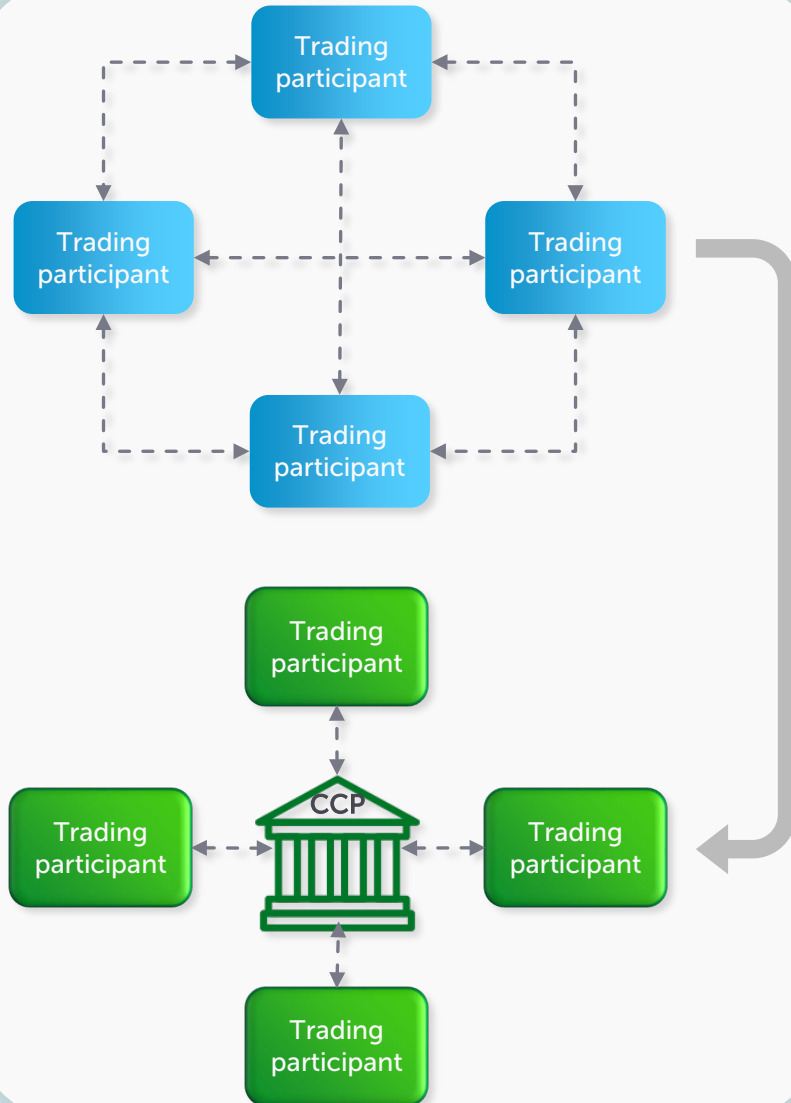


CENTRAL COUNTERPARTY



Қазақстан қор биржасы
Казахстанская фондовая биржа
Kazakhstan Stock Exchange





Central counterparty (CCP) is an infrastructural organization of the financial market that assumes the risk of failure of a financial market participant to supply money or a financial asset by becoming the only counterparty on all deals with market participants. The CCP becomes a seller for every buyer and a buyer for every seller:

- With the CCP, the deal is divided in half in such a way that for the first deal, obligations arise between the counterparty (seller) and the CCP, for the second – between the counterparty (buyer) and the CCP
- the CCP becomes the legal party of two deals and the original deal between counterparties A and B ceases to exist
- the CCP guarantees the fulfillment of obligations under concluded deals to each bona fide clearing participant, regardless of the performance by other clearing participants of their obligations

CCP advantages



Reduced system risk

is a buyer for every seller and a seller for every buyer – the only counterparty on all deals



Ensures the fulfillment of the CCP's obligations to each bona fide participant due to the presence of a multi-level system for searching the necessary assets



Regulates non-fulfillment of obligations by unscrupulous participants, through the conclusion of deals for transfer of unfulfilled obligations, between the CCP and such participants



Operating efficiency

Reduces costs for participants due to the availability of **the single counterparty – the CCP** and netting of mutual claims and obligations under deals

The search for assets is possible due to **the availability of collateral**, the availability of which is checked **at the stage of accepting an order for execution**

Settlement of obligations is carried out at the expense of **collateral in the form of money and securities**.
Full pre-collateral is provided for illiquid securities



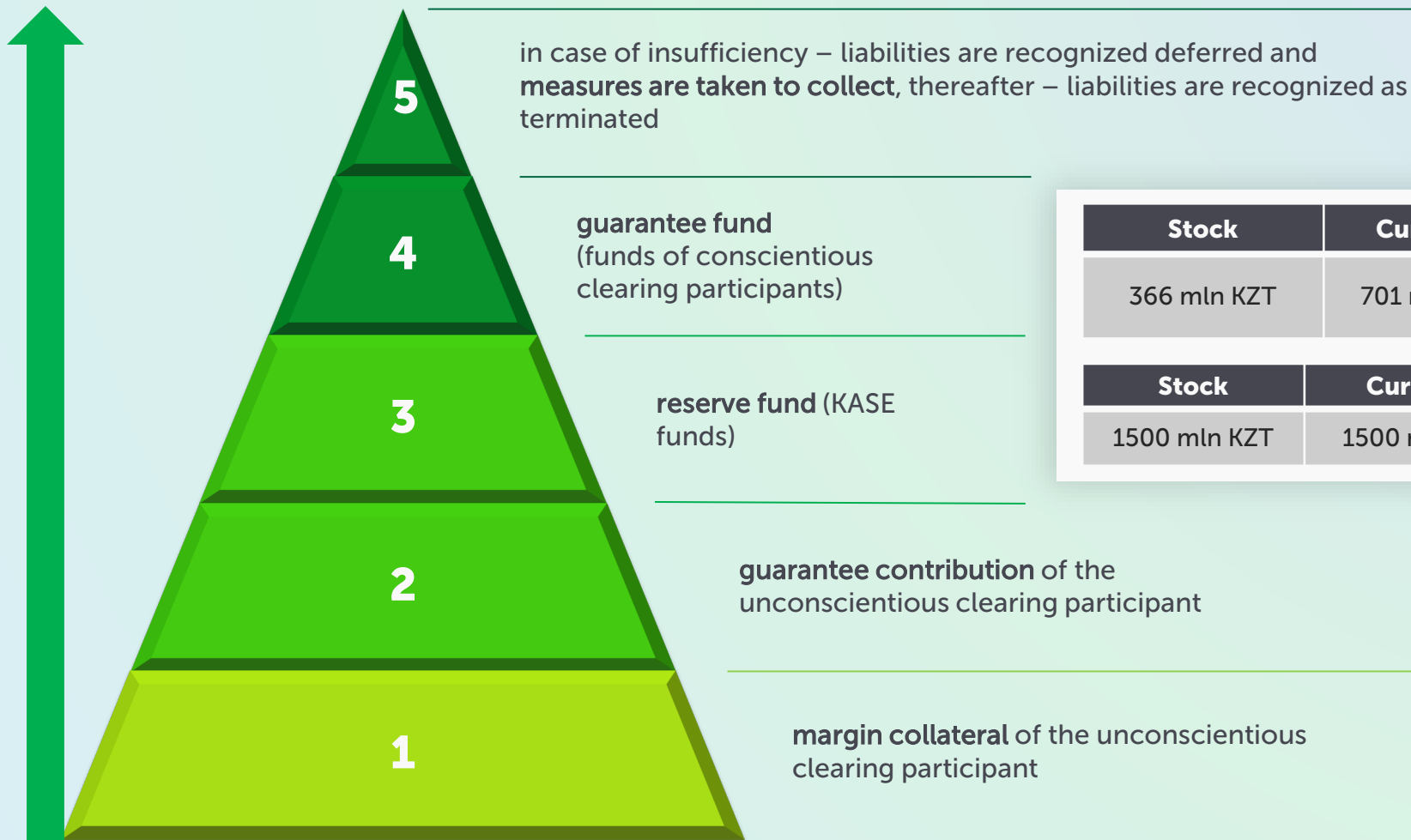
Advantages for the trading process



Transparency

Clearing activities and the CCP

	Stock market	Currency market	Derivatives market
Clearing activities are carried out on deals	with all financial instruments, except for those deals in which were concluded at trades conducted by the subscription method, and for which the Exchange does not participate the carrying out of settlements and does not provide any services related to such settlements	with all financial instruments	with all financial instruments
Clearing activities on deals with the CCP are carried out on a net basis	on deals concluded in the TS ASTS+ in modes with the CCP with all financial instruments with different settlement currencies (tenge, US dollar)	on all deals	on all deals
Clearing activities on deals without the CCP are carried out on a gross basis	on deals concluded in the TS ASTS+ in modes without the CCP with settlements in tenge	✗	✗



Stock	Currency	Derivatives
366 mln KZT	701 mln KZT	30 mln KZT 2 mln KZT
Stock	Currency	Derivatives
1500 mln KZT	1500 mln KZT	170 mln KZT

The assessment of the adequacy of the size of clearing funds is carried out at least once a year as of the date

- reduction of possible losses by limiting the level of risks accepted by the CCP in all segments of the financial market;
- ensuring the sufficiency of the CCP's funds to cover potential losses at the expense of accumulated financial resources, including its own funds, individual clearing collateral, collective clearing collateral and other collateral;
- ensuring the reliable operation of the exchange trading, clearing and settlement system, including by means of timely identification of risks and measures of prompt and adequate response at occurrence of risk events.
- ensuring the sufficiency of financial resources for settlements both in normal market conditions and extreme market conditions;
- creation of mechanisms for protection against potential losses in case of default of individual clearing participants;
- improving the risk assessment methodology required for the CCP to provide new clearing products and expand the list of instruments for which clearing is carried out;
- implementation of measures to maintain compliance of the CCP's current activities with the requirements of the regulator;
- ensuring information transparency.



The key tasks of the CCP include reducing the risks of the financial system and ensuring stability in the serviced segments of the financial market.



The CCP's risk management system is focused primarily on ensuring the financial stability and reliability of the CCP as a clearing organization and epy central counterparty

Elements of the CCP's risk management system

Requirements for the financial condition of a clearing participant

Clearing funds

Requirements for financial instruments for their admission to deals with partial collateral

Control of full coverage of arising obligations for a clearing participant with full coverage

The system of risk-parameters of financial instruments

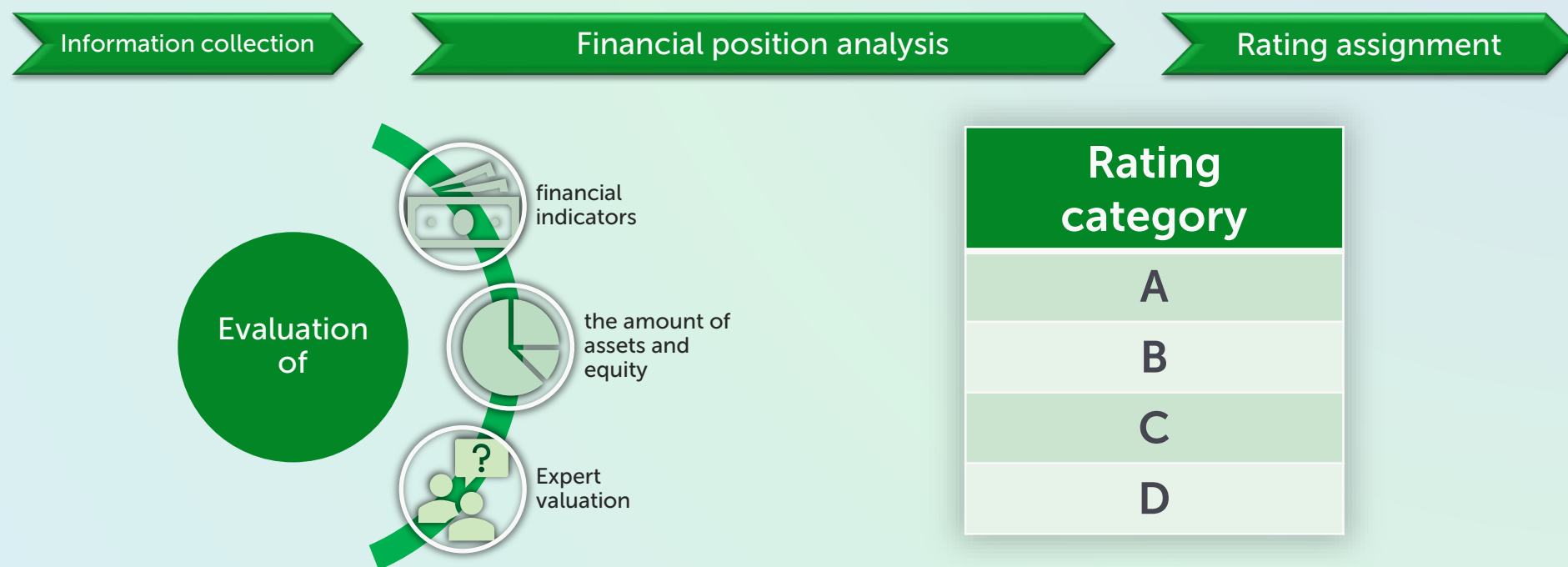
Revaluation of collateral value / collateral margin for clearing participants with partial collateral

Control of the sufficiency of collateral / margin collateral of clearing participants with partial collateral



Requirements for the financial position of clearing participants

The CCP regularly analyzes the financial condition of clearing participants by assigning internal ratings



Based on the results of the analysis of the financial position, the clearing participants are assigned the categories "with partial collateral" or "with full coverage"

Categories of clearing participants

CATEGORIES		MARKETS	RESTRICTIONS
"without collateral"	A clearing participant participates in trades without providing security for fulfillment of obligations on deals on a certain exchange market	Stock Currency Derivatives	This category in any exchange market is assigned only to the NBRK
"with partial collateral"	A clearing participant participates in trades in financial instruments subject to the availability of sufficient collateral formed in accordance with the Clearing Rules to fulfill obligations on deals and active orders in these trades	Stock Currency Derivatives	<p>For clearing participants of the FX market only</p> <ul style="list-style-type: none"> • Rating "A", "B", "C" • Equity size <ul style="list-style-type: none"> at least 26 million USD (for a resident) equivalent to 26 million USD (for a non-resident) • Compliance with the requirements of the authorized body of the country of residence for equity and liquidity
"with partial collateral" using the limit for opening positions	A clearing participant participates in trading in financial instruments, subject to the availability of sufficient collateral , with the application of a position opening limit to the clearing participant and setting an individual initial margin rate equal to at least twice the concentration rate.	Currency	No restrictions on the minimum rating level
"with full coverage"	A clearing participant participates in trades subject to full collateralization of obligations on concluded deals and active orders in those financial instruments in which these obligations arose	Currency	No restrictions on the minimum rating level

Admission of financial instruments to partially collateralized deals

Markets	Settlements scheme	Instruments
Securities	T+2	Financial instruments included in the List T+
	T+0	Other securities
Currencies	T+0	CNYKZT, USDKZT, RUBKZT, EURKZT, EURUSD
	T+1, T+2	USDKZT, RUBKZT, EURKZT, EURUSD, CNYKZT
Money market (swaps)	T+1, T+2	CNYKZT
	T+1, T+2	USDKZT, RUBKZT, EURKZT
	T+1W, 1M, 3M, 6M, 1Y	USDKZT
Money market (repo)	up to T+90 – without the CCP up to T+30 – with the CCP	government and corporate securities
Futures	T+1W1M, 3M, 6M	stock and currency futures

The admission of financial instruments to the conclusion of deals on terms of partial collateral is established for financial instruments included in the "List T+".

Financial instruments included in the List T+ are liquid financial instruments.

Requirements for the inclusion of financial instruments in **the List T+** are established in accordance with the Exchange's internal methods "Methodology for Determining Securities Liquidity Indicators" and "Methodology for Assessing the Issuer's Financial Position" based on the following criteria:

- FI liquidity assessment
- assessment of the financial position of the FI issuer
- ratings assigned to FI / FI issuer by international rating agencies
- expert assessment of the Market Risk Committee

The CCP regularly monitors the quality and liquidity of financial instruments admitted to deals with partial collateral (List T+) and accepted as collateral on deals with partial collateral (Collateral list T+), based on the results of which financial instruments may be included or excluded from the List T+ and / or the Collateral list T+

- Price boundaries are set daily for instruments.
- Orders that do not fall within the boundaries are automatically rejected
- Price limits depend on the collateral rate calculated by the CCP for each asset
- If orders approach the price border, the borders move away from the center and towards the market's movement

Risk parameters of financial instruments are calculated in accordance with the Methodology and are published on KASE website

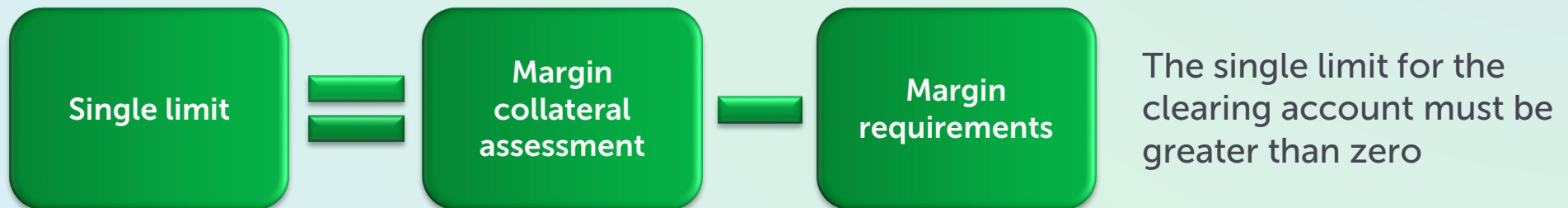
- After the boundaries shift online, the collateral rate changes
- Asymmetry of the margining allows to cool the market, because more collateral is charged from participants "provoking" the market movement

Based on the results of the shift of boundaries, the positions and risk of participants are reassessed

If the indicator of sufficiency of collateral (Single Limit) becomes negative, the participant is limited in the submission of orders: he can reduce the risk of the position or add collateral

Collateral sufficiency collateral

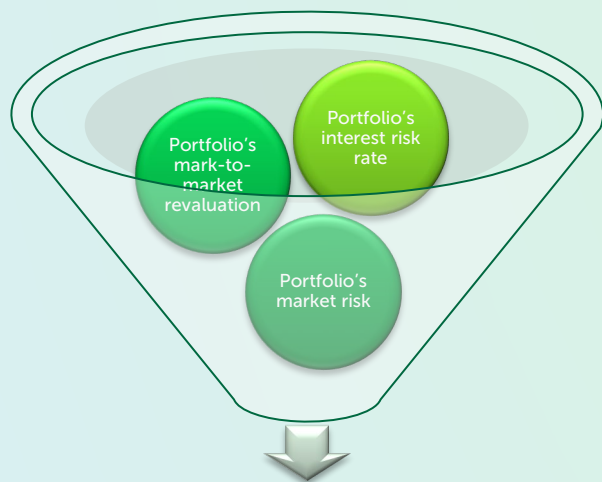
Market	Margin collateral	Method of measuring the collateral adequacy	Guarantee contributions
Currency	<ul style="list-style-type: none"> • Money (KZT, USD) 	Single limit	✓
Stock	<ul style="list-style-type: none"> • Financial instruments included in the Collateral List T+ • Money (KZT, USD) 	Single limit	✓
Derivative	<ul style="list-style-type: none"> • Money (KZT) 	Maintained margin	✓



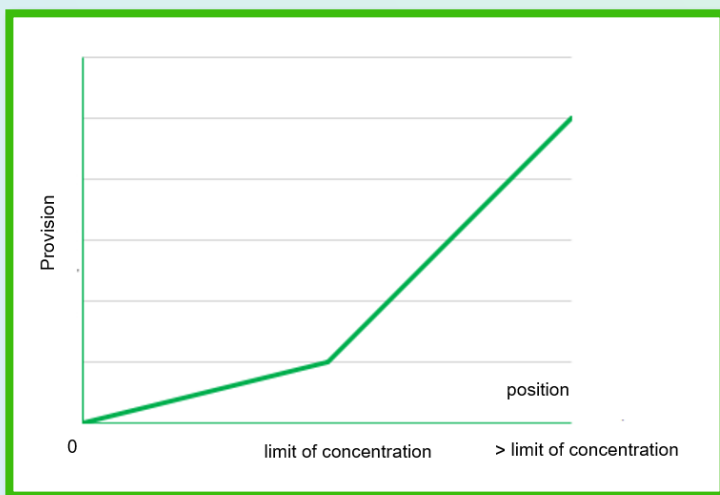
Revaluation of collateral is performed daily both during the clearing session and during trading (if the price boundaries were changed)

Revaluation of collateral / margin collateral for clearing participants with partial collateral

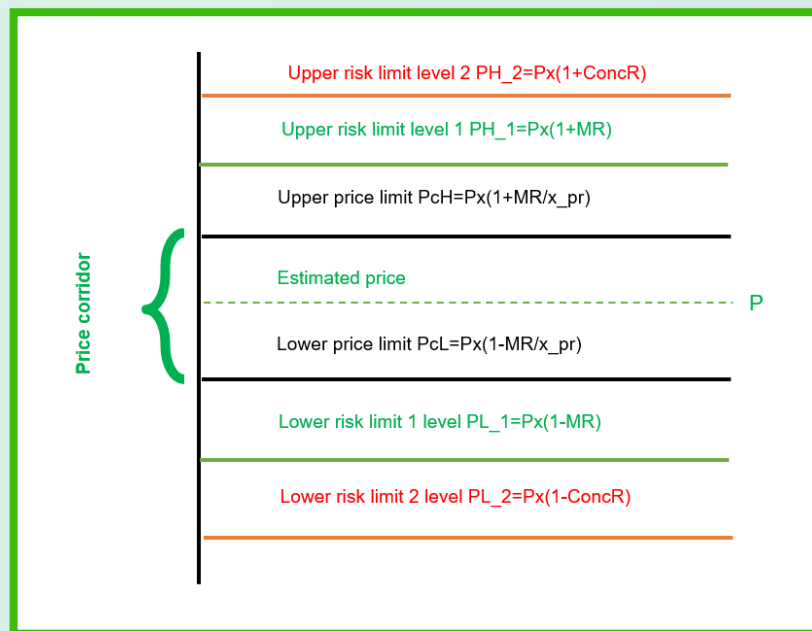
Revaluation of collateral is performed daily both during the clearing session and during trading (if the price boundaries were changed)



Calculation of collateral and Single limit



For calculation of collateral, risk limits have been established. The volume of market/interest rate risk taking into account the revaluation is calculated as the distance to the corresponding border. In case of a covered sale (the participant has an obligation to deliver securities and the security is in the participant's account), the market risk is considered covered.



P – FI estimated price

MR – initial margin rate

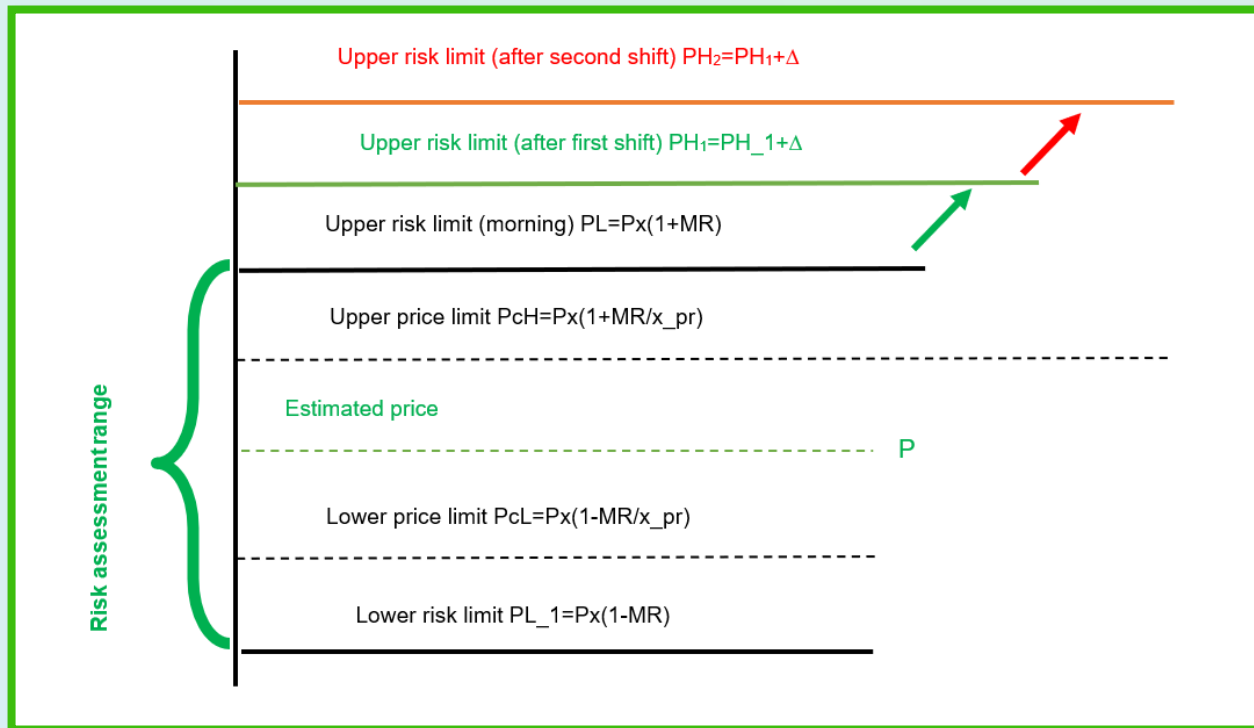
$ConcR$ – concentration rate

x_{pr} – coefficient of the ratio of the value of the price band to the value of the range of market risk assessment.

The amount of collateral of the clearing participant depends on the volume of the position. If the volume of the position (deposited collateral) is less than the concentration limit, then the initial margin rate is applied. If the position volume has exceeded the concentration limit, then the initial margin rate is applied to the volume equal to the concentration limit, the concentration rate is applied to the volume in the amount of excess of the concentration limit.

Revaluation of collateral / margin collateral for clearing participants with partial collateral during trading

During the trades, the monitoring of the approximation of the best quotes to the price boundaries is carried out. If the best sell/buy quote for 180 seconds in a row is at a distance of less than 10% of the price band, then the lower/upper borders of market and interest rate risks can be changed during trading. The changes lead to the recalculation of the Single Limit.



Risk boundaries are shifted by $\Delta = (PH_0 - PL_0) * \text{Shift}$, where:

$(PH_0 - PL_0)$ - value of the price corridor set for the morning,

Shift - coefficient that determines the size of the boundary shift.

The price boundary changes simultaneously with the risk assessment boundaries.

The upper border moves up. The lower border moves down.

P – FI estimated price

MR – initial margin rate

x_{pr} - coefficient of the ratio of the value of the price corridor to the value of the range of market risk assessment.

Control of full coverage of arising obligations for clearing participants with "full coverage"



As a security for the fulfillment of obligations of clearing participants with full coverage, the CCP establishes requirements for full coverage of net obligations for all clearing accounts of such a CP.



In order to cover the credit risk, the clearing participant with full coverage is obliged to fulfill the requirements for collateral on the terms of full coverage.



Position transfer

Unconscientious CP

absence of FI to fulfill net obligations by the set time – position transfer

- Independent settlement by the unconscientious CP of his unfulfilled obligations through REPO deals in the system mode (30 minutes after the start of the first clearing session and 15 minutes after the start of the second clearing session)
- Settlement of the CCP with the unconscientious CP (the CCP enters into a SWAP / REPO on behalf of the unconscientious CP)
- Mobilizing the necessary FI on the market (the CCP in the "Best Orders" mode, on its own behalf, issues an order to "Everyone" to conclude a REPO deal with the buy/sell direction. Any CP can accept the application submitted by the CCP and act as an FI donor)
- Mobilizing the necessary FI from the CP (the CCP concludes REPO deals with the CP that has the necessary FI on its own TCS, or with a voluntary provider that has the necessary FI on the client TCS)
- Settlement of the CCP with the conscientious CP that has counterclaims with the current settlement date on the required FI (the CCP concludes deals on behalf of the conscientious CP)

Forced closing of a position

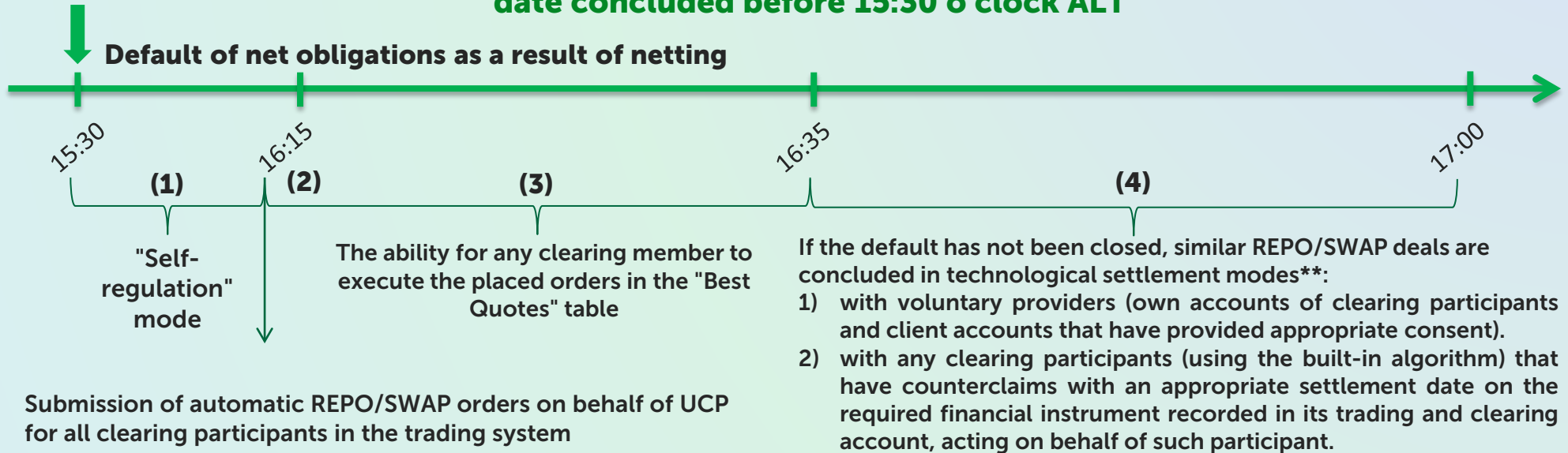
Insolvent CP

determined by a decision of the Management Board in connection with the default:

1. *on net obligations*
 2. *on margin*
 3. *on guarantee contribution*
- **Recognition of net obligations** with a certain date (with all dates) of settlements as unfulfilled, by a decision of the Management Board
 - **Conclusion by the CCP of balancing buy/sell deals** on behalf of the insolvent CP:
 - on the market
 - with conscientious CPs, having counterclaims
 - **Coverage of the price difference** following results of balancing deals at the expense of the sale by the CCP on behalf of the insolvent CP of FI, which constitute the collateral pool to cover the default:
 - partial collateral of the insolvent CP
 - insolvent CP's guarantee contribution
 - reserve fund
 - guarantee contributions of conscientious CP

* *The transfer of positions on money is possible for no more than 2 days in a row, on securities – for no more than 4 days in a row*

The first clearing pool*, deals with partial collateral with a due execution date concluded before 15:30 o'clock ALT



In case of default of net cash liabilities, the Exchange fulfills its obligations to conscientious clearing participants at the expense of its own assets on the CCP's correspondent account at the CD. If they are insufficient, procedures (3) and (4.2) apply.

REPO deal terms:

- With a term of 1 day
- At the penalty rate set for the instrument in accordance with the Methodology for determining the risk parameters of financial instruments

*A similar procedure applies to the second clearing pool. The regulations for clearing of deals with the central counterparty are approved by a decision of the Exchange's Management Board.

** In accordance with the Procedure for Concluding Deals on the Stock Market in the Trading and Clearing System ASTS+

Transferring the fulfillment of the UCP obligation to the next day

Conclusion of a REPO deal for 1 day at the rate "-20%" CCP with UCP

Fulfillment of obligations by the CCP to conscientious participants by attracting the Provider

Conclusion of a REPO deal for 1 day at the rate "-20%" CCP with the Provider

Claims and obligations on Money

	UCP*		CCP		CoCP**		Provider	
	Claims	Oblig.	Claims	Oblig.	Claims	Oblig.	Claims	Oblig.
Settlement day	100 000,000 tg		100 000,000 tg	100 000,000 tg		100 000,000 tg		
Deal BUY/SELL settlement code Y0 (first leg)		100 000,000 tg	100 000,000 tg	100 000,000 tg			100 000,000 tg	
Settlement day after conclusion of the settlement deal	100 000,000 tg	100 000,000 tg	200 000,000 tg	200 000,000 tg		100 000,000 tg	100 000,000 tg	
Deal SELL/BUY settlement code Yc1 (second leg)	99 999,452 tg		99 999,452 tg	99 999,452 tg				99 999,452 tg

Claims and obligations on Securities

	UCP		CCP		CoCP		Provider	
	Claims	Oblig.	Claims	Oblig.	Claims	Oblig.	Claims	Oblig.
Settlement day		1 000	1 000	1 000	1 000			
Deal BUY/SELL settlement code Y0 (first leg)	1 000		1 000	1 000				1 000
Settlement day after conclusion of the settlement deal	1 000	1 000	2 000	2 000	1 000			1 000
Deal SELL/BUY settlement code Yc1 (second leg)		1 000	1 000	1 000			1 000	

CoCP (conscientious clearing participant) buys, UCP* (unconscientious clearing participant) sells 1,000 securities at a price of KZT100, deal amount KZT100,000**

To transfer the obligations of the UCP, deals are made with the CCP:

in direction BUY/SELL, settlement code Y0
in direction SELL/BUY, settlement code Yc1

To fulfill obligations to the CoCP, similar deals are made between the CCP and the Provider (in this example, the Provider means any clearing participant that provided the CCP with the necessary securities):

in direction BUY/SELL, settlement code Y0
in direction SELL/BUY, settlement code Yc1

Example of a procedure for transferring a position on money

Transferring the fulfillment
of the UCP's obligation
to the next day
*Conclusion of a REPO deal for 1 day at the rate "+ 15%"
CCP with UCP*

Fulfillment of the CCP's
obligations to the CoCP
at the expense of KASE's
own funds

Claims and obligations on Money

	UCP		CCP		CoCP	
	Claims	Oblig.	Claims	Oblig.	Claims	Oblig.
Settlement day		100 000,00 tg	100 000,00 tg	100 000,00 tg	100 000,00 tg	
Deal BUY/SELL settlement code Y0 (first leg)	100 000,00 tg			100 000,00 tr		
Settlement day after conclusion of the settlement deal	100 000,00 tg	100 000,00 tg	100 000,00 tg	200 000,00 tg	100 000,00 tg	
Deal SELL/BUY settlement code Yc1 (second leg)		100 000,41 tg	100 000,41 tg			

Claims and obligations on Securities

	UCP		CCP		CoCP	
	Claims	Oblig.	Claims	Oblig.	Claims	Oblig.
Settlement day	1 000		1 000	1 000		1 000
Deal BUY/SELL settlement code Y0 (first leg)		1 000	1 000			
Settlement day after conclusion of the settlement deal	1 000	1 000	2 000	1 000		1 000
Deal SELL/BUY settlement code Yc1 (second leg)	1 000			1 000		

CoCP (conscientious clearing participant) sells, UCP (unconscientious clearing participant) buys 1,000 securities at a price of KZT100, deal amount KZT100,000

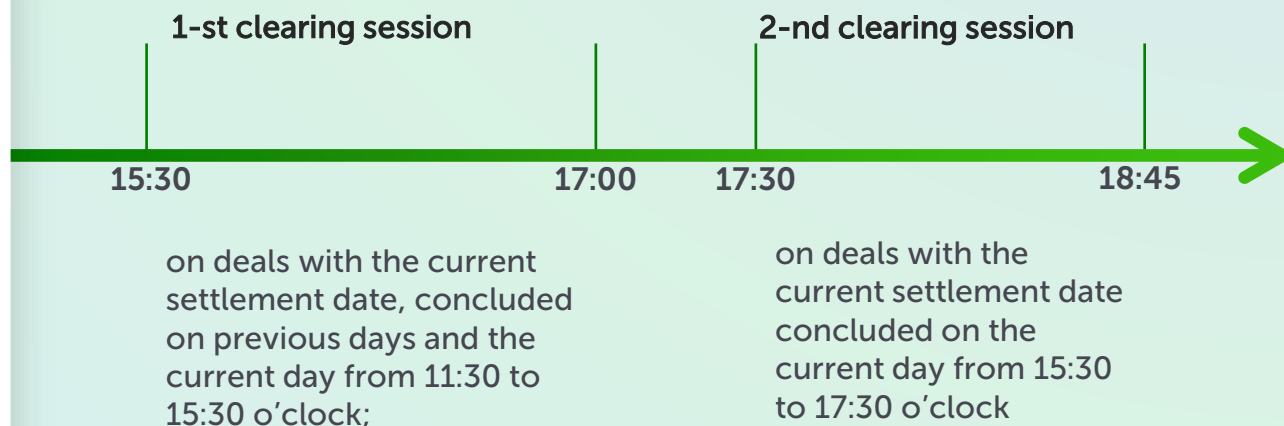
For transfer of UCP's obligations, deals are made with the CCP:

- 1) in direction SELL/BUY, settlement code Y0
- 2) in direction BUY/SELL, settlement code Yc1

- Single netting of all deal types:
 - currency: K/P + SWAP;
 - stock: K/P + REPO;
 - derivatives: futures with different underlying assets)
- Settlements in single clearing and settlement sessions – reducing transaction costs
- REPO deals' objects are available for trading

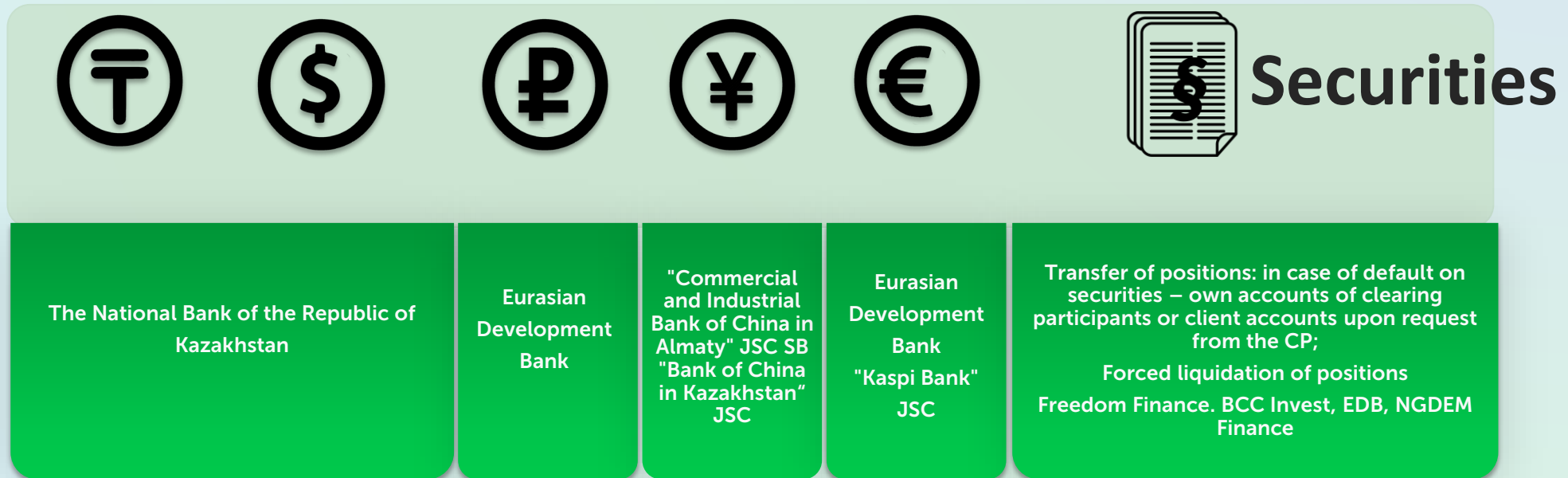
All deals concluded in modes with the CCP are included in a single netting.

- 1) all obligations and claims of participants on deals concluded in modes with the CCP will be included in the single netting based on the results of the clearing session;
- 2) formation of margin collateral from cash (KZT, USD) and securities accepted as collateral and recorded in trading and clearing accounts
- 3) withdrawal of assets in the amount of the planned position during the day



In order to ensure procedures for settlement of defaults, the Exchange uses the services of Liquidity Providers, who provide, on a voluntary basis or in accordance with the Clearing Rules, on contractual terms (market or at approved penalty rates) the conclusion of deals with the CCP, carried out during settlement procedures.

KASE signed agreements on liquidity provision services with the following organizations



The adopted procedures for settlement of defaults with the participation of liquidity providers will allow KASE to timely fulfill its obligations to all trading participants.

Thank you for attention!

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FAQ

