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Global Risk Intelligence

KASE Clearing Centre

CPMI-IOSCO PFMI Self-Assessment

Issue date: December 2024

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KACC
KASE Clearing Centre

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About the assessment scale

CPMI-IOSCO has defined five categories concerning the degree of assessment of each Principle/Key Consideration. These are defined in Disclosure Framework and Assessment methodology published in December 2012.

http://www.bis.org/cpmi/publ/d106.htm.

The categories of assessment defined by CPMI-IOSCO are:

Observed: The FMI observes the principle. Any identified gaps and shortcomings are not issues of concern and are minor, manageable, and of a nature that the FMI could consider taking up in the normal course of its business.

Broadly Observed: The FMI broadly observes the principle. One or more issues of concern have been identified that the FMI is encouraged to address and follow up to better manage risks or improve operations. The FMI should pursue such improvements in a defined timeline.

Partly Observed: The FMI partly observes the principle. The assessment has identified one or more issues of concern that could become serious if not addressed in a timely manner. The FMI should accord a high priority to address these issues.

Not Observed: The FMI does not observe the principle. The assessment has identified one or more serious issues of concern that warrant immediate action. Therefore, the FMI must accord the highest priority to address these issues in a timely manner.

Not Applicable: The principle does not pertain to the type of FMI being assessed because of the particular legal, institutional, structural, or other characteristics of the FMI.

The criteria described above will also apply to each Key Consideration.

About this assessment exercise

KASE Clearing Centre (‘KACC’) JSC commissioned Thomas Murray to assist in the CPMI-IOSCO self-assessment of the Principles for Financial Market Infrastructures (PFMIs) as part of the Republic of Kazakhstan’s efforts to comply with mandates set by G-20 authorities. Thomas Murray, as an independent capital markets expert, conducted an analysis of KACC’s practices and arrangements in the context of the assessment methodology defined by CPMI-IOSCO.

The approach taken by Thomas Murray is based on its well-established methodology designed to assess FMI risk in the context of best global practices. The Thomas Murray methodology has been employed to assess CCPs and CSDs worldwide for the last 20 years.

KACC’s assessment consisted of three stages: data collection, due diligence visits and remote analysis. During the first stage KACC completed a questionnaire designed by Thomas Murray to efficiently gather all the relevant information on KACC. This included copies of the legal framework governing KACC’s operations and any other supporting material needed for the assessment.

The data was analysed, and a preliminary report was generated prior to conducting the due diligence in September 2024. During the due diligence, Thomas Murray held discussions with all of KACC’s departments as well as affiliated functions of Kazakhstan Stock Exchange (‘KASE’), market participants, and the regulator. The third stage consisted of analysis of the data collected in the first two parts of the assessment. The findings from this process are documented in this paper.

The document follows the structure of the PFMIs as published by CPMI-IOSCO. Accordingly, there is a section for each Principle. Each section contains a summary of the Principle, which is a high-level description of KACC’s arrangements in the context of the topic addressed in that Principle. In addition, there is an indication of the degree of observance of the Principle.

The indicator at the beginning of each Principle highlights the observance of this Principle according to the degree of observance of each Key Consideration. In the chart, “observed” items appear as green, “broadly observed” appear as yellow, “partly observed” appear as orange, and “not observed” appear as red. Any item that is “not applicable” is not displayed at all in the chart.

About KASE Clearing Centre

KASE Clearing Center JSC (KACC) is a legal entity incorporated as a joint-stock company in accordance with the legislation of the Republic of Kazakhstan and is a 100% subsidiary of the Exchange. KACC was created in January 2023, subject to the 2022-2024 KASE Development Strategy and began clearing operations for stock market transactions on 25 September 2023, with FX moving on 3 June, 2024.

The main tasks of KACC in performing the role of a Central Counterparty (CCP) are to intermediate credit risk between trading members on the cleared markets, reduce possible losses by limiting the level of accepted risks in all segments of the financial market, and assume the risks of non-performance by the clearing participants of their obligations and by guaranteeing the performance of their obligations to each bona fide clearing participant utilising the accumulated financial resources from clearing participants and own funds of the CCP.

KACC provides central counterparty services to 57 clearing participants, including 31 in the foreign exchange market, 44 in the stock market, and 18 in the derivatives market. Clearing services are provided for 1,426 financial instruments, including 885 stock market instruments, 22 currency market instruments, 499 money market instruments and 20 derivatives market instruments.

The Exchange and KACC work together utilising an integrated trading, clearing and risk management platform to provide a modern clearing risk management system that allows participants to effectively use their funds in the market. The clearing services provided by KACC, with partial pre-collateral, as well as netting of claims and obligations, enable clearing participants to increase the efficiency of using their financial assets and reduce transaction costs.

Oversight of KACC is carried out by the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market (‘ARDFM’) and the National Bank of the Republic of Kazakhstan (‘NBRK’). The activities of the Clearing Centre are provided for by the Acts of the Republic of Kazakhstan, in particular, the Laws "On the Securities Market", "On Joint-Stock Companies", "On Banks and Banking Activities in the Republic of Kazakhstan" and regulatory legal acts of the NBRK and ARDFM.

Changes to KACC since the previous assessment

Since the previous assessment in 2023, KACC was instigated as a separate joint-stock company and launched central clearing for all securities traded on the KASE i.e., securities, derivatives and FX. This has resulted in the development of new policies, processes and risk controls in KACC which have been identified, detailed and tested as part this enhanced assessment.

Assessment

Principle 1: Legal

Observed

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Principle Summary

KACC's central counterparty and clearing services in Kazakhstan are governed by a combination of laws and regulations, including the Securities Market Law ('SML'), CA Implementation Rules, and Resolutions from the National Bank of the Republic of Kazakhstan. KACC holds a license to carry out securities market activities and has a limited banking license. The Clearing Rules govern the interaction between KACC and its participants and are legally enforceable by provision from the Securities. The legal framework provides for payment finality, transfer of obligations to KACC, it's rights over collateral, and protection of client assets in case of insolvency. However, portability is not explicitly defined in law, and KACC relies on interpretation of general property rights to ensure finality of asset transfer.

The development of KACC's Clearing Rules involves internal review by various departments and clearing participants to ensure transparency and alignment with Kazakhstan regulations. Although ARDFM doesn't directly review KACC's rulebook, it has indirect oversight through its representative on the KASE board and receives notifications of changes or additions within ten business days. KACC clearly communicates the legal framework governing its activities to regulatory authorities, clearing participants, and other stakeholders through various channels including its website and bilateral communication. KACC only provides clearing in the Kazakhstan market so is not subject to conflicts of law across multiple jurisdictions and has a high degree of confidence with the legal enforceability of its actions in Kazakhstan.

KEY CONSIDERATION 1:

The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.

KACC broadly observes Key Consideration 1

Description

The rights, obligations and capabilities of KACC to provide central counterparty and clearing services in the Kazakhstan market are governed by a combination of: The Law of the Republic of Kazakhstan "On the Securities Market" ('Securities Market Law'); the Resolution of the Board of the National Bank of the Republic of Kazakhstan dated October 29, 2018

No254 ‘On Approval of the Rules for Clearing Activities on Transactions with Financial Instruments’ (‘CA Implementation Rules 254’); the Resolution of the Board of the National Bank of the Republic of Kazakhstan dated February 24, 2012 No. 59 ‘On Approval of the Requirements for the Risk Management System of a Clearing House, the Conditions and Procedure for Monitoring, Control and Management of Risks in a Clearing House’ (‘NBRK Resolution 59’); and the Resolution of the Board of the National Bank of the Republic of Kazakhstan dated January 28, 2016 No 11 ‘On Approval of the Requirements for the Central Counterparty Risk Management System, Conditions and Procedure for Monitoring, Control and Management of Central Counterparty Risks’ (‘NBRK Resolution 11’).

KACC was granted a licence 3.1.8.2 by the ARDFM to carry out activities in the securities market on July 21, 2023, effectively providing the basis for the company to carry out the clearing of transactions in financial instruments. KACC also holds a limited banking licence allowing it to:

- open and maintain correspondent accounts of banks and organisations conducting certain banking transactions;
- remit payments and money transfers for individuals or legal entities;
- open and maintain bank accounts of legal entities;
- exchange transactions with foreign currencies except for exchange transactions with foreign currency in cash.

Article 77-3, paragraph 2 of the SML states that KACC’s Clearing Rules will govern the interaction between KACC and its participants effectively making KACC rules legally enforceable. According to the Clearing Rules, the open offer mechanism is applied to trades with the CCP, which is a method of fulfilling contractual obligations under the concluded trades by automatically including the CCP in the deal.

The Law of the Republic of Kazakhstan "On Payments and Payment Systems" provides a framework for assuring finality of cash transfers in various aspects. Payment finality is governed by Article 7, which ensures that payments are considered complete (final) once the money is credited to the payment system participant in whose favour the payment was made. The operator of a systemically important payment system guarantees the completeness (finality) of payment and money transfer in real-time, ensuring immediate processing and execution of instructions (Clause 2).

Article 155 of the Civil Code of the Republic of Kazakhstan (General Part) states that transactions are deemed to have been made from the moment of registration, unless otherwise provided by legislative acts. Although not specific to securities transactions, this does form a basis of legal transfer of title through the registration process as a crucial step in ensuring finality, and a refusal to register can only be based on a violation of legal requirements. Article 36 of the SML describes how registration of equity securities is effected in the accounting systems of nominal holders and the system of register of securities (KCSD).

Articles 25-27 of the CA Implementation Rules describe the process for transfer of obligations, where claims and liabilities are calculated by the clearing house and transferred to the clearing organisation in real-time on a gross basis, although the ‘open offer’ mechanism used by KACC is not described. Gross obligations of trading members are substituted by net obligations at the end of the trading session according to Article 25, Clause 2, providing a legal basis for net obligations replacing bilateral trading obligations.

Article 59, Clauses 1-3 of the SML defines the functions of a nominee holder, including accounting of client securities, registration of transactions, and confirmation of client rights to securities. Client securities held in a client omnibus account using a custodian nominee, are recognised under Article 59, Clause 1-3, and Article 60(3) of SML which recognises the nominee convention, and provides for the procedures of confirmation of a client’s title to securities.

In compliance with Article 96 of the Law "On Rehabilitation and Bankruptcy", debtor's property (owned by the debtor based on property right) will be included in a property mass. Under insolvency proceedings, custodian, or CSD recognised client assets are not included in the proprietary assets of the insolvent participant. The court has the power to freeze/free disputed assets held at the client level until resolution.

Portability is not explicitly defined in Law and KACC is reliant on the legal requirement stated in the Rules of Broker and Dealer Activity, which ensures the suspended or terminated broker will transfer its assets. Resolution No. 254 of the NBRK Board dated 29 October 2018 (Chapter 2, Paragraph 10) asserts that the ARDFM will notify KACC of the termination of a CP's license, and KACC will not provide services to such CP from the receipt of notice, with the exception of the cases in Paragraph 43 of the Rules of Broker and Dealer Activity and Article 48-1, Paragraph 1.9 and Article 51, Paragraph 6 of the Law 'On Banks and Banking Activities in the Republic of Kazakhstan' dated 31 August 1995. Following the revocation of its license, the CP is legally required to transfer assets within 30 days of the receipt of notification from the ARDFM, either on the basis of the client's order to KCSD or based on a new agreement to a new broker/dealer.

KEY CONSIDERATION 2:

An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.

KACC observes Key Consideration 2

Description

The Securities Market Law establishes requirements for rules of the clearing organization, specifically Article 77-3, paragraph 2 of the SML states that KACC's rules will govern the interaction between KACC and its participants, providing alignment between the rules and the law and giving them legal powers in and of themselves. KACC's Rules on Clearing Participants were approved by a decision of the Board of Directors of KACC on September 12, 2023 and became effective from September 13, 2023. Amendments were subsequently made by Board of Directors decisions on February 23, 2024 and August 1, 2024

The Clearing Rules are developed by KACC's executive body and approved by the board of directors (KACC), after internal review by the main departments of KACC including the Clearing Department, the Legal Department, as well as clearing participants. The approval aims to ensure transparency and certainty of the rules with Kazakhstan regulation and legislation.

Although ARDFM is not directly responsible for reviewing and signing off KACC's rulebook, it can be inferred that ARDFM has some level of oversight or involvement in the review process through its representative on the board of directors of KASE. Additionally, KACC must notify ARDFM within ten business days from the date of approval of the rules or introduction of amendments and/or additions thereto.

KEY CONSIDERATION 3:

An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.

KACC observes Key Consideration 3

Description

KACC clearly communicates the legal framework governing its activities to regulatory authorities, clearing participants, and other stakeholders through various channels.

The KACC website provides easy access to relevant laws and regulations, allowing users to download legislative acts and notices primarily in Russian. Additionally, key documents such as the KACC Clearing Rules and other clearing house documentation are available in English, ensuring transparency and clarity for international participants.

KACC's operations are grounded in the legislation of the Republic of Kazakhstan, its charter, and internal documents that collectively form the legal foundation of its activities. The Clearing Rules serve as a central document, outlining the terms and conditions of clearing service agreements with clearing participants.

KEY CONSIDERATION 4:

An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.

KACC observes Key Consideration 4

Description

KACC provides clearing services exclusively in the Kazakhstan capital market, and all its participants are obligated to comply with the requirements of the Securities Market Law (SML). In accordance with SML Article 77-3, the CA Implementation Rules have legal status and cannot be voided.

To ensure KACC's compliance with regulatory requirements, the Board Compliance Service monitors its activities and operations. This includes adherence to all relevant laws, regulations, and obligations issued by the Government of Kazakhstan, competent authorities, and the parent company, KASE.

KACC's internal documents, including the Clearing Rules, reflect procedures and rules that align with Kazakhstani legislation and regulatory acts of control and surveillance bodies. This reduces the risk of KACC's actions being deemed invalid or suspended. The Exchange's legal department and representatives of control and surveillance bodies conduct thorough legal examinations to ensure compliance.

KEY CONSIDERATION 5:

An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.

Key Consideration 5 does not apply to KACC

Description

This key consideration is not applicable to KACC as KACC operates in Kazakhstan only.

Principle 2: Governance

Observed

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Principle Summary

KACC has established governance arrangements that prioritise transparency, safety, efficiency, stability, and public interest considerations. The Board of Directors is responsible for setting the overall strategy and direction of KACC, ensuring alignment with the objectives of relevant stakeholders. At least 30% of the Board members must be independent directors, providing a balance between stakeholder interests and operational expertise. KACC has implemented a comprehensive risk management framework, grounded in its Risk Appetite Statement, which outlines tolerance levels approved by the Board of Directors. The Risk Management department is accountable for identifying, assessing, mitigating, and monitoring risks that could impact the stability of the organisation. A ‘three lines of defence’ approach is employed to ensure effective risk identification and mitigation. Operational departments identify and assess risks, promoting a culture of risk awareness. The Risk Management department evaluates and implements mitigating controls, providing an objective perspective on risk management, and the Internal Audit Department conducts independent reviews of the effectiveness of implemented controls.

KACC maintains open communication channels with its members through regular meetings and consultations, fostering a collaborative environment for sharing suggestions and ideas about future plans and projects. A quarterly members forum, bilateral communication and public events are conducted KACC to facilitate dialogue among stakeholders and promote transparency. Regular public consultations ensure that the views and concerns of relevant stakeholders are considered in decision-making processes. KACC provides detailed information about its governance structure, risk management practices, and future plans through publicly available reports and statements.

KEY CONSIDERATION 1:

An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

KACC broadly observes Key Consideration 1

Description

The purpose and objectives of KACC are defined in its Charter; its three main objectives being: income generation as a commercial organisation; to provide high-quality services without interruption, in accordance with its license; and to pursue additional objectives as determined by the company's governing bodies within their authority.

KACC demonstrates a high priority on safety and efficiency of the entity and has policies which support financial stability through a written risk management policy that outlines the process for identifying, evaluating, measuring, controlling, and monitoring risks. KACC compiles and approves a risk register annually, analyses risk-related information from daily activities, conducts internal audits and compliance checks, and maintains a risk map to quantify identified risks. All employees undergo risk management training, ensuring that everyone is aware of the importance of managing risks and their role in maintaining a safe and efficient FMI. From a clearing risk perspective, KACC is exposed to counterparty risk from its member which it mitigates through the combination of a variety of financial resources and practices organised into a Default Waterfall. The order of the resource utilisation prioritises the liquidation of assets provided by the defaulting party and a degree of capital segregated by KACC ('Skin-in-the-Game') for default management purposes, before mutualising residual losses amongst surviving clearing members.

There is no Board committee that is dedicated to risk, although KACC has a Market Risk Committee at the Management board Level, which meets every quarter. The committee reviews market risks and provides expertise from KASE (invited experts) and other relevant stakeholders.

The KACC Board of Directors is responsible for approving the Risk Appetite based upon the recommendations from the Risk Management Department. Risk Management submits the Risk Register to the Management Board for review, along with an explanatory opinion on the maximum allowed risk indicators. This allows the Management Board to thoroughly understand the organisation's current risk profile and assess its alignment with the organization's strategic objectives. If necessary, the Risk Map is also presented to the Management Board for information. The Risk Register, pre-approved by the Management Board, is then submitted to the Board of Directors for formal approval no later than the last business day of the current calendar year. During this review and approval process, the Board considers several key factors, including the organisation's risk tolerance, strategic objectives and risk profile.

KEY CONSIDERATION 2:

An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.

KACC broadly observes Key Consideration 2

Description

KACC has a three-tiered governance structure in accordance with Act No. 415-II of the Republic of Kazakhstan "On Joint-Stock Companies" consisting of the General Meeting of Shareholders. The Board of Directors and the Management Board. The General Meeting of Shareholders is the supreme body responsible for making key decisions. The Board of Directors is the Governing Body consisting of 7 members which oversees the company's overall strategy and direction. The Management Board is the Executive Body responsible for day-to-day operations and consists of 4 members. KACC comprehensively documents the key responsibilities and powers of each level, as well as the limitations on each entity's authority.

The Regulation on Committees of the Board of Directors was approved by the KACC Board of Directors on 15th March, 2023 and became effective on the same date, with amendments on 14th March, 2024. The regulation defines the composition, powers, and procedures of the committees of the Board Directors, ensuring that they operate in a transparent and efficient manner. KACC operates three Board level committees, being Budget and Strategic Planning Committee, the Internal Audit Committee and the Personnel, Remuneration and Social Issues Committee. The latter two committees have the same membership with three Board members

The KACC Organisation chart outlines the composition of the various departments within KACC and defines the department's functions. Each of four divisions is headed by a Deputy Chairman of the Management Board who each report to the Chairman of the Management Board.

The KACC charter and licenses are available on the website in English and Russian, but other internal governance documents and the organisation structure are not.

KEY CONSIDERATION 3:

The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.

KACC broadly observes Key Consideration 3

Description

The Board is responsible for: ensuring the oversight of business operations through the risk management function and making decisions related to risk management; oversee the development, implementation and supervision of an appropriate internal control system; setting clear goals and strategies; effectively monitoring executive management; ensure compliance with all relevant rules and regulations; overseeing the management of the company's finances and cash flows. The Board is also responsible for disclosing essential information to the shareholders, stakeholders, and verifying the Executive Management's compliance with them.

The current KACC Board is comprised of 8 members with 3 independent directors, and is a separate board from the KASE parent. The KASE board is chaired by it's major shareholder, NBRK, and has representation from the market regulator, ARDFM. elected by the Ordinary General Assembly of Shareholders. Board member recommendations need to be approved by the CMA. Board members are required to have the necessary qualifications, skills and experience of the capital markets and clearing background. The Board meets every quarter and is comprised of the following:

- Ms Alina Aldambergen – Chairperson, and Chairperson of KASE

- Mr Zhainar Sarzhakov – representing KASE as sole shareholder
- Mr Mirlan Tashmetov – independent director
- Mr Ivan Serdyuk – representing KACD
- Mr Kadyrzhan Damitov - independent director
- Ms Natalia Khoroshevskaya – executive member
- Ms Sholpan Ainabayeva - independent director
- Mr Yertai Salimov – representing KASE shareholder

The roles and responsibilities of the Board are set out in the Regulation on the Board of Directors, which was developed in accordance with the Joint Stock Companies Law, the Securities Market Law and other legislative acts of the Republic of Kazakhstan. The document outlines details of Board composition, structure, responsibilities and processes, as well as requirements for candidate election and personal and professional qualities of Board members. The document ensures that candidates are suitable for the role before being considered for election.

In accordance with the Law of the Republic of Kazakhstan "On Joint Stock Companies", the Board of Directors must monitor and, if possible, eliminate potential conflicts of interest at the level of officials and shareholders, including the misuse of company property and abuse in transactions in which there is an interest. Conflict of interests is regulated by internal document Conflict of Interests Policy. In case of conflict of interests, the member of the Board will not vote on the issue in which they have a conflict of interests.

KEY CONSIDERATION 4:

The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).

KACC observes Key Consideration 4

Description

Qualities and qualifications of Board members are set out in the Regulation for Board of Directors. They are expected to be highly experienced professionals with a strong background in finance and management, as well as excellent personal qualities and a commitment to corporate governance best practices. Besides minimum levels of education and work experience requirements, members must have a comprehensive understanding of Kazakhstan's financial market, including clearing services, international experience in providing clearing and financial services, and familiarity with advanced corporate governance practices.

The sole shareholder, KASE, determines the amount and terms of payment of monthly remuneration, which is paid once a month. The amount is fixed for the entire term unless changed by the sole shareholder, and depends on their role and active participation in meetings of the Exchange's Board of Directors and its committees. Members who are absent or do not participate in meetings may receive reduced remuneration (50% of established amount which encourages members to attend and take an active part in its meetings, as well as in meetings of committees of the Board of Directors. The Chairman receives a 30% bonus to their monthly remuneration. Annual bonuses may be paid, but only if recommended by the Board and approved by the sole shareholder, with certain conditions and limitations applying.

The system of motivation for members of the Board of Directors provides a level of compensation commensurate with the market level (financial sector, activities of credit institutions). Also, the motivation system encourages members of the Board of Directors to take an active part in its meetings, as well as in meetings of committees of the Board of Directors. The annual amount of remuneration for members of the Exchange's Board of Directors is determined depending on their role and active participation in meetings of the Exchange's Board of Directors and its committees. A sound remuneration policy motivates the members of the Board of Directors and ensures the achievement of the long-term goals defined at the beginning of Principle 2.

The procedure for determining the independence of members of the Exchange's Board of Directors is enshrined in the Regulations on the Board of Directors and the Corporate Governance Code of the Exchange. At least thirty percents of the composition of the Board of Directors must be independent directors of the Clearing Center.

The definition of an independent board director is provided in the Joint Stock Companies Law, Article 1 (20) and is essentially someone who has no current or recent affiliation with the company or its affiliates, is not beholden to anyone at the company or its affiliates and has no conflicting interests or roles that could compromise their independence. The role of the independent directors is governed by the Regulation on Boards of Directors and includes the requirement that Heads of the Board committees must be independent directors. Election of independent directors is conducted on the basis of the submitted data on compliance with the independence criteria set out in the Regulation. For KACC, 8 members currently serve on the Board of Directors, 8 members, with 3 independent which is in line with the Regulation on Board of Directors which states that the board should have at least 30% independent directors.

KEY CONSIDERATION 5:

The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.

KACC observes Key Consideration 5

Description

The Regulation on the Management Board document sets out the roles, responsibilities, rights and obligations of KACC management, including a prescriptive job description describing these for management staff. KACC management is responsible for ensuring the effective operation of supervised subdivisions, implementing instructions from the sole shareholder, Board of Directors, and.

Each member of the Management Board bears responsibility under labor, administrative, civil, and criminal laws of Kazakhstan, including for violation of requirements of laws, internal documents, and their job description. They are also responsible for performance of supervised structural subdivisions, including risk management and the internal control system, as well as timely provision of reports, notices, and other documents/materials to authorized authorities and organizations.

Management have the right to demand meetings with employees from supervised structural subdivisions, receive necessary information on issues related to these subdivisions, take actions and make decisions within their competence, and submit proposals for improvement of activities. They also have the authority to make decisions on material/non-material incentives for employees and take measures when violations are detected.

The current management of KACC has sufficient experience and skills (information is available on the Exchange's Internet resource) to govern and manage the risks of KACC, meets the requirements for collegial executive bodies in terms of qualifications and business reputation established by the current legislation. KACC has a robust management performance system in place, where each Managing Board member has Key Performance Indicators (KPIs) approved by the Supervisory Board. Each KPI consists of two parts: strategic objectives for KACC and personal contributions to its development. These KPIs are set annually and evaluated every six months.

KEY CONSIDERATION 6:

The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.

KACC observes Key Consideration 6

Description

The KACC Board of Directors is responsible for approving the Risk Management Policy, which guides the Risk Management department's activities at KACC. The Board of Directors sets general principles for risk management, approves relevant documents (with assistance from the Management Board), and exercises control over the risk management system, receiving regular reports on risk analysis via an independent reporting line from the Risk Management department. KACC has developed and maintains a comprehensive risk management system in line with the laws and regulations of the Republic of Kazakhstan, which identifies, assesses, mitigates and monitors the risks faced by KACC. The Board approves the Risk Appetite including tolerance levels based upon the recommendations from the Risk Management department and has overall responsibility for the development of effective risk management in the organisation. KACC employs a 'three lines of defence' approach for risk identification, with all departments and employees responsible as the 1st line responsible for identification and assessment of risks, the risk management department as 2nd line responsible for risk governance and working with operational departments to evaluate and implement mitigating controls; and the Internal Audit Department acting as 3rd line of defence to provide for an independent risk evaluation of effectiveness of implemented controls.

KEY CONSIDERATION 7:

The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.

KACC observes Key Consideration 7

Description

KACC members have some influence over decisions and strategy through the 'Quarterly Meeting with Members' platform. This provides a forum for KACC members (including brokers, banks, and custodians) to share their suggestions and ideas about future plans and projects. However, this user group does not have any formal authority to initiate or veto KACC's decisions/projects, but the advisory role of the members' group and their suggestions can be incorporated into KACC's decision-making processes.

KACC also provides detailed information about future plans and report on previous accomplishments bilaterally with members, keeping them informed. Members can express their suggestions and ideas about plans and projects, which provides some level of influence over decision-making. KASE and KACC also conduct public events such as forums, seminars, and consultations which provide a platform for interested parties to share their views and concerns.

Principle 3: Framework for the Comprehensive Management of Risks

Broadly Observed

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Principle Summary

KASE and KACC operate under separate but aligned enterprise risk management systems. The Risk Management Division (RMD) oversees the risk management process for both entities, reporting to KASE's Board of Directors. KACC has a documented Risk Management Policy and Rules that outline procedures for identifying, evaluating, and managing risks.

The risk management process involves timely identification of risks, assessment of maximum permissible values of risk indicators, and ongoing monitoring of assigned risk values. KACC employs a "three lines of defence" approach to risk identification, with all departments and employees responsible for identifying risks. Risks are identified through an annual questionnaire and ad-hoc processes. The risk register is maintained on excel and manually monitored and updated. High or critical risks are reported to the RMD, which determines maximum permissible values and actual risk values of key risk indicators (KRIs).

KACC also has a credit risk management framework in place, including a Market Risk Committee responsible for major decisions around counterparty credit risk and margin modelling. The CCP conducts regular reviews of its members' financial strength and operates a model of pre-margining to manage participant counterparty risk. The RMD conducts stress testing on a quarterly basis to identify systemic and liquidity risks. KACC also publishes regularly updated documents on its website to allow clearing participants to understand the clearing risk parameters. KACC does not currently have a Recovery and Resolution Plan in place, but does have all well documented, resourced and tested disaster recovery and business continuity plans.

Key Consideration 1:

An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.

KACC observes Key Consideration 1

Description

KASE and KACC operate under a separate enterprise risk management system, with overall control residing within KASE's Operational Risk Department. Both entities have distinct risk appetites, with KACC adhering to the group's overall risk appetite.

The Risk Management Division (RMD) oversees the risk management process for both KASE and KACC, reporting to KASE's Risk Management Department and ultimately to KASE's Board of Directors. For KASE, the RMD reports to the company's management and Board of Directors.

KACC maintains a documented Risk Management Policy and Risk Management Rules respectively. The Policy was developed in line with the requirements set by Article 49.1 of the SML and defines procedures for identification, evaluation and establishment of maximum permissible values for key risk indicators (KRIs); procedures for the monitoring and control of identified risks and risk management measures and roles of departments regarding risk management and the procedure for exchanging of information between them.

Risks are identified through an annual questionnaire circulated to all divisions, initiated by the RMD. This process results in the formation of a risk register for the organisation, which is approved by the Board of Directors. The Risk Coordinators, IAD and Compliance department are required to be informed of the risk register within 5 days of the risk register’s approval by the Board. An ad-hoc risk identification and assessment process may be initiated if new risks are identified outside of the regular annual cycle.

The risk management process involves:

- Timely identification of risks and threats
- Improving the quality of assessment of maximum permissible values of risk indicators (risk appetite)
- Ongoing monitoring of assigned risk values

KACC employs a 'three lines of defence' approach for risk identification, with all departments and employees responsible (1st line), compliance, legal, risk management, anti-money laundering, and counter-terrorism financing departments responsible (2nd line); and an independent risk evaluation conducted by the Internal Audit Department (3rd line).

The risk register is maintained on excel and is manually monitored and updated. For risks designated as high or critical (unacceptable) risks, the Risk Coordinator sends a list of KRIs to the RMD, as well as action plans containing information regarding action being taken/planned within 10 days of the risk register’s approval. KRIs are set for high risks, and their values are determined by the RMD based on the scale of impact and level of risk. The maximum permissible values and actual risk value of KRIs require approval by the Board.

Risks identified outside of the annual cycle are implemented into the risk register on an ad-hoc basis, following the same procedure as the annual risk assessment. If the risk identified is new and/or affects the market it would be escalated to both Management and the Board, whereas, if it results in a process change, it would be escalated to Management only. Clause 46 of the Risk Management Rules requires Risk Coordinators to submit information including (amongst others) the causes, measures taken and planned to address it, within 3 days of the risk event. Consolidated reports are also submitted by Risk Coordinators on risk events to the RMD monthly. The RMD conducts a quarterly analysis of risk events which is submitted to the Board. KACC has confirmed that no significant risk events were reported over the previous year.

Key Consideration 2:

An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.

KACC broadly observes Key Consideration 2

Description

KACC, as a central counterparty, minimises its risks to its clearing participants through a combination of robust membership requirements and effective risk management practices. To become a clearing member, candidates must meet minimum eligibility criteria outlined in the Clearing Participant Regulation, which is publicly available on KACC's website. This regulation sets out the requirements for financial entities to be admitted as members, including being authorised and licensed by their relevant authority. KACC utilises the minimum capital requirement for members set by their relevant authority's determination.

KACC has a credit risk management framework in place, which includes a dedicated Market Risk Committee responsible for major decisions around counterparty credit risk and margin modeling. The CCP also has an internal classification system of financial strength for members and issuers, which considers both quantitative financial metrics and qualitative criteria. In terms of monitoring, KACC conducts regular reviews of its members' financial strength, with banks being monitored monthly and brokers less frequently on a quarterly basis. Depending on the results of the internal scoring methodology, members with a low rating may be asked to fully collateralize positions, rather than partially for higher-rated entities.

To manage participant counterparty risk, KACC operates a model of pre-margining, which sets a single limit for each member that cannot be allowed to turn negative. KACC collects initial margin and variation margin for all cleared products and services, using a detailed and documented margin methodology that calculates key risk parameters on a frequent basis. The model parameters are reviewed every quarter, with the entire methodology being reviewed internally infrequently.

KACC's risk management subdivision conducts stress testing on a quarterly basis to identify systemic and liquidity including tests performed to assess the risk of default by clearing participants and the potential impact on the central counterparty, and tests to evaluate the possibility of insufficient liquid funds being available to resolve defaults resulting from insolvency of clearing participants. These stress tests help KACC to identify and mitigate potential risks associated with its clearing activities and functions as a central counterparty.

KACC publishes a variety of regularly updated documents on its website to allow clearing participants to understand the clearing risk parameters, and numerous rules, regulations and documentation around the clearing process, methodologies of the risk and margining models. KACC previously provided an online margin calculator but has withdrawn it.

KEY CONSIDERATION 3:

An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.

KACC broadly observes Key Consideration 3

Description

KACC maintains a detailed risk register as part of its overall risk management system which identifies and assesses its exposure to external factors, including other FMIs and services provided by outside suppliers. In particular, the risks of services provided by both Kazakhstan Stock Exchange and the Kazakhstan Central Securities Depository are assessed on an annual basis.

KACC controls its risk exposure to settlement banks continuously through the reconciliation process which is done daily, automatically via received cash statements from the correspondent banks. KACC also performs quarterly credit and liquidity stress tests on settlement banks and provides an overall statement on their financial stability.

KACC recently focused on the risks associated with the Moscow Exchange ('MOEX') strategic relationship. The risk assessment highlighted two high-risk elements related to MOEX, which have been documented in the risk register as of October 1st. Specifically, the assessment focused on the secondary sanction risks due to MOEX's shareholding in KACC's parent, KASE, and the IT security risks associated with MOEX's provision of the primary trading and clearing platform for KASE and KACC operations. Given the potential risks and consequences, KACC developed a plan to mitigate these risks including replacing MOEX as a major shareholder of its parent, KASE, with alternates (which was successfully completed on 11 October, 2024).

KEY CONSIDERATION 4:

An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as an on-going concern and assess the effectiveness of a full range of options for recovery and orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly based on the results of the assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

KACC partly observes Key Consideration 4

Description

KACC is in the process of developing a recovery and resolution plan which will set out the actions needed to ensure continuity of the CCP's operations in the event of a critical issue, or the orderly wind-down of operations if KACC were unable to continue operations.

KACC has detailed and documented disaster recovery and business continuity plans in place, which are tested and reviewed on an annual basis (as detailed further in Principle 17).

Principle 4: Credit Risk

Observed

An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.

Principle Summary

KACC's risk management system is designed to ensure the sufficiency of resources to cover potential losses from clearing activities. The CCP follows a "cover 2 rule," which requires it to have sufficient resources to cover the simultaneous default of its two largest clearing members. The CCP conducts regular stress testing to assess its financial position in exceptional but possible scenarios that could affect its activities. Stress test results may lead to changes in the methodology for determining risk parameters, margin sizes, guarantee fund contributions, and own capital. In the event of a clearing member default, the KACC has a default waterfall that follows the "defaulter pays" principle.

KEY CONSIDERATION 1:

An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.

KACC observes Key Consideration 1

Description

KACC has an established risk management framework with clearly documented policies and rules around the monitoring, control, and management of relevant risks. The CCP's Risk Management Policy, which has been developed subject to the Securities Market Law of the Republic of Kazakhstan, clearly identifies credit risk as a principal risk and defines it as the probability of losses arising because of a failure of a counterparty to discharge its obligations. The stated goals of the CCP are to reduce possible losses by limiting the level of acceptable risk, ensure sufficiency of funds to cover losses using prefunded financial resources, including margin collateral, guarantee funds and own funds, and ensure the reliable operation of the clearing and settlement system.

The Policy describes the events that could give rise to credit risk and details the risk management measures to mitigate credit risk. These measures include:

- Determining terms and conditions and establishing procedures for monitoring ongoing compliance of clearing members with laws and regulations;
- Setting requirements for the financial position of clearing members. Clearing members are assigned grades of financial strength according to an internal methodology and their financial standing is reviewed regularly to ensure continuous compliance with the requirements of their assigned grade;
- Setting requirements for the clearing members to deposit collateral;
- Having oversight and control over the sufficiency of the clearing member's collateral when submitting orders and carrying out automatic control of adequacy of the collateral of the clearing members;
- Collecting initial and variation margin according to clearing rules and an established margin model;
- Performing mark-to-market re-evaluation of collateral and positions on a daily basis, taking into account the potential decreases in liquidity and increases in price volatility for each financial instrument;
- Establishing and maintaining default funds;
- Limiting the concentration of foreign currency, securities and other assets that are posted as collateral;
- Determining the limits for opening positions of the clearing members on certain exchange markets;
- Establishing procedures for handling the default and insolvency of clearing members;
- Conducting regular stress testing of clearing activities;
- Monitoring internal and external events and factors that may have a significant negative impact on the ability of counterparties to fulfil their obligations to the CCP.

KACC reviews the credit risk management framework once a year but also on an ad-hoc basis to account for changes in market conditions, changes in regulation, introduction of new products, and implementation of projects. The regulator also reviews the framework once a month.

KEY CONSIDERATION 2:

An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.

KACC observes Key Consideration 2

Description

KACC's Risk Management Policy considers risks of losses when performing clearing, financial and economic activities as credit risks, and identifies the following sources:

- Default on, incomplete, or delayed discharge of financial obligations to KACC, subject to the terms and conditions of a clearing service agreement;
- Non-payment, incomplete, or delayed payment of a principal amount and/or an interest on debt securities acquired or intended to be acquired using own assets of KACC;
- Default on, incomplete, or delayed discharge of obligations under derivative securities (derivative financial instruments) acquired or intended to be acquired using own assets of KACC;
- Default on, incomplete, or delayed discharge of financial obligations to KACC other than the aforementioned.

In its Policy, KACC makes a distinction between credit risk stemming from counterparties in clearing activities and credit risk stemming from counterparties in investment activities, and the CCP sets out respective risk mitigating measures for each category.

To manage risk stemming from clearing activities, KACC uses the following mitigation measures:

- Use of the delivery versus payment (DVP) and payment versus payment (PVP) mechanisms when discharging obligations;
- Establishment of requirements for credit quality of assets accepted as a collateral subject to internal rules for inclusion of financial instruments in the eligible trading and collateral lists;
- Preliminary checks of sufficiency of collateral before allowing members to enter transactions and establishment of a single limit of collateral that must be positive at all times for the member to enter new transactions;
- Automatic checks on the sufficiency of the clearing member's collateral when submitting orders;
- Collection of initial and variation margin according to clearing rules and an established margin model, along with active monitoring of exposures and daily mark-to-market evaluation;
- Establishment and maintenance of default fund made up of clearing members' contributions and KACC's own funds;
- Regular stress and back testing.

KACC closely monitors the financial position of clearing members, the size and concentration of their portfolios, as well as the volatility in the markets to ensure management of credit risks. Monitoring the financial positions of a member includes verification of compliance with prudential and regulatory standards, with minimum capital requirements, and with the requirements of the CCP's internal methodology for assessing the financial strength of members.

To manage risk stemming from investment activities, KACC uses the following mitigation measures:

- Establishing a list of investment objects for assets of the investment portfolios of the CCP;
- Establishing limits for investing assets in the investment portfolios of the CCP;
- Establishing terms and conditions and restrictions in relation to transactions with securities and other financial instruments made at the expense of the assets of the investment portfolios of the CCP;
- Establishing conditions for hedging and diversification of assets of the investment portfolios of the Clearing Center, indicating the list and hedging instruments.

The CCP has a documented Asset Investment Policy that sets definitive limits on the type, quality, and size of investments.

KACC evaluates the effectiveness of its mitigation measures by marking current exposure to market, measuring estimated losses against actual losses incurred, running back- and stress tests, and calculating potential future exposure.

KEY CONSIDERATION 3:

A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.

Key Consideration 3 does not apply to KACC

Description

Not applicable as KACC is not a payment system or a securities settlement system (SSS).

KEY CONSIDERATION 4:

A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.

KACC observes Key Consideration 4

Description

KACC categorises members according to the collateral they must provide to ensure settlement of obligations:

- Members without collateral, i.e. members that can participate in the clearing of transactions without providing any collateral for their trading. This is a restricted category that is only reserved for the central bank of Kazakhstan;
- Members with full coverage, i.e. members that must fully collateralise their net obligations to be able to participate in clearing. The full coverage condition entails ongoing monitoring of availability of full coverage of net obligations in those financial instruments that arise from booked transactions and submitted orders and their settlement entails a maximum value of net obligations on each settlement date, considering net claims and/or net obligations on previous settlement date.
- Members with partial collateral, i.e. members who are subject to the single limit and the provision of margin. For the coverage of obligations by a clearing member with partial collateral, KACC sets out specific collateral requirements based on net obligations from trades recorded in clearing accounts and submitted orders. These are calculated according to the Clearing Rules and vary for the different markets. The CCP draws up the list of eligible collateral for deals with partial collateral according to its documented procedure for the inclusion of financial instruments in the T+ List and the T+ Collateral List. The composition and construction of the lists is detailed in Principle 5. Details of the margin model are given in Principle 6.

Besides the calculation of the single limit, initial margin and daily variation margin, the CCP also requires members to contribute to the clearing guarantee fund. The CCP has documented methodologies for the calculation of the size and projected values of the clearing fund. The CCP considers changes in settlement prices of financial instruments as the market risk factors that have a significant impact on the ability of KACC to discharge its obligations as a central counterparty. To identify the risk factors, the CCP determines historical scenarios as well as hypothetical scenarios of extreme but plausible conditions. Basic fundamental parameters used to evaluate statistical parameters when evaluating the sufficiency of the clearing funds are: a reporting period of one calendar year; a lookback period for evaluation of extreme conditions of ten years; a confidence level of at least 99%. The sufficiency of clearing funds is reviews at least once a year, but the CCP can revise it more frequently if the market conditions deteriorate.

The CCP calculates the sufficiency of resources to cover the simultaneous default of the two largest clearing members (cover 2 rule).

KEY CONSIDERATION 5:

A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.

KACC observes Key Consideration 5

Description

In accordance with its "Requirements for the Clearing House's Risk Management System, Conditions and Procedure for Monitoring, Control and Management of Risks in the Clearing House", as approved by the central bank, the CCP must have methods of measuring the potential impact on the financial position of the entity of exceptional but possible events that can affect its activities ('stress testing'). The stress test results are reviewed by the risk management subdivision and presented to the Management Board and the Board of Directors of the CCP. The results of stress testing must be drawn up in accordance with the Risk Management Rules and must contain a description of the stress test scenario, the rationale for the selected stress test scenario and recommendations based on the results of stress testing. Based on the results of stress testing, the Board may decide to change the methodology for the determination of risk parameters in the margin model, change the size of margins, change the amount of contributions to the guarantee funds and revise the methodology for determining the size of contributions, increase in own capital and contribution in the reserve fund.

The risk management subdivision conducts:

- stress testing by price risk of assets in investment portfolios;
- stress testing by interest rate risk of assets in investment portfolios;
- stress testing by currency risk of assets in investment portfolios.

In addition, the risk management subdivision performs quarterly stress testing of credit risks in implementation of the CCP's clearing activities and central counterparty functions for financial instruments of the stock, foreign exchange and derivatives markets.

The stress test model is validated annually by an external consultant.

Sufficiency of the CCP's financial resources to cover losses stemming from clearing activities in case of exceptional but probable events, includes:

- the sufficiency of the CCP's total financial resources to cover the total losses;
- sufficiency of guarantee funds.

The sufficiency of total financial resources is determined by the value of the total loss coverage ratio, which is the ratio of the difference between the volume of KACC's total financial resources and total losses to the volume of total financial resources. The total financial resources are represented by the sum of capital and clearing funds (guarantee and reserve).

KEY CONSIDERATION 6:

In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

KACC observes Key Consideration 6

Description

KACC forms a set of acceptable predictive stress testing scenarios by taking into account extreme historical changes in risk factor. The stress testing scenarios include:

- extreme changes in the main risk factors, such as currency rates, stock indices, yield curves, price volatility;
- defaults of clearing members and other counterparties. KACC follows a cover-3 rule by which it simulates the default of the two largest participants and the default of the two largest counterparties in the CCP's investment portfolio;
- squeeze on liquidity as a result of the outflow of collateral placed in the form of cash;
- sensitivity analysis to individual risk factors.

KEY CONSIDERATION 7:

An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.

KACC broadly observes Key Consideration 7

Description

According to the methodology for determining and assessing clearing fund sizes, the potential losses from defaults on financial instruments of the same type are estimated using a sample of relative market price changes. This sample is based on key parameters set by the Market Risk Committee. The CCP applies a cover-2 rule: it calculates the possible losses from the default of the two largest clearing members and includes it in the sizing of the clearing funds (both the guarantee fund of members' contributions and the reserve fund of the CCP's own capital). The CCP splits the coverage obligation equally between the reserve and guarantee funds.

The Clearing Rulebook describes in detail the default management process to be followed in case a member is declared insolvent, including the division and liquidation procedures as well as a description of the default waterfall. for If a clearing member defaults, the default waterfall follows the 'defaulter pays' principle:

1. The defaulting member's margin contributions are used first; then
2. The contributions of the defaulting member to the guarantee fund; then
3. The reserve fund (the CCP will use no more than 25% of the clearing reserve on each clearing day to settle a default on any exchange market); then
4. The contributions of the non-defaulting members to the guarantee fund; and finally
5. Measures are taken to collect deferred liabilities from the defaulting member and thereafter liabilities are recognised as terminated.

According to the Clearing Rules, the defaulter is liable to replenish the guarantee fund in the full amount that was used to cover default. In case the defaulting member is not able to do so, the surviving clearing members must replenish the guarantee fund in an amount not exceeding their contribution to the guarantee fund. Surviving members must replenish the guarantee fund within 5 days. The obligation to replenish the contribution to the guarantee fund of the relevant exchange market cannot arise from surviving members more than 1 time per settlement day and 6 times during a calendar year.

The CCP has different, ring-fenced guarantee and reserve funds for each market that it clears.

Principle 5: Collateral

Observed

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Principle Summary

KACC accepts both cash and securities as collateral, with two lists of eligible instruments: the T+ List for financial instruments admitted to transactions with KACC, and the T+ Collateral List for eligible financial instruments that can be used as collateral by clearing members subject to partial collateral requirement. There is a documented procedure for including financial instruments in these lists, which requires the issuer's creditworthiness (determined by KACC's internal methodology), liquidity requirements, and volume requirements. The indicative structure of the T+ lists aims to achieve a balanced composition that minimizes market and credit risks. Collateral is valued daily using mark-to-market methodology and haircuts are calculated for all securities included in the T+ list. Haircuts are based on price volatility, and minimum and maximum market and interest risk rates. KACC's Collateral Management System is built into the CCP's trading and clearing system, integrated with its risk management system, enabling KACC to monitor and change haircuts and concentration limits, calculate collateral requirements, mark-to-market collateral, and monitor ownership and legal title to the collateral.

KEY CONSIDERATION 1:

An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.

KACC broadly observes Key Consideration 1

Description

KACC accepts as collateral both cash and securities. KACC maintains two lists of eligible instruments:

• the 'T+ List', a list of financial instruments that are admitted to transactions with KACC; and

• the 'T+ Collateral List', a list of eligible financial instruments that can be used as collateral by clearing members who are subject to a partial collateral requirement.

KACC will accept only instruments that are included in the T+ Collateral List as collateral, and the T+ Collateral List can include only instruments from the T+ List. The T+ Collateral List may include government securities of the Republic of Kazakhstan, foreign government securities, securities of international financial organisations, shares listed in KASE, securities of the quasi-public sector, non-government bonds, and currencies.

KACC has a documented procedure for the inclusion of financial instruments in the T+ and T+ Collateral lists. The procedure clearly articulates the requirements for inclusion of financial instruments and sets out the criteria for each type of eligible instrument. The specific criteria vary depending on the nature of instrument, but generally will include:

• The issuer's creditworthiness, which is determined by KACC's internal "Methodology for Assessing the Risk Level of Issuers of Securities Accepted for Clearing Services by the Clearing Centre". The methodology considers several financial parameters (such as EBITDA, cash flow from operating activities, total debt, credit obligations, current liabilities) to divide issuers into different reliability groups. Generally, KACC will accept collateral issued by entities with the highest, high, or above average level of reliability. An above average level of reliability will include securities issued by issuers that have a rating that is not lower than "BB-" on the Standard & Poor's scale or a similar level on the Moody's Investors Service or Fitch scale.

• Liquidity requirements.

• Volume requirements.

According to KACC's rules, an indicative structure of the T+ lists is determined in a way as to achieve a balanced composition of financial instruments that minimises the market and credit risk of the CCP. Securities that cause discrepancies between the actual and indicative lists are not immediately allowed and have to be reviewed by the Market Risk Committee.

In general, all financial instruments are included in and excluded from the lists based on the decision of the Market Risk Committee (except in very specific cases stipulated in the procedure). Financial instruments that do not meet KACC's requirements for inclusion in the lists can be included only by increasing the coefficients that apply to calculated values of market risk rates.

KACC has defined a procedure for the monitoring of the T+ lists by the responsible subdivision, which includes analysis of ongoing compliance with the applicable conditions and requirements, comparison of the actual structure with the indicative structure, and preparation of recommendations. The lists are reviewed at least once every quarter. Based on results of the analysis, the authorised subdivision prepares recommendations to the Market Risk Committee regarding the suspension of inclusion of financial instruments of a certain type and/or issuer, and/or denominated in a certain currency in the T+ lists, the need to apply enhanced coefficients to the calculated values of market risk rates with respect to individual financial instruments, and excluding certain instruments from the lists, taking into account the recommendation of the subdivision responsible for liquidity management.

A failure by the issuer of securities to discharge its obligations to holders of its securities, or receipt of information indicating a deterioration in the financial condition of the issuer, are grounds for exclusion of the securities from the lists. Similarly, if the issuer fails to meet its obligations regarding the disclosure of information on planned changes to prospectuses or other documents, or about corporate events. Finally, significant changes in the market conditions and to the prices of financial instruments, as well as an increase in market volatility, are factors for exclusion from the lists.

The CCP does not take into account wrong-way risk when accepting collateral and when deciding the structure of the lists.

KEY CONSIDERATION 2:

An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.

KACC observes Key Consideration 2

Description

The CCP has a documented methodology for the determination of risk parameters of financial instruments that is used for the daily re-evaluation of collateral. The CCP establishes new values of risk parameters, marks collateral to market, and calculates collateral sufficiency of accounts on a daily basis for all cleared markets.

The CCP takes several parameters into account for the valuation of instruments. While some parameters may differ depending on the market, the CCP will generally consider in its calculations settlement prices, initial margin rates, concentration rates, concentration limits, interest risk rates, as well as limiting range of market risk.

KACC has a separate documented methodology for the determination of settlement prices. While KACC will use prices from KASE or Bloomberg, the CCP has discretion to value assets based on its internal methodology. Typically, KACC will look back at 90 days of price data, or estimate prices based on its internal methodology if there is not sufficient historical data. The CCP's methodology has details for all types of securities that are eligible for collateral use.

KACC calculates collateral haircuts on a daily basis. The calculation of haircuts, which in KACC's documents are referred to as initial margin rates (IMR), is detailed in the internal document for the determination of risk parameters. IMRs are calculated for all securities included in the T+ list for all cleared markets. Securities that are not included in the T+ list will be assigned a limiting maximum and minimum initial margin rate of 100%. The daily calculation of IMR is primarily based on an assessment of price volatility, as well as established minimum and maximum market and interest risk rates, depending on the cleared market.

Collateral valuation and haircuts are part of the CCP's stress tests and haircuts are tested based on volatility and worst-case scenarios for price changes.

KEY CONSIDERATION 3:

In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.

KACC broadly observes Key Consideration 3

Description

In calculating IMR, the CCP uses a lookback period of one year and a confidence level of 99%. However, the CCP does not include data from black swan events or other periods of stressed market conditions. Nevertheless, the CCP calculates IMRs conservatively, with domestic government bonds having the lowest haircut values while other instruments, such as equities, have progressively higher haircut rates depending on historic volatility and maturity of the instrument. The CCP uses a 2-day liquidation period (risk assessment horizon) across markets.

KEY CONSIDERATION 4:

An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.

KACC broadly observes Key Consideration 4

Description

KACC applies concentration limits for each financial instrument that is accepted as collateral. The purpose of the concentration limit is to assess the maximum position in a certain financial instrument that can be liquidated within the risk assessment horizon without causing significant impact on the price of the financial instrument. It represents the value determined in the amount of the financial instrument.

KACC applies two separate risk rates in relation to the concentration limits that determine the market risk for each instrument: the initial margin rate and the concentration rate.

The initial margin rate of a financial instrument is determined to assess the market risk of the net position opened for a financial instrument in an amount less than the concentration limit value for the specified financial instrument.

The concentration rate of a financial instrument is determined to assess the market risk of the net position opened for a financial instrument in an amount not less than the concentration limit value for the specified financial instrument.

A detailed methodology is described in KACC's internal document about risk parameters calculation. According to the methodology, if the concentration limit is exceeded, the concentration rate will be applied to the security at a value that exceeds the value of the initial margin rate for the same security.

KEY CONSIDERATION 5:

An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.

KACC observes Key Consideration 5

Description

KACC accepts foreign currency as collateral. The CCP holds the currency in correspondent banks that have been deemed to be financially reliable, i.e. they have a credit rating of investment grade. According to internal rules, KACC will use correspondent accounts in tenge and foreign currencies in the National Bank and in correspondent banks. KACC will hold foreign currency accounts in the National Bank as reserve correspondent accounts in case the CCP is unable to carry out transactions in foreign currencies through correspondent banks. Correspondent accounts are opened based on the relevant decisions of the Management Board of KACC as established by the internal document for the "Procedure for review and monitoring of correspondent banks of the Clearing Center".

KACC holds foreign securities posted as collateral in omnibus accounts at the ICSDs (Euroclear Bank / Clearstream Banking) held through KCSD (the Kazakhstan CSD) on behalf of clients.

KEY CONSIDERATION 6:

An FMI should use a collateral management system that is well-designed and operationally flexible.

KACC observes Key Consideration 6

Description

KACC's collateral management system is built in the CCP's trading and clearing system, which in turn is integrated in the risk management system. Clearing members can see online the amount, type and value of posted collateral and can use the system to enter deposit, withdrawal and transfer requests. The system enables KACC to monitor and change haircuts and concentration limits, calculate collateral requirements, mark-to-market collateral every morning, as well as monitor ownership and legal title to the collateral, whether it is cash kept in correspondent bank accounts or securities held at CSDs. The system allows accounting for collateral both on own and client accounts (omnibus and segregated) and the same accounts where the collateral is recorded are used for deliveries under contracts, which gives additional flexibility to clearing members. The system allows for the ongoing monitoring of collateral, taking into account changes in market conditions or the positions of clearing members immediately. The collateral adequacy checks are carried out by evaluating the collateral of current positions and active orders.

Principle 6: Margin

Observed

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Principle Summary

KACC's margining model is a value-at-risk (VaR) model applicable to all markets: stock exchange, currency, and derivatives. The CCP determines different risk parameters for each market, dividing financial instruments into groups based on security parameters in the stock market, grouping currencies by currency pairs in the foreign exchange market, and classifying instruments by class in the futures market. Variation margin is used primarily in the derivatives market and margin calls issued to members with a shortfall in collateral. Additionally, KACC calculates a single limit for each member based on preliminary checks of collateral sufficiency, issuing margin calls if the single limit becomes negative. The CCP monitors the sufficiency of deposited collateral on an ongoing basis, performing daily back-testing to evaluate the robustness of the model and quarterly sensitivity analysis to account for historical market conditions, extreme volatility, and significant changes in price correlations, with risk parameters reviewed and revised at least once a quarter and the entire methodology reviewed every three years. An external, independent validation of the margin model and model parameters was performed during KACC's first year of operations, with repeat validations planned every two to three years.

KEY CONSIDERATION 1:

A CCP should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio, and market it serves.

KACC observes Key Consideration 1

Description

KACC's margining model is a value-at-risk (VaR) model that applies Exponential Weighted Moving Averages (EWMA) and the Standard Deviation method. The CCP makes volatility estimations by forming samples of price deviations whose values are calculated with the use of probabilistic Monte Carlo simulations for a specified historical period.

KACC applies the same margin model in all the markets it clears: stock exchange, currency, and derivatives. For each individual market, the CCP determines different risk parameters depending on the nature of the financial instruments that are cleared. The CCP follows a different approach in determining the margin level for each market:

• on the stock market, the financial instruments are divided into groups depending on the parameters of the securities;

• on the foreign exchange market, currencies are grouped in accordance with currency pairs; and

• on the futures market, the characteristics of the underlying asset are considered.

The CCP has a documented methodology for the determination of risk parameters of financial instruments, as well as the principles for calculating the adequacy of collateral, in all cleared markets. Settlement risk parameters are recalculated every business day or even intra-day in case of volatile market conditions. The model takes into account price fluctuations, liquidity, and the structure of each cleared financial instruments while also estimating possible losses.

The Market Risk Committee is responsible for determining and revising the fundamental parameters of the model, which include the following:

• Confidence levels;

• Historical lookback period

• Risk assessment horizon

• Concentration coefficients.

The values of parameters for all instruments and markets are regularly published on KACC's website. The CCP's full methodology is also available to clearing members, which allows for its replication.

If the clearing member has not posted sufficient collateral, the CCP will prohibit the member from entering into new transactions until the lack of collateral is eliminated, unless the new transaction reduces the collateral requirement. At the start of the clearing session, the CCP will issue a margin call to the member to cover the shortfall within a clearly defined timeline. The CCP has documented procedures on how to deal with a member defaulting on it obligations.

KEY CONSIDERATION 2:

A CCP should have a reliable source of timely price data for its margin system. A CCP should also have procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.

KACC observes Key Consideration 2

Description

KACC is part of KASE group and has immediate access to the exchange's own database of market prices. The CCP also uses information from a third-party data provider, namely Bloomberg. The CCP conducts due diligence on the third-party data vendor, although it does so on a less than annual basis.

In instances that the price date is not available or reliable, KACC estimates prices according to the internal, documented methodology for the determination of settlement prices of securities, as well as its methodology of risk parameters calculation. The CCP has a detailed methodology for each of the instruments it clears in all markets.

If the estimated settlement prices of any securities differ significantly from the objective current price level for these securities in the trading system of KASE or Bloomberg terminal, the Market Risk Committee can allow the determination of the settlement prices for such securities in manner that is different from the CCP's methodology, to ensure that the correct prices are used.

KEY CONSIDERATION 3:

A CCP should adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial margin should meet an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure. For a CCP that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a CCP that calculates margin at more-granular levels, such as at the subportfolio level or by product, the requirement must be met for the corresponding distributions of future exposure. The model should (a) use a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the CCP (including in stressed market conditions), (b) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and (c) to the extent practicable and prudent, limit the need for destabilising, procyclical changes.

KACC observes Key Consideration 3

Description

KACC's model is based on a pre-margining principle. The CCP determines the initial margin based on the market value of the collateral that the clearing member has posted. The CCP will calculate for each member a 'single limit', i.e. a value that measures the sufficiency of the collateral on the trading and clearing account, whether own or client, of the clearing member on the foreign exchange and/or the stock market. The CCP uses a similar concept of 'security deposit' in the derivatives market, which effectively works in the same way. The maintenance of the single limit is a prerequisite for submitting orders and entering transactions. The single limit is calculated when submitting orders, concluding trades, fulfilling/terminating obligations and requirements, posting/returning collateral, changing the risk parameters of financial instruments. The members can send buy or sell instructions only within this limit. The member would need to provide sufficient collateral from the T+ Collateral List of eligible assets to increase their initial margin value and proceed with the transaction.

The main approach used in the model is the search for the worst-case scenario. The scenarios used in the margining model are calibrated on historical data, with a lookback period of one (1) year, and a single-tailed confidence level of over 99%, namely 99.87%. In order to perform volatility calculations, the CCP groups securities together so that there is sufficient data to run scenarios. There is insufficient data from the time prior to the introduction of a CCP in 2020 and generally the CCP will not take into account trades before 2020 if they do not have valuation for more than five (5) consecutive days.

The model is based on the following assumptions:

• Potential future positions are the result of possible price fluctuations leading to revaluation of the positions of the clearing participants;

• Losses due to price fluctuations during the liquidation period in the event of a clearing participant's default should be covered from the participant's collateral as a first layer of protection under normal market conditions.

The close-out period for each instrument is determined by taking into account the liquidity level, possible outflow of liquidity, impact of market conditions, potential adverse impact on prices from liquidation of large positions, as well as the range of possible hedging instruments in general. The CCP sets a risk assessment horizon of two (2) trading in all markets, for liquidations below the value of the concentration limit set for each instrument. However, where the need for liquidity to liquidate large positions is significant, the CCP uses a risk assessment horizon of five (5) trading days in case concentration limits are exceeded. The limits and the risk parameters are determined based on the assumption that positions are gradually closed over a longer period of time in order to avoid significant changes in the price of the relevant financial instrument. Generally, the CCP’s goal in selecting the optimal liquidation strategy, considering the liquidity structure of the instruments and the hedging effect within the defaulting member’s portfolio, is to minimise losses.

KACC has recently introduced a procyclicality buffer. Initial margin rate is calculated as 75% of the traditional initial margin and an additional 25% stress buffer is added in case member’s collateral is not enough to cover potential stress loss.

KEY CONSIDERATION 4:

A CCP should mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures. A CCP should have the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.

KACC observes Key Consideration 4

Description

KACC’s pre-margining model relies on the preliminary checks of collateral sufficiency for all orders that the clearing members want to enter thus eliminating the possibility of shortage of collateral due to trading activity. As described in previous key considerations, KACC calculates a single limit for each member and if the single limit becomes negative, the clearing member receives a margin call. KACC starts the clearing day with a mark-to-market clearing session, whereby the CCP will mark all positions to market, evaluate whether the deposited collateral is sufficient, and issue margin calls to members that have a shortfall. Clearing members must eliminate the shortfall during the same clearing day otherwise they will not be able to enter new transactions. The CCP monitors the sufficiency of deposited collateral on an ongoing basis and has the authority and capability to stop members from entering new transactions. Nevertheless, the CCP does not perform intra-day margin calls, although it can call members to provide margin on ad-hoc basis if the market conditions deteriorate.

The CCP uses the concept of ‘variation’ margin primarily in the derivatives market. During the closing session of the clearing day, the CCP determines net claims/net liabilities on the clearing account of each clearing member and calculates variation margin on each deal concluded by the clearing member. If the funds in the collateral account (own or client) of the clearing member fall below the required amount, the clearing member must fulfill the margin-call before the start of the next clearing day.

KACC has a document margin call procedure in its rulebook which allows the CCP to declare clearing members insolvent if they do not eliminate the shortfall in collateral by the deadline. The insolvent member's portfolio will be liquidated to the extent that it makes the single limit positive. The CCP has the authority to declare a member insolvent.

KEY CONSIDERATION 5:

In calculating margin requirements, a CCP may allow offsets or reductions in required margin across products that it clears or between products that it and another CCP clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where two or more CCPs are authorised to offer cross-margining, they must have appropriate safeguards and harmonised overall risk-management systems.

KACC observes Key Consideration 4

Description

Apart from netting of opposing positions that are entered in the same financial instrument, KACC does not conduct any margin offsets within correlated products. However, for the calculation of initial margin rates, the CCP will group all assets by classes and set up the initial margin rates for each group of assets. The CCP does not have any cross-margining agreements with other CCPs.

KEY CONSIDERATION 6:

A CCP should analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting – and at least monthly, and more-frequent where appropriate, sensitivity analysis. A CCP should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a CCP should take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices

KACC broadly observes Key Consideration 6

Description

KACC performs daily back-testing of the risk parameter rates that are used in calculating initial margin rates. The CCP will calculate every evening the deviation of achieved coverage from the initial margin model and if deviations are identified for more than 10 days, this will trigger changes to the model parameters and review of the margin model. The CCP will not disclose the results of the back-testing to members or the public, but these will be reported to the Market Risk Committee and will be used internally for evaluating the robustness of the model.

The CCP performs sensitivity analysis once a quarter taking into account historical market conditions, extreme volatility, and significant changes in price correlations.

KEY CONSIDERATION 7:

A CCP should regularly review and validate its margin system.

KACC observes Key Consideration 7

Description

KACC reviews and revises the risk parameters that are used in its margining model at least once a quarter, while the entire methodology of risk parameters calculation is reviewed at least once every three years. Values of fundamental parameters need to get the approval of the CCP’s Market Risk Committee.

KACC has already performed an external, independent validation of the margin model and the model parameters during its first year of operations. It plans to repeat it every two to three years.

Thomas Murray

KACC
KASE Clearing Centre

Principle 7: Liquidity Risk

Broadly Observed

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Principle Summary

KACC has an appropriately focus on liquidity, which is a primary area of concern for a CCP managing exposure to risk. There is a documented liquidity management framework which outlines appropriate powers, responsibilities and controls to ensure KACC maintains sufficient liquidity resources to settle its payment obligations in good time.

The main liquidity risk identified would be from the timely close-out of a defaulting clearing member's portfolio. As such, more than 90% of the CCP's margin and default fund resources in the waterfall are kept as cash on deposit which would be readily available. The liquidity resources are designed to cover the default of the two largest clearing members. The resources are tested from a liquidity perspective as part of the quarterly stress testing exercises using historical data.

As part of a vertical silo where the exchange and clearing systems are interrelated, KACC has good information on trading conditions impacting the clearing process and has insight into members cash positions with an alert system should there be issues with a member's funding position.

KEY CONSIDERATION 1:

An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.

KACC observes Key Consideration 1

Description

KACC has a properly documented liquidity risk framework in place, which was designed by multiple departments including Treasury, Operations, and Risk. The board of directors approves the framework, which is reviewed annually to ensure its effectiveness.

The FMI is exposed to liquidity risk in multiple currencies and has identified various sources of liquidity risk, including settlement shortfalls, cash flow disruptions with settlement bank and margin collection through the payment banks.

The analysis of liquidity takes into account the potential aggregate liquidity risk from a given entity and its affiliates that may play multiple roles with respect to the CCP.

On average, 1140 trades are settled daily using BIS model 3, which reduces liquidity demand as settlement of securities and cash is done on a net basis.

KEY CONSIDERATION 2:

An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

KACC observes Key Consideration 2

Description

KACC has tools and mechanisms in place to identify and measure clearing/settlement flows. The CCP has access to participant members' cash account balances in its system which enables them to monitor the liquidity needs and control the single limit. In terms of alerts and notifications, KACC has tools in place to alert participants when they may not have sufficient funds or securities to cover their obligations. This allows participants to take corrective action before a problem arises.

Furthermore, if participant does not have sufficient funds or securities, the CCP has continuous netting in place which helps minimize disruptions to the clearing/settlement process.

KACC does not use credit lines or overdraft arrangements and members will be not able to enter a new trade if the single limit has been reached.

KEY CONSIDERATION 3:

A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.

Key Consideration does not apply to KACC

Description

This Key Consideration does not apply to CCPs.

KEY CONSIDERATION 4:

A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions.

KACC partly observes Key Consideration 4

Description

The CCP measures its liquidity needs by considering several factors, including securities-related payments, variation margin payments, and defaults. This helps the CCP to ensure that it has sufficient liquid resources available to meet its obligations in case of a participant default.

KACC maintains liquid resources to cover at least the default of the two largest participants and their affiliates that would generate the largest payment obligation in extreme but plausible market conditions. The level of liquid resources is measured on a daily basis.

In terms of its liquidity needs, although KACC does not have any formal credit lines in place but the CCP has significant resources through reverse repo.

For foreign currencies, although transactions can be concluded in 5 currencies (KZT, USD, EUR, RUB and CYN, the CCP maintains liquid resources only in KZT and USD. In the event of a shortfall in EUR, RUB or CYN, the CCP would rely on best effort basis arrangements with the commercial banks for each currency or swap deals during the trading sessions.

KEY CONSIDERATION 5:

For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.

KACC partly observes Key Consideration 5

Description

The asset base of the CCP is formed from money received for settlement transactions, margin, and other collateral. The PFMIs define a list of liquid resources that includes:

- Cash in accounts with central banks and/or creditworthy commercial banks
- Committed le lines of credit
- Committed foreign currency swaps
- Committed repurchase agreements
- Highly marketable collateral held in custody
- Investments that are readily available and convertible into cash

KACC does not have dedicated lines of credit, foreign currency swaps, however, as previously mentioned, the CCP engages in reverse repo transactions for investment purposes which provide important liquidity. In addition, KACC would be able to source liquidity from commercial banks on a best effort basis.

Although KACC maintains resources mainly in cash, investment that is in securities is considered safe as it’s mainly in government notes which are expected to be available in less than a day in the event of a stress scenario.

KEY CONSIDERATION 6:

An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.

KACC observes Key Consideration 6

Description

KACC has most of its resources in cash, while what is invested in securities is currently in local government notes, which would be available in a business day or less. In addition, such local government bonds would be accepted by the central bank as collateral in case more resources would be needed. In addition, as part of its investment policy rule, KACC has a strict requirement to maintain at least 30% of all the cash collected in reserve and cannot invest it.

In case of emergency, it is assumed that the CCP would rely on its owner who has much more substantial financial resources.

KEY CONSIDERATION 7:

An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.

KACC observes Key Consideration 7

Description

KACC's main liquidity resource provider is the National Bank of Kazakhstan (NBRK). KACC provides statistics on a quarterly basis which the central bank uses to establish the CCP liquidity needs. The liquidity resources are tested quarterly by KACC to ensure the timeliness and reliability of its procedures to source liquidity.

KEY CONSIDERATION 8:

An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.

KACC observes Key Consideration 8

Description

KACC is a member of NBKR's payment services and has no plans to employ payment services from commercial banks in the near future. As the liquidity requirements would be mainly in KZT, the CCP uses the central bank to raise KZT liquidity.

KEY CONSIDERATION 9:

An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

KACC partly observes Key Consideration 9

Description

KACC's stress testing procedures are included in the CCP's rulebook but not extensively detailed. KACC conducts stress testing of its liquid resources on a quarterly basis using 5 years of historical data for stock market instruments and 2 years for currency instruments. The degree of confidence of the test is 99%, however, there are no hypothetical scenarios used for the test nor any black swan events.

The methodology is reviewed and validated annually by the risk management team and is reviewed by the audit. Liquidity coverage is stress tested daily to a 99% degree of confidence using up to 5 years' worth of exposure data for stock market instruments and 2 years for the currency market.

The results of the liquidity stress tests are provided to the Board of Directors and the executive management board.

KEY CONSIDERATION 10:

An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

KACC observes Key Consideration 10

Description

KACC’s internal rules provide the CCP with the power to effect settlement in the manner appropriate to the liquidity situation at the time, including the ability to utilise the financial resources in the waterfall including clearing members margins and contributions to the default fund, and avoid if possible to partially or fully unwind, revoke or defer settlement obligations.

The established rules and procedures enable KACC to fulfil its payment obligations at all times when they are due, even in times of market stress scenarios, so that it can continue to operate in a safe and sound manner.

Specifically, the CCPs rules document its powers related to netting, unwinding (both full and partial), revoking/cancellation (both full and partial), delaying settlement, accessing credit line and replenishing the guarantee fund. Other liquidity aspects are documented in the national code, that includes the netting process, accessing the guarantee fund, margin and collateral management.

Principle 8: Settlement Finality

Observed

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Principle Summary

Overall, finality in Kazakhstan's financial system is based on a combination of legislative acts and rules governing payment systems, clearing sessions, and registration processes. Payment finality is governed by Article 7 of the Law on Payments and Payment Systems, which states that payments are complete once money is credited to the participant's account. The timing and location of finality is defined as real-time in the books of a systemically important payment system operator.

For equity securities, title transfer occurs through registration with KCSD as the central registrar. Refusal to register can only be based on violation of legal requirements. KACC conducts two clearing sessions daily, during which net obligations are calculated and participants have a set timeframe to deliver financial instruments for settlement.

Settlement is completed by moving securities at KCSD following KACC instructions and settling cash in the KACC system. Confirmation reports are sent to participants after each session. Irrevocability of unsettled payments and transfers is subject to Articles 25-27 of the CA Implementation Rules, which specify the point of transfer of obligations to the Clearing Centre under the 'open offer' mechanism.

KEY CONSIDERATION 1:

An FMI's rules and procedures should clearly define the point at which settlement is final.

KACC broadly observes Key Consideration 1

Description

Payments finality is defined and governed by The Law of the Republic of Kazakhstan "On Payments and Payment Systems", specifically by Article 7 which states that payments are considered complete (final) once the money is credited to the payment system participant in whose favor the payment was made. The article goes on to define the timing and location of finality being in real-time in the books of an operator of a systemically important payment system.

Article 155 of the Civil Code of the Republic of Kazakhstan (General Part) states that transactions are deemed to have been made from the moment of registration, unless otherwise provided by legislative acts, and Article 36 of the SML describes how registration of equity securities is nominal holders books and KCSD as the central registrar. Taken together, these does form a basis of legal transfer of title for equity securities through the registration process as a crucial step in ensuring finality, and a refusal to register can only be based on a violation of legal requirements.

The Rules of conduct of monetary settlements under transactions with central counterparty on the stock market' specify in Article 2 (5) that final claims and obligations of clearing participants are calculated at the end of each clearing session and aggregated at the end of the day.

KEY CONSIDERATION 2:

An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.

KACC observes Key Consideration 2

Description

KACC conducts two clearing sessions daily, between 3:30-5:15pm and 5:30-7:00pm. Market participants must deposit instruments due for settlement into their KACC account before the first session. KACC determines margin requirements between 10:00-10:30am and submits margin calls to participants. During the clearing sessions, net obligations are calculated, and participants have a set timeframe (4:15pm or 5:45pm) to deliver financial instruments for settlement. Settlement is completed by moving securities at KCSD following KACC instructions and settling cash in the KACC system. Confirmation reports are sent to participants after each session.

KEY CONSIDERATION 3:

An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

KACC observes Key Consideration 3

Description

Irrevocability of unsettled payments and transfers are subject to Articles 25-27 of the CA Implementation Rules which specifies the point of transfer of obligations to the Clearing Centre under the ‘open offer’ mechanism.

Principle 9: Money Settlement

Observed

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Principle Summary

KACC offers its clearing members access to a wide range of currencies to facilitate payment obligations related to clearing processes. To achieve this, the CCP has established connections with the National Bank of Kazakhstan and multiple commercial banks. For foreign currencies, including USD, EUR, RUB, and CNY, KACC maintains relationships with at least two correspondent banks per currency to minimise potential risks. KACC sets limits on the amount of cash that can be settled by each commercial bank. Once this limit is reached, settlements are redirected to an alternative bank. These limits are defined in the risk policy and monitored by the treasury department.

To mitigate any remaining credit and liquidity risks associated with commercial banks, KACC employs a robust internal risk management framework. This includes monitoring bank credit ratings and conducting quarterly risk assessments to evaluate the stability of each bank and its compliance with KACC's established criteria. If a bank's credit quality suddenly deteriorates, KACC may reevaluate the relationship or reduce/cancel the bank's limit.

Additionally, KACC evaluates both qualitative and quantitative factors of commercial banks through audit reports and quarterly document submissions. This comprehensive approach enables KACC to effectively manage its relationships with correspondent banks and ensure a stable and reliable settlement process for its clearing members.

KEY CONSIDERATION 1:

An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.

KACC observes Key Consideration 1

Description

KACC provides access to a broad range of currencies to its clearing members for the fulfilment of payment obligations that arise from the processes connected to clearing, such as the settlement of individual payment obligations, funding and defunding activities, and the collection and distribution of margin payments. For this purpose, KACC is connected to the Kazakhstan National Bank, which is the central bank of Kazakhstan, and several commercial banks.

In Kazakhstan's local currency, tenge, the CCP holds a correspondent account with the National Bank of the Republic of Kazakhstan to facilitate settlements and hold collateral on behalf of clearing participants. For foreign currencies, including USD, EUR, RUB, and CNY, KACC has established relationships with multiple commercial banks. For each foreign currency, KACC maintains a minimum of two correspondent banks that can provide the required currency.

The CCP holds the correspondent accounts in foreign currencies in the National Bank of the Republic of Kazakhstan, which are reserve correspondent accounts and can be used for keeping guarantee fees and collateral for clearing participants. These accounts are also used to carry out settlements on exchange transactions in order to fulfil the clearing centre's settlement obligations based on the results of exchange trades and to exclude default on the exchange market in cases when the CCP cannot carry out settlements in foreign currencies through correspondent accounts with commercial banks.

KEY CONSIDERATION 2:

If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.

KACC observes Key Consideration 2

Description

The CCP limits any remaining credit and liquidity risks coming from commercial banks by using an internal risk management tool, as well as monitoring the commercial banks' credit rating. There is also a limit of the amount of cash that can be settled by each commercial bank, once it has been reached the settlement will be moved to a different commercial bank to minimise the risks. These limits are established by risk policy and monitored by treasury department.

The CCP performs an internal assessment of the bank's creditworthiness, which includes quarterly risk summary by risk management on banks stability and whether the bank still complies with KACC's established criteria. A sudden change in an agent's credit quality may trigger a re-assessment of the relationship and/or reduction or cancellation of its limit.

Given KACCs reliance on commercial banks for the efficient working of the clearing processes, KACC has developed its own criteria for the assessment of these banks. This criteria will be used to evaluate the banks before going live and then on a regular basis to always ensure compliance. This criteria assesses the following aspects of the entity: stability of financial position and business reputation, recognition and prominence in the national and global financial systems, availability of a banking licence, availability of established clearing infrastructure and extensive experience in settlement operations, guaranteed and safe settlements, low risks, the largest number of correspondent accounts opened for clearing participants, financial assessment, availability of real-time feedback and long-term credit rating.

KEY CONSIDERATION 3:

If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.

KACC observes Key Consideration 3

Description

To assess and monitor commercial settlement banks, KACC analyses both qualitative factors and quantitative factors using the audit reports and submission of documents on a quarterly basis. The main criteria used includes regulation and supervision, creditworthiness, capitalisation, access to liquidity and operational reliability. In case of non-performance, immediate actions are undertaken and monitored for remediation.

To avoid inappropriate risk concentration in one currency, KACC constantly monitors settlement volumes in each currency. KACC has established concentration level limit for each commercial bank. If it is exceeded, excess liquidity not involved in settlements is transferred to other banks. KACC monitors and manages the full range and concentration of exposures to its commercial banks by performing stress tests, daily monitoring of settlement values and exposures, as well as adherence to the limits according to investment policy. To mitigate the risk of its largest settlement bank defaulting, the KACC performs regular stress tests and calculates its daily exposure to assess potential losses and liquidity pressures for itself and its participants.

KEY CONSIDERATION 4:

If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.

KACC observes Key Consideration 4

Description

In addition, KACC undertakes the execution of money settlements directly on its own books, thereby assuming a critical role in the facilitation of these transactions. As a CCP it is imperative that KACC diligently assesses the credit and liquidity risks inherent to facilitating these settlements. To this end, KACC employs a multifaceted array of mechanisms on a daily basis, including the Value-at-Risk (VAR) approach, stress tests, its own internal credit rating methodology, as well as other quantitative approaches designed to provide a comprehensive assessment of potential risks.

In order to minimise and strictly control these risks, the CCP has been established as a supervised special-purpose institution, subject to stringent regulatory oversight. Furthermore, KACC's cash accounts are only used for settlement purposes. Additionally, the CCP maintains supplementary reserve and settlement funds, providing an extra layer of protection against unforeseen circumstances.

KEY CONSIDERATION 5:

An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.

KACC observes Key Consideration 5

Description

KACC has established a solid foundation with its settlement banks through comprehensive legal agreements, which are fully supported by the prevailing laws of the respective jurisdictions. These agreements clearly outline the expected timing of transfers on each settlement bank's books, ensuring that all parties are aligned on the settlement process. Moreover, the agreements explicitly confirm that once a transfer is executed, it is considered final and irreversible. The agreements also guarantee that any funds received by KACC are fully transferable, allowing for seamless movement of funds in real-time.

Principle 10: Physical Deliveries

Not Applicable

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

This principle does not apply to KACC as all securities are in dematerialised form in the market,

Principle 11: Central Securities Depositories

Not Applicable

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry

This principle does not apply to KACC

Principle 12: Exchange-of-value Settlement System

Observed

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

This principle does not apply to KACC.

Principle 13: Participant Default Rules and Procedures

Observed

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Principle Summary

KACC has established a robust framework for managing defaults, ensuring that it is well-equipped to handle any potential issues that may arise. With clear rules and procedures in place, KACC can swiftly and effectively respond to default events, protecting the interests of its participants and maintaining market stability.

The organisation's comprehensive approach includes specific circumstances under which a participant can be declared in default, as well as detailed procedures for handling such defaults. These measures empower KACC to take decisive action against defaulting entities, including suspending trading activities, utilising margin deposits, and liquidating positions. KACC has established multiple financial resources to ensure that losses resulting from a default are promptly covered, including the defaulter's margin, default fund contributions, and its own funds. The rules and procedures specify the precise order in which these resources may be utilised, providing clarity and transparency. The CCP's commitment to robust risk management is further demonstrated by its regular review and testing exercise of its default procedures.

KEY CONSIDERATION 1:

An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.

KACC broadly observes Key Consideration 1

Description

KACC's rules and procedures outline specific circumstances under which it can declare a participant to be in either financial or operational default, as well as procedures for handling such defaults once declared. Cases of default of the participant include:

- Default on net obligations, margin, or guarantee fee
- Loss of license or right to conduct transactions
- Appointment of temporary administration or bankruptcy procedures
- Repeated violation of settlement deadlines
- Failure to meet default fund contribution obligations.

In the event of a default by a participant, KACC has established comprehensive rules and procedures that empower it to take swift and decisive action against the defaulting entity. Specifically, these measures may include suspending the defaulting participant's trading and clearing activities, utilising their margin deposits, liquidating their positions, and intervening in their operations. The rules and procedures also provide detailed guidance on several key aspects of the default management process, including whether actions are automatic or discretionary, the order in which they will be taken, changes to the normal settlement process, the handling of transactions at various stages of processing, as well as the treatment of both proprietary and client transactions and accounts. Furthermore, these rules clearly define the roles and responsibilities of the defaulting participant, the non-defaulting participants, CCP itself and the regulators.

In order to ensure that losses resulting from a default are promptly covered, KACC has access to several financial resources, including the defaulter's margin, their default fund contributions, the default fund contributions of non-defaulting participants, and KACC's own funds. The rules and procedures specify the precise order in which these financial resources may be utilised. If the existing resources prove insufficient to cover all losses, a non-defaulting participant may be required to contribute an amount equal to their required contribution prior to the application, in order to replenish the fund. If the clearing member would like to resign from participation, there is no obligation to replenish the fund.

KEY CONSIDERATION 2:

An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.

KACC observes Key Consideration 2

Description

The rules and procedures provide a comprehensive framework for managing defaults, outlining key aspects such as identifying a clearing participant's status as either mala fide or insolvent, resolving defaults by insolvent participants, liquidating positions through netting, leveraging a collateral pool to mitigate potential losses and more. The roles and responsibilities for addressing a default have been clearly delineated in the internal plans, which are reviewed and updated on an annual basis to ensure they remain relevant and effective. In addition, KACC has established robust communication channels that facilitate rapid notification to all stakeholders, including regulatory bodies, in the event of a default or other critical situation.

KEY CONSIDERATION 3:

An FMI should publicly disclose key aspects of its default rules and procedures.

KACC observes Key Consideration 3

Description

The standard procedures for handling settlements in the event of the default are clearly outlined in the publicly available document "Rules of Conduct for Clearing Activities under Transactions with Financial Instruments" on the KACC website. This document explains the circumstances in which action may be taken in case of default, the responsible people who may take those actions, the scope of the actions which may be taken, including the treatment of both proprietary and customer positions, funds and assets, as well as the mechanisms to address an FMI's obligations to non-defaulting participants.

KEY CONSIDERATION 4:

An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.

KACC observes Key Consideration 4

Description

KACC undertakes an annual review and testing exercise of its default procedures, encompassing all relevant close-out procedures. This comprehensive evaluation process also takes place following any significant revisions to the governing rules and procedures, thereby guaranteeing that the organization's framework remains effective and aligned with evolving regulatory requirements. To inform these tests, KACC draws upon historical scenarios involving actual default events. The findings and outcomes from these testing exercises are subsequently shared with both the Board of Directors and the Risk Committee. The CCP also tests the implementation of the resolution regime for its participants.

Principle 14: Segregation and Portability

Broadly Observed

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

Principle Summary

Segregation is key in mitigating asset safety risk and preventing knock-on effects in case of default. KACC maintains accounts for positions and collateral purposes, protecting customers from defaults by identifying positions and related collateral from non-defaulting members. SML Article 45.5 and Article 64.2.2 mandate segregation and rights to segregated assets.

KACC allows individual segregation and omnibus accounts but mandates clearing member asset segregation from clients'. This enables KACC to identify client positions, crucial for porting positions to another clearing member accurately and timely.

Portability arrangements are essential for transferring assets between parties, minimizing the need to close out positions and reducing market disruption. Although not explicitly defined in law, KACC relies on Resolution No. 9 of the NBRK Board dated 3 February 2014, requiring brokers to transfer assets following license suspension or termination.

In the Kazakh securities market, portability is conducted by clearing members requesting asset transfers via KCSD, who instructs KACC to port positions. However, in FX and derivatives markets, if a default occurs, portability is not applicable as KACC cannot identify clients, resulting in position closure.

KEY CONSIDERATION 1:

A CCP should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the CCP additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the CCP should take steps to ensure that such protection is effective.

KACC partly observes Key Consideration 1

Description

The obligation for KACC to segregate its positions from those of its clearing members and to segregate clearing member and client assets are stated in Article 45.5 of the SML. Further, Article 64.2.2 of the SML states the rights to the segregated assets, stating that the 'broker and/or dealer shall not have the right to use the money, securities and derivative financial instruments of their clients, located in the broker's accounts, in their own interests or in the interests of third parties' except for specific cases stipulated by the regulator.

CP's maintain the choice on whether they want a segregated account for each client, or an omnibus account for a group of clients. As stated in the Procedure for Opening, Maintaining and Closing of Trading and Clearing Accounts, KACC offers the following account structures:

- Account for clearing member propriety assets (marked "S")
- Segregated client account (marked "I")
- Omnibus client account (marked "O")
- Custodian omnibus account (marked "K")
- Segregated accounts for custodian's clients (marked "C").

As a result, both the SML and the account structure do not allow for proprietary assets of a CP to be commingled with any client assets. Collateral held by the CP and its clients are segregated through separate accounts. However, there is no segregation between the client's position and collateral as these are all held in the same account. CP positions are separated between trades linked to KASE and repos respectively.

Portability is not legally defined and the procedure for the porting of positions is not defined in KACC's rules and procedures. However, the requirement for brokers to transfer assets following the suspension or termination of its license is stated in Resolution No.9 of the NBRK Board dated 3 February 2014 on the 'Rules of Broker and Dealer Activity'. The ARDFM will notify KACC of the termination of a CP's license, and KACC will not provide services to such CP from the receipt of notice. Following the revocation of its license, the CP is legally required to transfer assets within 30 days of the receipt of notification from the ARDFM, either based on the client's order to KCSD or based on a new agreement to a new CP.

In the Kazakh securities market, portability is initiated by the CP requesting the transfer of assets to another CP via the KCSD, who requires matching instructions from both CPs and subsequently sends the request to KACC to port the securities. There is no requirement in the market to have such portability arrangements set in place before trading and it is the defaulting CP's responsibility to contact KCSD with the request. KACC's involvement in the process is extremely limited, hence the lack of internal documents regarding portability. It has no line of sight over such arrangements and therefore simply follows KCSD's instructions. In both the FX and derivatives markets, if a default occurs, portability is not applicable as KACC is unable to identify the client so the position would need to be closed out.

Therefore, for accounts impacted by a defaulting CP, the transfer of assets to another CP should be feasible and manage 'fellow-customer risk'. The accounts of the defaulting CP are frozen until ported. A maximum timeframe for porting is not stated in local regulation or KACC's rules or procedures. However, portability is typically conducted on the same day after the clearing session. If the transfers are not possible or taking too long, KACC would liquidate such positions. If the CP's license is revoked, KACC would be responsible for the affected positions and their transfer.

KEY CONSIDERATION 2:

A CCP should employ an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. A CCP should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts.

KACC observes Key Consideration 2

Description

As stated in Key Consideration 1, proprietary assets of a CP are segregated from any client assets, and whilst collateral is held in the same account as client's positions, it is segregated from the client's collateral. Both the SML and the KACC Procedure for Opening, Maintaining and Closing of Trading and Clearing Accounts account structure do not allow for proprietary assets of a CP to be commingled with any client assets.

KEY CONSIDERATION 3:

A CCP should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants.

KACC partly observes Key Consideration 3

Description

As stated in Key Consideration 1, KACC has a limited role in the portability process and is reliant on the legal framework. The requirements set in the Rules of Broker and Dealer Activity ensure the suspended or terminated broker will transfer its assets. There is no requirement in the market to have portability arrangements set in place before trading, such as the establishment of a replacement CP, and it is the responsibility of the defaulting CP to contact KCSD with the request. Hence, the replacement CP can only be appointed after the default has been declared. KACC is unable to accept any standing instructions for a replacement CP due to the lack of oversight it has over the process, and therefore will only follow KCSD instructions.

KEY CONSIDERATION 4:

A CCP should disclose its rules, policies, and procedures relating to the segregation and portability of a participant's customers' positions and related collateral. In particular, the CCP should disclose whether customer collateral is protected on an individual or omnibus basis. In addition, a CCP should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant's customers' positions and related collateral.

KACC partly observes Key Consideration 4

Description

As aforementioned in Key Consideration 1, segregation is defined in the SML Article 45.5, and this is furthered by Article 64.2.2 which legislates the rights to the segregated assets. KACC allows for individual segregation as well as omnibus accounts but mandates that the CP's assets must always be segregated from that of its clients. This would allow KACC to identify client's positions and port positions effectively. KACC's Clearing Participant Regulation (Chapter 5, Article 13) mandates CPs to comply with the Laws of the Republic of Kazakhstan and this is contractually bound by the Clearing Service Agreement with CPs. KACC can port both segregated and omnibus accounts, and such transfers would be non-change of beneficial ownership.

Principle 15: General Business Risk

Partly Observed

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Principle Summary

General business risks play an important part for an FMI as it relates to the viability of the entity and its ability to continue operations and avoid disrupting the financial market. Similar to any risk, this principle looks at how general business risks are identified, assessed, monitored and managed. In order to manage such risks, the FMI is expected to have sufficient assets that are liquid and a plan explaining how to recover from any financial downturn.

KACC is very young company as it started operating in September 2023, therefore the financial accounts for 2023 include just under 4 months of revenues and expenses. But despite that, the CCP is profitable and has extensive liquid assets which would cover its operational expense during any potential adverse situation. A recovery and resolution plan is currently being prepared and is expected to set out the actions needed to ensure continuity of the CCP's operations.

Key Consideration 1:

An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.

KACC partly observes Key Consideration 1

Description

KACC's potential losses in relation to general business risks are identified via qualitative operational analysis and business and strategic analysis. Once general business risks have been identified, the CCP monitors them by analysing market data, through automatic alerts and controls as well as seeking feedback from participants.

In order to manage general business risks, KACC has appropriate policies to manage project costs and follows its audit and regulator recommendations. Risk training and awareness is also conducted on a quarterly basis by the risk department to the staff, including new joiners.

KACC also uses key performance indicators (KPI) and general financial stress testing to assess the effectiveness of the business risk management.

KEY CONSIDERATION 2:

An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

KACC partly observes Key Consideration 2

Description

Despite being a young company, KACC holds significant liquid net assets that would enable the CCP to continue operations and services in the event that it would incur a general business loss. As of year-end 2023, KACC's liquid net assets equalled KZT 1,458 million (USD 3.18 million) and its current liabilities were only KZT 204 million (USD 0.4 million) which shows that the CCP would easily cover its short-term debts. As a result, KACC would have a substantial amount of liquid resources any other potential general business losses should the need arise.

Nevertheless, as liquid net assets should also be assessed in the context of a recovery and wind-down plan and KACC is still in the process of developing one, there is no indication on how liquid net assets would be used.

KEY CONSIDERATION 3:

An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

KACC partly observes Key Consideration 3

Description

KACC's cash and cash equivalents equalled KZT 1,174 million (USD 2.46 million) which by subtracting the current liabilities (KZT 204 million) means that KACC would have KZT 970 million (USD 2.12 million) as liquid net assets for recovery and wind-down purposes. Based on the 4 months of operations in 2023, the monthly expenses averaged KZT 78.89 million (USD 17,000). As a result, the CCP would cover over 12 months of operating expenses with its liquid net assets.

KEY CONSIDERATION 4:

Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.

KACC observes Key Consideration 4

Description

KACC's assets that would be used to cover any general business risk are exclusively in reverse repo and government notes which suggests that these assets would be easily convertible into cash. As reported in the above key consideration description, the liquid assets are substantial and would cover the operating expenses of the CCP for at least 12 months in case of any adverse market conditions.

KEY CONSIDERATION 5:

An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.

KACC does not observe Key Consideration 5

Description

As the recovery and resolution plan is still being prepared, there is currently no formal plan to raise additional equity should the capital fall under the amount needed.

Principle 16: Custody and Investment Risks

Broadly Observed

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Principle Summary

A CCP typically holds proprietary assets as well as collateral on behalf of its clearing members. Whether the assets are invested in cash or securities, the CCP should ensure that they are easily accessible and held within financially regulated and robust entities.

KACC has well documented policies setting the guidelines for investing clearing members' cash collateral as well as the CCP's own investments and adopts a low-risk strategy to investments. All cash collateral is held on deposit at the central bank, NBK, so commercial bank deposit risk exposure is eliminated while all securities collateral is held directly at the central securities depository, KACD.

KEY CONSIDERATION 1:

An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.

KACC observes Key Consideration 1

Description

KACC's investment policy is documented in the Asset Investment Policy which sets the guidelines for investing clearing member's cash and collateral as well as the CCP's own investments. The policy shows that KACC has low appetite for risky investments as only low risk instruments are used and only with supervised and regulated entities.

For custody of securities collateral, the CCP uses exclusively the Kazakhstan Central Securities Depository (KACD) which removes any exposure to custodian banks.

For cash collateral, KACC uses the National Central Bank for investment in Tenge. For foreign currency investments, KACC uses the following cash corresponding banks:

- USD: Citibank and Bank of New York Mellon
- EUR: Citibank Europe
- RUB: Eurasia Development Bank and Interstate
- CYN: Industrial Commercial Bank of China

Under KACC's investment policy, the foreign banks chosen must have a minimum credit rating by Standard & Poors of at least BBB-, or similar level by Fitch or Moody's.

In addition, as settlement is in central bank money and KACC does not have any lines of credit with any commercial banks, none of the financial institutions that are used for investment purposes are used for any other activities, therefore, the exposure to those institutions is not amplified in any way.

KEY CONSIDERATION 2:

An FMI should have prompt access to its assets and the assets provided by participants, when required.

KACC observes Key Consideration 2

Description

Given the nature of the investments of KACC, which are either in cash, reverse repo or short-term government notes, the assets would be promptly available to participants should they be needed. Although government bonds need to remain within their accounts until the maturity date of the instrument for the investor to receive the interest, the initial investment can typically be withdrawn at any time; the investors would just lose the interest but not its principal investment.

KEY CONSIDERATION 3:

An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.

Key Consideration 3 does not apply to KACC

Description

KACC does not currently have any exposure to any custodian banks. All securities collateral is held directly in the central securities depository (KACD).

KEY CONSIDERATION 4:

An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.

KACC broadly observes Key Consideration 4

Description

KACC's investment strategy which is set out in the Asset Investment Policy appears to be in line with the risk management strategy and is validated by the board of directors.

The investment strategy is sent to the market regulator (ARDFM) but not disclosed to clearing members.

Principle 17: Operational Risk

Broadly Observed

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Principle Summary

KACC has defined Operational Risk as a risk of losses as a result of inadequate or insufficient internal processes, human resources and systems or external events, and is recognised as one of its nine core risks that it shall identify, manage and evaluate.

KACC maintains a dedicated risk appetite, in addition to the risk appetite for the Group. KACC's Risk Management Department (RMD) is comprised of two staff members, one permanent and one shared with KASE. Whilst KACC's RMD is separate to KASE's, it is controlled by KASE's RMD and has a direct reporting line to it. The RMD cannot directly report to the Board and must go through the KASE RMD. All departments within KACC have a Risk Coordinator who is the risk owner for the assigned department and is responsible for submitting the annual questionnaire sent by the RMD for the risk assessment.

Given that KACC utilises KASE IT infrastructure, the IT department is shared across both companies. KACC's Internal Audit Department (IAD) conducts internal operational audits annually for high-risk processes but does not conduct an internal IT audit or external operational audit. KACC's BCP and DR plans are documented in its Business Continuity Management plan. Furthermore, the CCP has a strict physical security policy complemented by a robust IT security framework, benefitting from the standards set by its parent, KASE.

KEY CONSIDERATION 1:

An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.

KACC partly observes Key Consideration 1

Description

KACC recognises Operational Risk as a core risk and defines it as a risk of losses as a result of inadequate or insufficient internal processes, human resources and systems or external events. In order to establish a risk management framework to identify, monitor and manage Operational Risk, KACC maintains a documented Risk Management Policy and Risk Management Rules respectively. The Policy was developed in line with the requirements set by Article 49.1 of the SML and contains the following:

- Procedures for identification, evaluation and establishment of maximum permissible values for key risk indicators (KRIs);
- Risk management measures;
- Procedures for the monitoring and control of identified risks and risk management measures;
- Roles of departments regarding risk management and the procedure for exchanging of information between them.

The Policy involves the identification of risks, their classification and causes, the frequency of occurrence, impact, and an ongoing monitoring of the assigned risk values. KACC's Risk Management Policy employs a 'three lines of defence' approach for risk identification, with all departments and employees responsible (1st line), the compliance, legal, risk management, anti-money laundering and counter-terrorism financing departments responsible (2nd line); and lastly an independent risk evaluation conducted by the IAD (3rd line). The Risk Coordinator of each department is responsible for identifying and assigning a quantitative value to each risk involved, which are provided to the RMD**.** The RMD's risk assessment considers both the scale of impact and the level of risk, as well as determining the quantitative and qualitative values of risk indicators.

KACC utilises KASE data to estimate a monetary loss from the risk event. The qualitative evaluation of the probability of a risk event occurring is based on the forecasted frequency of its occurrence within a time period. The quantitative evaluation of the risk impact is determined as a percentage of the maximum permitted value. The RMD determines the value of risk indicators by totalling the sum of the quantitative values of risk indicators for individual types of risks and provides an opinion. Based on the value and opinion, Management determines the maximum permissible values and the actual risk value of KRIs, which requires further approval by the Board and are specified in KACC's risk appetite. Acceptable and unacceptable values are defined per risk based on the values of the KRI. Risks are classified based on the probability and damage of the risk. The calculations regarding whether the risk is within the tolerance limit and the associated warning signals issued are both conducted manually.

Risk monitoring is conducted via the annual questionnaire on risk identification and assessment, initiated by the RMD and answered by the Risk Coordinators. The results of the annual questionnaire form the risk register, which lists and quantifies the various potential risk exposures, and is subject to approval by Management and the Board. The Risk Coordinators, IAD and Compliance department are required to be informed of the risk register within 5 days of the risk register's approval by the Board. The risk register is maintained on excel and is manually monitored and updated. For risks designated as high or critical (unacceptable) risks, the Risk Coordinator sends a list of KRIs to the RMD, as well as action plans containing information regarding action being taken/planned within 10 days of the risk register's approval. Risks identified outside of the annual cycle are implemented into the risk register on an ad-hoc basis, following the same procedure as the annual risk assessment. If the risk identified is new and/or affects the market it would be escalated to both Management and the Board, whereas, if it results in a process change, it would be escalated to Management only. Clause 46 of the Risk Management Rules requires Risk Coordinators to submit information including (amongst others) the causes, measures taken and planned to address it, within 3 days of the risk event. KRIs are only set for high risks, and at the time of review, the risk register rated all risks as low or average so there were no KRIs established or monitored.

In addition to the annual questionnaire, Risk Coordinators submit a monthly report on risk events to the RMD via email, which is analysed quarterly. The reporting template requires details on the event characteristics, cause, damage, actions taken and whether it was successful, planned actions and timeframes, as well as the department responsible. In addition, the template of the report for measures to mitigate risk, including the responsible department, planned deadline of implementation, actual implementation date and any supporting information or documents. The quarterly analysis is submitted to the Board. KACC has confirmed that no significant risk events were reported over the previous year.

KACC has internal documentation describing its procedures, reporting templates, minimum reporting frequencies and recipients and maintains checklists for processes, with the Head of Department responsible for checking the relevant checklists on an annual basis. KACC confirmed that there have been cases in the last year where the Head of Department has informed the RMD of control gaps which were then rectified. The reporting of such cases is conducted via email. Following the update of procedures, the internal documentation would be updated to reflect the change and would be emailed to employees. Whilst the collection of risk event information is a manual process, KACC has stated plans to move to KASE's risk register system in 2025, however no implementation date has been set.

KACC has 47 dedicated employees, with a further 10 employees shared with KASE. The internal staff training plan is conducted by individual departments, and external staff training is requested to HR by the departments and budgeted, based on ad-hoc needs. Training is conducted in accordance with KASE standards, provided by the Rules of training and advanced training of employees, which incorporate regulatory requirements. At the time of review, KACC was utilising an external company to conduct ISO 9001 and ISO 27001 training regarding quality management and information security respectively. KACC ensures training is successful through testing and certification, however this is not obligatory for all training.

KEY CONSIDERATION 2:

An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.

KACC partly observes Key Consideration 2

Description

The Risk Management Policy defines the powers and responsibilities of the Board of Directors, the Internal Audit Committee, Management Board, Investment Committee and KACC's departments. In order to manage and mitigate the identified risks efficiently, the Policy established measures to be implemented and an information reporting procedure for the exchange of information between the Board, Management Board, and departments of KACC. The information reporting procedure has the following aims:

1. Create and maintain an up-to-date information base on losses due to risks occurring;
2. Improve the processes for risk management and minimisation by analysing the information on the damage caused by risks occurring;
3. Conduct periodic evaluations of the cost inflicted by the occurrence of risks;
4. Ensure timely and appropriate response to significant risk events;
5. Ensure synchronisation of procedures for collecting and entering data as well as preventing the errors due to duplication and/or omission of information.

Clause 58 of Resolution No. 59 of the Board of the NBRK dated 24 February 2012 and Clause 59 of Resolution No. 11 of the Board of the NBRK dated 28 January 2016 state the main functions of the IAD, which includes the verification of internal control processes, procedures and systems. Controls are reviewed on a frequent basis, including during the quarterly risk analysis process, annually during the risk assessment (as stated in Chapter 4 of the Risk Management Policy), and by the IAD in accordance with the risk-based audit plan and the aforementioned NBRK Resolutions.

KACC maintains a dedicated IAD, composed of two employees – the Head of Audit and the Senior Auditor, whose scope includes auditing all areas and business processes of the company. As stated in Clause 6 of the Internal Audit Rules, the IAD is functionally accountable to the Board. The IAD evaluates the effectiveness of internal controls, the completeness of identified risks, and the compliance of internal documents with both the legal requirements and in practice. The IAD will take a sample of the processes over the last year to test the success of the controls and procedures. Annually, the IAD will establish an Audit Object Map which reflects the risk assessment of each business process, the time since the last audit, and the rating of the internal control system obtained from the last audit. KACC will use such information to rank the processes by zones according to their overall risk rating. Those located in high-risk zones (critical processes) are audited annually, medium-risk zones are audited biennially but also depends on capacity, and low-risk zones are audited once every three years at a minimum. A typical audit includes all high-risk processes, and a selection of the medium and low-risk processes, depending on the date of their most recent audit. The IAD will send a report on its findings to KACC's Audit Committee, comprised of 3 KACC Board members, which is responsible for coordinating and controlling the IAD's activities. As stated in Clause 167 of the Internal Audit Rules, the report will then be sent to the Board. Any gaps and recommendations will be incorporated into an action plan approved by Management and presented to the Board. The progress of implementations will be monitored by the IAD, with quarterly progress reports submitted to Management, the Audit Committee, and the Board.

KACC stated the first internal audit was conducted in January 2024, the scope of which included the Settlement and Legal departments, as well as Budgeting. KACC's next internal audit will analyse the Compliance department for conflicts of interest. The audit results stated no material concerns but identified gaps relating to unestablished business procedures.

The IAD maintains no certified specialist for an IT audit, so does not conduct an internal audit. However, the IAD conducts a check of the sufficiency and effectiveness of KACC's IT systems and procedures according to the Risk Management System Requirements No. 11 and No. 59. The scope of the assessment includes the software and hardware used in the clearing process, and any processes in the high-risk zone. Additionally, a Group IT audit is conducted externally on a biennial basis according to COBIT 2019 standards, which includes physical IT security, access and account controls, operational controls and procedures, and software changes and upgrades. The latest Group IT audit was conducted by EY in December 2023 and assessed 21 IT management processes. The audit also considered KASE's goals, one of which is the development of KACC as key infrastructure. The IT external auditor is required to be a separate company from the external financial auditor.

KACC does not conduct external operational audits. The external audits are limited to annual financial audits. In 2023, this was conducted by a local auditor, BDO Qazaqstan, which made nine minor comments, but no major issues were found. In 2024, the audit will be conducted by EY. Though KACC has no plans for conducting an external operational audit due to its cost, the RMD has begun assessing which standard an external operational audit would be conducted to.

Audit reports are used to assist KACC in reviewing risk areas and criteria but are not utilised for providing staff awareness or training. Additionally, as a public joint stock company, under Kazakh law, the summary report of the audit is freely available to the public.

The market regulator, the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (ARDFM), stated that it conducts remote supervision of KACC on an ongoing basis, as well as unscheduled inspections. The ARDFM assesses compliance with the requirements of the SML, identifies and analyses existing and potential risks, and the potential impact to KACC. The regulator utilises monthly checklists with KPIs of KACC to identify factors affecting its financial performance. The CCP submits regular reports to the ARDFM regarding daily net claims and net liabilities, monthly financial statements, semi-annual reports on compliance with AML and CTF laws and annual assessments on compliance with the risk management system requirements. KACC is also required to inform the ARDFM of employee changes. The regulatory monitoring is conducted in line with Law No. 474-II of 4 July 2003, and the requirements for KACC to provide timely responses to the ARDFM are established in the SML. The ARDFM has not had to take material action against KACC, the only measures applied were for violations of the deadlines for providing information.

The Final Provisions section of KACC's various internal rules and procedures states both the required frequency of review of the document and the individual/department responsible.

KEY CONSIDERATION 3:

An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.

KACC observes Key Consideration 3

Description

KACC has defined operational reliability objectives and policies in place to achieve those objectives. Local regulations provide the basis for such a framework.

The primary data centre is a shared commercial data centre site within Halyk Bank premises in Almaty. The site is guarded by security who provide 24/7 coverage. Whilst a shared site, there are sufficient measures in place to mitigate such risk. Firstly, prior to entrance, the company is required to send the ID of any visitors and entry into the room and entrance is only permitted when accompanied by the designated person, who enters the room using a face ID scanner, and again records the details of visitors. The room is equipped with security cameras, a fire alarm and fire suppression system using Kheodeon-227 gas, which is tested annually. Air conditioning systems are used to main a target temperature of 22 degrees Celsius. If the room temperature exceeds 27 degrees Celsius, it will trigger alarms. Air entering the room is filtered for dust. In each server locker, there are two blocks of power that can run until the generator returns. The UPS systems are tested semi annually with reports provided from the building owner, Halyk Bank, stating the test results. The building maintains a dual supply of electricity sourced from different suppliers but ultimately from the same source. If the main supply fails, the building has two diesel generators which automatically back each other up in the event of the main source failing, taking seconds to kick in initially and then one minute for the second generator to back up the first. In the event of an emergency, the supply of diesel is the responsibility of Halyk Bank who has in place a contract to provide this. One tank of diesel supplies 3 hours of generator usage.

Business Continuity Management (BCM) also plays a significant role in KACC's operational reliability objectives. KACC conducts periodic business continuity and disaster recovery tests, at least once a year for critical systems, to ensure the resilience of its operations. The BCM Plan has established action plans for various scenarios including the loss of the main site, primary data centre, the main communication channel, both sites and data centres, and events of a state of emergency or quarantine. The BCP is a hot site and has a Recovery Time Objective (RTO) of 20 minutes. The main DR site is a hot site and has an RTO of 40 minutes for critical functions. KACC stated its tolerance for systems downtime is 30 minutes.

Key Consideration 4:

An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.

KACC partly observes Key Consideration 4

Description

KACC employs a range of measures to ensure the operational stability and integrity of its systems. The procedure for the planning and use of IT resources is documented in its agreement with KASE as the service provider. The strength of the measures is displayed by the CCP having no instances of software or hardware outages since its operation. Article 2 of the regulation regarding IT services and information security services between KASE and KACC states the procedure to be followed if KACC wants to make software enhancements, with KACC responsible for the request and KASE responsible for the implementation. The changes are only implemented following successful testing by KACC.

During the onsite visit, KACC stated the minimum and maximum levels of capacity are 30% and 75% respectively, with 50%-75% designated as a red zone. KACC has stated that the current system capacity is at 40%, and no extra capacity is stored that has not been implemented yet. Once capacity reaches the red zone, KACC will forecast when they must have implemented increase capacity by. Capacity management of software and hardware is based on the monitoring of data, requirements from new projects, requests from IT system developers when introducing new functions and in critical situations if needed to address situations caused by a lack of hardware. The system administrator department monitors software and hardware capacity daily. Further, on an annual basis, capacity planning is conducted to update the software and hardware reserves. In the event of disruption, the agreed response time with the supplier is within 2 hours for issues affecting hardware. For software issues, the response time with MOEX for the trading system is 4 hours, whereas the post-trade system provided by KASE will result in a quicker response time.

In terms of KACC's network capacity, the capacity of the LAN and WAN networks are checked and tested. Specialised monitoring systems, Zabbix and Netflow, are used for the daily monitoring and processing of information about the load on channel capacity and network equipment. On a semi-annual basis, load testing of channel capacity and network equipment is conducted.

KEY CONSIDERATION 5:

An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.

KACC broadly observes Key Consideration 5

Description

KACC has a strict physical security policy complemented by a robust IT security framework. Given that KACC rents its office space in the KASE building, KASE has control and is ultimately responsible for the physical security of the premises, and therefore KACC is a beneficiary of the strong physical security policies implemented by KASE. The building is monitored by 24-hour CCTV footage, maintains security guards at the front desk of the building and is equipped with fire alarms. All staff have ID cards which are used to enter through the gates at the ground floor of the building. All guests are required to sign in on the register and are provided with temporary guest access passes to enter the building. Highly sensitive areas have access restricted through face ID scanners. The building also maintains an agreement with the emergency services for a quick response. If KACC requires any improvements to the physical security of the building, it can request KASE to implement it accordingly, however this has not occurred yet.

As KACC utilises KASE IT infrastructure, the IT department is shared across both companies and as such, IT policies are governed by the 'Regulation on interaction Kazakhstan Stock Exchange JSC and KASE Clearing Center JSC for IT services and information security services' and the 'Rules for Monitoring of Events and Management of Information Security Incidents.' The Rules provide a comprehensive management of cybersecurity incidents, with the primary goal of preventing and minimising the damage caused through an immediate and effective response, therefore preventing the unauthorised disclosure, modification, destruction or inaccessibility of information, as well as the damage or theft of information. The Rules state that that one of the operational reliability objectives is to ensure the confidentiality, integrity, and availability of information.

The management of cybersecurity incidents consists of four stages including planning and preparation of incidents, monitoring and identification of incidents, responding to an incident, and the investigation of an incident. Information assets are classified into critical and non-critical groups based on internal documentation, and information security requirements are established for systems, services and networks. The response procedure is documented for staff, who are also provided with a training and awareness programme in management of information security events, incidents and vulnerabilities. Such training includes training and awareness programmes for information security, incident management programmes, and quarterly briefings. The monitoring of incidents is primarily conducted by KASE as the IT service provider, using an automated system which identifies and analyses incidents. In addition, events are monitored by the IT and Information Technology Security Service (ITSS) departments of KASE, and KACC users of the IT system in their daily use. Registration logs and material on information security incidents are provided to the ITSS, and the ITSS will be immediately notified of identified incidents.

Security incidents are assessed on their criticality based on a scale varying with the following options: zero, low, medium, high and critical. If KACC detects an incident, the employee must immediately report it to their supervisor, the RMD and to the ITSS, and the designated persons shall send Incident Resolution Requests detailing a description of the event. Security incidents are logged by the ITSS team and stored for at least 5 years, with immediate access available for at least 3 months. If the incident is identified by KASE, it will immediately establish and analyse the cause, plan recovery actions and perform the planned actions to resume the affected process. It will also send the relevant information regarding the incident to the authorised KACC employee. KACC is also required, by Resolution No. 48 of the NBRK dated 27 March 2018, to inform the ARDFM of information security incidents, no later than one business day from the occurrence. The impact assessment of the event will include the collection of data from the affected software and hardware. The IT audit conducted by KASE includes incident management in its scope. During the onsite review, KACC stated that the cybersecurity manager of KASE utilises software to conduct daily scanning to identify any weaknesses in their internal servers and users. On a semi-annual basis, a report will be provided to the KACC cyber management team regarding their findings. Penetration testing of critical systems is conducted annually but details of this are not documented in the main IT policies. The latest penetration test of the Group found nine low level and one mid-level exception. KACC stated the RTO for resuming settlement of cash and securities following a cyberattack, is 2 hours, and 4 hours for clearing and settlement of default on the exchange markets. KACC reports any incidents relating to cybersecurity risk on the information system with the ARDFM, who will assist KACC as they are considered systemically important. The system gathers information from the across the entire financial sector and can act as a threat intelligence system.

KEY CONSIDERATION 6:

An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.

KACC observes Key Consideration 6

Description

KACC maintains a Business Continuity Management Plan, which encompasses both its Business Continuity and Disaster Recovery Plans.

KACC currently maintains two shared access data centres in Almaty. The first is located approximately 5 km away and is a 5 minute drive from the main office, whilst the DR site is a Tier 3 data centre located 8.4 km away and a 20 minute drive. In addition to these, KACC has built a third data centre located in Astana, 1500 km away, which is scheduled for installation by the end of 2024/early 2025.

The DR site, the Kazteleport Sairam Data Centre, is a Tier 3 shared commercial data centre site. The site maintains its own electricity generator, as well as 2 diesel generators, 2 system conditioners/chillers and 2 accumulators for air conditioning. The generator takes 40 seconds to replace the main power source and the back-up generator will take 30 seconds to replace the first generator. The site maintains 5 tonnes of diesel for each generator and therefore can operate for a further 24 hours. The site has a contractual agreement with the diesel supplier to provide a supply of diesel 2 hours after the shutdown of supply. The site is contractually obligated to test the generators and UPS every 40 days. The premises is protected by facial ID scanners, as well as a security guard, and monitoring room which must maintain at least 2 staff members to provide 24/7 coverage. The monitoring room has eight displays showing front building access, temperature and humidity in the server room, the servers, and the condition of networks between the data centres. The site will ticket problems and is notified of any alarms. The site has separate rooms designated as network room, UPS room, power room and sever room, all equipped with fire alarms, fire suppression systems (except for the network room), air inlets and gas extraction. Within the server room, temperature is controlled at 22 degrees celsius, plus/minus 3 degrees, and a humidity of 45%-55%. Each sever locker is also equipped with a heat detector and also monitors humidity, and each aisle is monitored by cameras. Everything relating to the fire systems is tested every 30 days. The UPS room maintains 2 UPS units of 400KW each, with each UPS lasting 13-14 minutes.

The BCP incorporates scenarios including the partial or full loss of the main office, failure of the main communication channel and the introduction of a state of emergency or quarantine. The BCP is a hot site located 5 km away in the National Bank of Kazakhstan's (NBK) premises, with a dedicated room for KACC employees. Access to the room is prohibited for both NBK and KACC employees unless accompanied by the relevant KACC employees. The BCP can be operational within 20 minutes. The BCP site has 6 dedicated workspaces, 2 seats for the maker and checker of the SWIFT system, 2 seats for the maker and checker of the trading and clearing system and 2 seats for securities market staff. In addition, there is a private room to either operate the SWIFT system or clearing system. Staff receive training on the BCP annually, and the necessary procedures and documents are printed and available at the site. The BCP is tested annually at minimum, with staff in the yellow and red zones working from the BCP site using their dedicated laptops, as they are prohibited from working virtually.

KEY CONSIDERATION 7:

An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.

KACC partly observes Key Consideration 7

Description

As aforementioned, KPIs are only set for high risks, and at the time of review, the risk register rated all risks as low or average so there were no KPIs established or monitored. The risk register was revised on 1 October 2024 to account for the risk posed by other FMIs, with added two high-level legal risks, the ‘risk of direct application of secondary sanctions against KACC’ and ‘the risk of indirect impact of sanctions imposed on the Russian Federation on the activities of KACC.’ The revision was designed to incorporate the risk impact of sanctions on the Moscow Exchange, a primary shareholder of KASE with 13.1% ownership as at the time of review. However, on 11 October 2024, KASE announced MOEX disposed of its stake and the MOEX representative has left the Board of Directors. The revision to the ownership structure was sufficient to address the newly added risks and therefore no KPIs were added. Based on Annex 5 of the Risk Management Rules, the template for monitoring actual KPI values against their threshold value should be conducted quarterly. KACC’s rules state that KPIs must be established within 10 days of the approval in the risk register.

KACC uses an internal rating methodology to evaluate the financial stability of CPs and would also account for any external credit ratings if applicable. In the Regulation of Clearing Participants, it states that KACC conducts the review through a questionnaire containing a list of documents to be sent which includes the fulfilment of prudential statements, financial statements, and whether there are any legal proceedings or AML/KYC sanctions against them. KACC does not conduct any onsite monitoring. Further, on a quarterly basis, the RMD will provide information regarding the risk of each settlement bank, assessing their credit and liquidity risks, and providing an overall statement on their financial stability. All participants are subject to their United Limit (also known as Single Limit) which determines whether they can trade or not, depending on the amount of collateral held.

Thomas Murray

KACC
KASE Clearing Centre

Principle 18: Access and Participation Requirements

Broadly Observed

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Principle Summary

This principle relates to the criteria established for clearing members to use the KACC's services and whether they are fair and allow for open access. The criteria should typically be risk-based and monitored continuously. The SML states that KACC's rules govern the requirements of CPs as well as the assignment of the status of CPs. In the Kazakh market, KACC predominantly relies on the requirements set by Law which differ based on the member type but are not risk-based. Further, Annex 1 and 2 of KACC's Clearing Participant Regulation state the technical and documentation requirements for becoming a CP.

KEY CONSIDERATION 1:

An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.

KACC partly observes Key Consideration 1

Description

Article 77-3, paragraph 2 of the SML states that KACC's rules will govern the interaction between KACC and its participants, the requirements for CPs to maintain financial stability, and the monitoring of the CP's financial stability and the compliance with its rules. Both Article 77-3 of the SML and Resolution No.254 of the NBRK dated 29 October 2018 state that CPs shall provide KACC with the information necessary for their monitoring.

KACC's Clearing Participant Regulation defines CPs as 'professional participants on the securities market and other legal entities which, subject to the laws of the Republic of Kazakhstan, have the right to carry out transactions with financial instruments other than securities.' CPs are assigned a status based on the market(s) they are operating in, such as the stock market, FX market and derivatives market. Further, the CP is assigned a category of either without collateral, with partial collateral or with full collateral, which determines the requirements to provide collateral for their obligations. Any change to a CPs status will be conducted by Management, based on information prepared by the relevant department regarding compliance of regulations and any additional information. The regulation states CPs, depending on their assigned category, are required to:

1. Be a registered legal entity in Kazakhstan
2. Maintain accounting records and prepare financial statements subject to the requirements of international financial reporting standards and Law.
3. Comply with the equity capital adequacy standard established by Law.
4. Have a risk management system that meets requirements of the Law.
5. Have a valid license or the right by law to conduct banking operations in national and/or foreign currencies, including to carry out transactions with foreign currencies.
6. Have a valid license or the right provided for by Law to carry out brokerage and/or dealer activities in the securities market.
7. Ability to connect to the electronic document exchange system eTransfer.kz

As highlighted above, the majority of the requirements are set in Law with the exception of the ability to connect to the e-document exchange system. The Law specifies the requirements that must be met for obtaining a license, which differ based on the different member types. Accordingly, any members, both domestic and foreign, that have obtained a license would have been approved by the ARDFM. For brokers, Resolution No.9 of the Board of the NBK dated 3 February 2014 states brokers must comply with the minimum capital/prudential requirements set by Resolution No.80 of 27 April 2018. Banks are required to comply with the minimum requirements set by Law No. 2444 of 31 August 1995 'About banks and banking activity in the Republic of Kazakhstan'. Further, Annex 2 of the Clearing Participant Regulation states the documents CPs are required to submit to KACC in order to prove their compliance with the requirements of Annex 1 and be approved as a CP. Article 4 of the Procedure For Evaluation of Financial Condition of Clearing Participants states that KACC will assign an initial rating to the prospective CP based on KACC's internal methodology for assessing financial stability. The methodology accounts for the participant type through differences in the capital adequacy requirements reflected in Annex 2 and Annex 3 of the Procedure for banks and brokers respectively. The evaluation includes assessing the prospective CP's financial statements, as well as a comparison against the financial statements of CPs within the same group. Once membership is approved, KACC conducts an ongoing monitoring, with the rating reviewed monthly for banks and quarterly for brokers.

KEY CONSIDERATION 2:

An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit.

KACC broadly observes Key Consideration 2

Description

As aforementioned, most of the participant requirements are set in Law except for the ability to connect to the e-document exchange system. The Law specifies the requirements that must be met for obtaining a license, which differ based on the different member types. Accordingly, any members that have obtained a license would have been approved by the ARDFM. The clearing membership requirements are objective and do not unnecessarily discriminate against particular classes of participants or introduce any competitive distortions. Participation requirements and the required documents are disclosed in the Clearing Participant Regulation of KACC's website. KACC also ensures members comply with AML/CTF and are not sanctioned entities through the requirement of a letter of assurance of compliance with the regime of international economic sanctions.

KEY CONSIDERATION 3:

An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

KACC broadly observes Key Consideration 3

Description

As aforementioned in Principle 14 Key Consideration 7, KACC conducts a continuous monitoring of its CPs to ensure its participation requirements are met. KACC maintains a documented internal rating methodology used to evaluate the financial stability of CPs and considers any external credit ratings if applicable. Hence, if a participant's risk profile deteriorates, the CCP will thoroughly monitor the news about the member. The monitoring is documented in the Procedure for evaluation of financial condition of clearing participants, with the assigned rating monitored monthly for banks and quarterly for brokers. KACC conducts monitoring through a questionnaire containing a list of documents to be sent which includes the fulfilment of prudential statements, financial statements, and whether there are any legal proceedings or AML/KYC sanctions against them. CPs are assigned the lowest rating of "D" if a factor listed in Article 9 of the Procedure is identified.

Principle 19: Tiered Participation

Not Applicable

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

This principle does not apply to KACC.

Principle 20: FMI Links

Not Applicable

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

This principle does not apply to KACC.

Principle 21: Efficiency and Effectiveness

Observed

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Principle Summary

KACC has demonstrated efficiency and effectiveness when it comes to meeting the requirements of its participants and the markets it serves. The organisation maintains an open dialogue with its clients through regular user group meetings and solicits feedback through quarterly surveys and questionnaires, which informs its decision-making and drives improvements.

KACC has established a rigorous framework for tracking performance across various aspects of its operations, which includes minimum service levels, risk management, and determination of business priorities. It also employs Key Performance Indicators (KPIs) and evaluations conducted by independent experts, including auditors, regulatory bodies, and management consultants. The organisation prioritises maintaining minimum service levels of its clearing service and guarantees that services will be restored within a specific timeframe in the event of an incident.

These mechanisms provide a reliable measure of KACC's operational efficiency and effectiveness, demonstrating that the organisation is well-equipped to meet the evolving needs of its participants and the markets it serves.

KEY CONSIDERATION 1:

An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.

KACC observes Key Consideration 1

Description

Throughout its development and ongoing improvement, KACC persistently prioritised the needs of its participants, by ensuring that its clearing and settlement arrangements, operating structure, scope of products cleared, and use of technology and procedures meet the needs of its participants and the broader market ecosystem.

An FMI maintains an open dialogue with its clients through quarterly user group meetings, providing them with timely updates on new initiatives, enhanced services, and any revisions or additions to its clearing offerings, ensuring they stay informed and up to date. KACC also solicits regular input from its clients through quarterly surveys and questionnaires, gathering valuable insights into market requirements and using this feedback to drive informed decision-making and targeted improvements.

KACC has exhibited a strong dedication to understanding and addressing the evolving requirements of its participant base. Through ongoing dialogue and active solicitation of feedback, KACC has fostered a culture of collaboration, where participant input is actively sought, valued, and incorporated into the design and delivery of its services. As a result, KACC's operations are well attuned to the needs of its participants and the broader market landscape, ensuring a seamless alignment between its offerings and the demands of those it serves.

KEY CONSIDERATION 2:

An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.

KACC observes Key Consideration 2

Description

In pursuit of specific goals and objectives, KACC has put in place a rigorous framework of quantifiable benchmarks to track performance and drive improvement across various aspects of its operations, such as minimum service levels, risk-management expectations, and business priorities among others.

As part of its Business Continuation Plan, which took effect in August 2020 and is due for an update, KACC prioritises maintaining minimum service levels of its clearing service by designating it as a "critical" function. In the event of an incident, the company guarantees that clearing services will be restored within a timeframe ranging from 10 minutes to 1 hour and 30 minutes, depending on the severity of the disruption.

In terms of risk management, KACC follows a comprehensive risk register that is updated annually based on input from various CCP subdivisions. This register outlines a broad spectrum of risks across various categories, including credit, market, systemic, liquidity, operational, legal, reputational and other risk, and assigns an impact rating and mitigation responsibility to specific departments. The Risk Register, pre-approved by the Management Board of the Clearing Center, is submitted to the Board of Directors of the Clearing Center for approval, which later is brought to the attention of risk owners, experts, internal audit subdivision and compliance subdivision of the CCP.

Key risk indicators (KRIs) are used to assess, monitor and prevent risks in good time. KACC risk management subdivision submits on a quarterly basis a summary report on results of KRI monitoring for study by the Management Board of the Clearing Center.

In terms of business priorities, KACC’s one of the main goals is to ensure smooth operation of the financial market in Kazakhstan. The CCP ensures this objective is met by doing analysis of its competitors, analysing pricing structure and cost considerations, but also comparing itself against international standards.

Finally, the achievement of goals and objectives is ascertained through a regular assessment and review carried out by relevant corporate bodies and functions.

KEY CONSIDERATION 3:

An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

KACC observes Key Consideration 3

Description

To assess its performance, KACC employs various evaluation methods. One key approach is maintaining ongoing dialogue with its participants through regular surveys and questionnaires distributed quarterly. These tools collect valuable feedback that informs strategic decisions and targeted enhancements, particularly before launching new services or features. This feedback mechanism provides a reliable measure of KACC's operational efficiency and effectiveness.

Each team within KACC, including Risk Management, Business Development, Corporate Support, and Operations, has its own set of Key Performance Indicators (KPIs) to ensure alignment with the overarching business objectives. These KPIs reviewed semi -annually and serve as a clear, quantifiable measure of progress towards their respective goals.

All in all, KACC has established robust mechanisms for regularly assessing its efficiency and effectiveness. This is achieved through a combination of Key Performance Indicators (KPIs), feedback from participants gathered through surveys and questionnaires, and evaluations conducted by independent experts, including auditors, regulatory bodies, and management consultants.

Principle 22: Communication Procedures and Standards

Observed

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Principle Summary

KACC utilises globally recognised communication standards, including its own proprietary electronic system and SWIFT, to streamline payment, clearing, settlement, and recording processes. While KACC own electronic system is used for communication with its participants, the SWIFT capability covers all cross-border operations aligning with internationally accepted practices and providing seamless cross-border communication. KACC uses SWIFT message standards such as ISO 15022 and ISO 20022.

KEY CONSIDERATION 1:

An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.

KACC observes Key Consideration 1

Description

KACC utilises internationally accepted communication standards to ensure efficient payment, clearing, settlement, and recording. The main communication channel that CCP uses with its participants is its own proprietary electronic system. In case of cross-border operations, KACC systems use SWIFT, which is a globally recognised communication method used by many financial institutions. Standardised message formats, such as ISO 15022 and ISO 20022, are used as communication channels.

Additionally, KACC has a system in place that can translate or convert message format and data from international standards into the domestic equivalent and vice versa, in cases where no international standard is used.

Principle 23: Disclosure of Rules, Key Procedures and Market Data

Observed

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Principle Summary

KACC demonstrates commitment to transparency in its operations by making relevant documents available to participants on its website. These documents include rules, procedures, regulations, fees, annual reports and more. The company will solicit feedback from participants through consultation process prior to implementing any changes to its rules and procedures.

Participants have easy access to comprehensive documentation outlining their rights, obligations, and associated risks through various sources. KACC also conducts regular user group sessions to facilitate open discussion and clarification of any questions or concerns. The company collects feedback from participants through surveys, user groups, and informal channels to gauge their understanding of its rules, procedures, and risks. If a participant demonstrates a lack of comprehension, KACC will employ measures to counter this, such as coaching, fines, and suspension.

Overall, KACC demonstrates a commitment to transparency and adherence to financial market infrastructure standards in relation to disclosure of information through its various practices and procedures.

KEY CONSIDERATION 1:

An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.

KACC observes Key Consideration 1

Description

The rules and procedures of KACC are described in various sources, including CCP's operational handbook, contracts with participants, regulations, by-laws, national laws and presidential decrees of Kazakhstan. To ensure complete transparency, all relevant documents outlining the rules and procedures are made available to participants on the company's website. In addition to routine operations, KACC's rules and procedures also contain detailed information on the procedures it will follow in non-routine, though foreseeable, events. These documents provide detailed guidance on topics such as disaster recovery, business continuity planning, default management, and more.

When considering changes to its rules and procedures, KACC initiates a consultation process with participants, which typically lasts one month or less. The company notifies participants of the start of this process through physical letters and accepts feedback via mail or email. Throughout the year, KACC also solicits comments and requests from participants for amendments or clarifications to its rules and procedures on a quarterly basis. This ongoing dialogue helps ensure that the rules and procedures are clear, comprehensive, and effective.

Notably, since its establishment, KACC has not been required to amend its rules due to an adverse legal outcome, nor the regulator has ever instructed KACC to do any changes as a response to participant requests.

KEY CONSIDERATION 2:

An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

KACC observes Key Consideration 2

Description

An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

KACC provides clear descriptions of its system's design and operations in various documents that are publicly available on its own website. Such documents include software specification, hardware requirements and network features. IT high-level architectural diagram is only presented to the regulators.

KACC employs a multi-channel approach to provide transparency regarding the level of discretion it exercises in making key decisions that impact its operations. The company's website serves as a primary source of general information for the public, while more detailed explanations are provided in contractual agreements with participants, regulators, and other financial market infrastructures (FMIs). In addition to this, KACC also issues relevant reports to participants, regulators and general public, while informal communication channels can be used to transmit relevant information to other FMIs.

Participants of KACC have an easy access to comprehensive documentation outlining their rights, obligations, and associated risks through various sources, including the company's website, regulatory documents, participant contracts and relevant national laws and regulations. This variety of information available provides participants with a clear understanding of their involvement with KACC and enables them to make informed decisions about their participation.

KEY CONSIDERATION 3:

An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.

KACC observes Key Consideration 3

Description

To ensure participants have a thorough grasp of KACC's rules, procedures, and associated risks, the company makes all relevant documentation readily available on its website, such as rules and by-laws, operational guidelines, procedures and processes and risk assessment. Additionally, regular user group sessions are conducted to facilitate open discussion and clarification of any questions or concerns.

KACC also actively collects feedback through surveys, user groups, informal channels and open communication platforms to gauge participants' understanding of the FMI's rules, procedures and risks. If a participant demonstrates a lack of comprehension in these areas, KACC employs various measures to address the issue, including coaching, fines, and in extreme cases, suspension.

KEY CONSIDERATION 4:

An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.

KACC observes Key Consideration 4

Description

KACC publicly discloses its fees at the level of its individual services and policies on available discounts in the "Regulation on clearing fees and forfeits" document, which is accessible on its website. Whenever changes to services or fees are planned, KACC notifies participants and the public at least one week to one month in advance via newsletters, media releases, and updates on its website. To facilitate informed decision-making, KACC provides a detailed description of its priced services, allowing for comparisons with similar FMIs. KACC also discloses all the relevant information on its technology and communication procedures as well as any other factors that might affect the costs of operating the FMI.

KEY CONSIDERATION 5:

An FMI should complete regularly and disclose publicly responses to the CPMI-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.

KACC partly observes Key Consideration 5

Description

This report marks the second assessment of KACC's compliance with the International Organisation of Securities Commissions' (IOSCO) Principles for Financial Market Infrastructures (PFMI). The previous assessment was conducted in 2023, when KACC was part of the KASE stock exchange. A copy of the earlier self-assessment report is available on the company's website. KACC aims to conduct annual self-assessments, demonstrating its commitment to transparency and adherence to financial market infrastructure standards.

The company publishes its financial reports on its website, further reinforcing its transparent approach. However, there is room for improvement in terms of quantitative disclosure, as KACC does not provide all information required under IOSCO's Quantitative Disclosure Framework. While participants have access to settlement volumes, values, and failed trade data, general public can find statistical information only on the KASE website.

Principle 24: Disclosure of Market Data by Trade

Not Applicable

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

This principle does not apply to KACC.