

# KAZAKHSTAN STOCK EXCHANGE JSC

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**A p p r o v e d**

by a decision of the Board of Directors of  
Kazakhstan Stock Exchange JSC

(minutes No. 18 of the  
meeting on June 3, 2020)

**E f f e c t i v e**

from August 3, 2020

## **NOTICE**

The Procedure below has been translated by employees of Kazakhstan Stock Exchange for information purposes only. In case of any incompliance of this translation with the original version in Russian, the latter prevails.

## **PROCEDURE**

**of concluding deals in securities without  
fulfillment of functions of the central  
counterparty and executing settlements  
thereof (gross-settlements)**

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Almaty

2020

This Procedure has been developed in accordance with the laws of the Republic of Kazakhstan, determines the procedure for concluding deals on the stock market, on which Kazakhstan Stock Exchange JSC (hereinafter – the Exchange) does not perform the functions of the central counterparty (deals without the CCP), establishes the basic requirements for making settlements on such deals, as well as responsibility for non-execution of such deals and the procedure for payment of fines in case of failure of trading participants to fulfill their obligations.

**Article 1. Main concepts and terms**

1. For purposes of this Procedure:
  - 1) an order means an order for conclusion of a deal in a particular trading mode without the CCP (as this concept is defined by the Exchange's internal document "Rules of execution of exchange activities") submitted by a trading participant;
  - 2) deals mean opening and closing deals of repo transactions, as well as deals concluded during special trading sessions held by the Exchange for the offering, purchase, redemption, sale of financial instruments for which the Exchange performs clearing activities on a gross basis, but does not act as the central counterparty;
  - 3) position limit means the value in money or securities within which a position can be opened;
  - 4) a guilty trading participant means a trading participant who has not fulfilled his obligations under a deal concluded by such a trading participant;
  - 5) an affected trading participant means a trading participant, a deal concluded with whom was not executed due to the failure of the guilty trading participant to fulfill his obligations under this deal;
  - 6) a position means the amount of money (cash position) or the number of securities (position in securities) accounted for on the trading and clearing accounts of a trading participant (and/or his clients) in the trading and clearing system of the Exchange;
  - 7) settlement code "Z0" means the settlement code used when concluding deals without the CCP, obligations on which are to be performed on a gross basis, which determines that when an order is submitted, the procedure for monitoring the full coverage of arising obligations is carried out, the settlement day for which is the date of conclusion of these deals;
  - 8) settlement code "Zcn" means the settlement code used when concluding deals without the CCP, obligations on which are to be performed on a gross basis, which determines that when submitting a report for execution, the procedure for monitoring the full coverage of arising obligations is carried out, settlements on which fall on the date determined as T+cn, where T is the date of the deal conclusion, and cn is the number of calendar days between the opening and closing dates of the repo transaction;
  - 9) the settlement code "B0" means the settlement code used when concluding deals without the CCP during specialized trading sessions held by the Exchange for the offering, purchase, redemption, sale of financial instruments, obligations on which are to be performed on a gross basis, which determines that the procedure for monitoring the coverage of arising obligations is carried out when submitting a report for execution, the day of settlements is the date set by the initiator of trades with the only seller (buyer) (as this concept is defined by the Exchange's internal document "Regulations on membership fees, exchange and clearing fees");

- 10) full coverage is understood as a condition for concluding transactions, as such concept is defined by the Exchange's internal document "Rules of executing activities on deals in financial instruments";
  - 11) clearing on a gross basis means the process of determining the claims and obligations subject to fulfillment on each individual deal concluded by a trading participant;
  - 12) report on execution means a report submitted by a trading participant or a broker of the Exchange to the trading and clearing system, indicating the trading participant's readiness to fulfill obligations arising from previously concluded deals.
2. Other concepts used in this Procedure are identical to the concepts defined by the laws of the Republic of Kazakhstan and other internal documents of the Exchange.

**Article 2. Main provisions**

1. This Procedure applies to opening and closing deals of repo transactions, as well as to deals concluded during special trading session held by the Exchange for the offering, purchase, redemption, sale of financial instruments on which the Exchange performs clearing activities on a gross basis, but does not act as the central counterparty.
2. In the trading and clearing system, the following trading modes without the CCP are distinguished:
  - 1) "Autorepo without the CCP";
  - 2) "Nego repo without the CCP";
  - 3) "Offering/sale: Auction (USD/KZT)";
  - 4) "Offering/sale: Direct orders (USD/KZT)";
  - 5) "Buyback/purchase: Auction (USD/KZT)";
  - 6) "Buyback/purchase: Direct orders (USD/KZT)".
3. Each mode of trading without the CCP contains the following information:
  - 1) type of deal (purchase-sale/repo transaction);
  - 2) method of conducting trades (method of continuous counter auction/method of concluding nego deals, as these methods are described in the Regulation on methods of conducting trades in the trading and clearing system ASTS+);
  - 3) settlement code;
  - 4) settlement currency;
  - 5) name of security.
4. Depending on the type of securities traded in trading modes without the CCP, they are divided into groups of financial instruments established by the Exchange's internal document "Lists of Trading Modes and Operations of the Trading and Clearing System ASTS+".
5. The settlement code for the "Auto Repo without the CCP" and "Nego Repo without the CCP" trading modes is "Z0 / Zcn".

The settlement code for trading modes from those listed in sub-items 3)–6) of item 2 of this article is "Z0" or "B0" and is set by the only seller (buyer) of the scheduled special trading sessions.

6. Deals are sent for settlements on the day of their conclusion in the trading and clearing system, or after receiving reports on execution on repo closing deals, or when the date and time of execution arrive for deals with settlement code with the first character "B".
7. When executing deals, clearing procedures on a gross basis are applied taking into account the specifics established by the Exchange's internal document "Rules of executing clearing activities on deals with financial instruments".
8. Settlements of transactions are carried out when the full collateral is available on them on the principle "delivery versus payment" in real time on the basis of each individual transaction without offsetting claims and obligations on other deals of trading participants in the order of priority of their registration in the trading and clearing system.
9. Settlements of deals with securities are carried out by the Central Depository separately for each deal in accordance with the procedure established by the internal documents of the Central Depository and this Procedure.
10. To carry out settlements of deals with securities, the Exchange sends orders to the Central Depository in the formats stipulated by the agreement on servicing the trading operator concluded with the Central Depository.

**Article 3. Trading participants**

Participants of trading in securities are divided into the following groups:

- 1) the first group, which includes members of the Exchange in the category "member of the stock market" – the National Bank of the Republic of Kazakhstan, second-tier banks of the Republic of Kazakhstan and Development Bank of Kazakhstan JSC;
- 2) the second group, which includes Exchange members in the "stock market member" category, which are not banks.

**Article 4. Trading-clearing accounts of trading participants**

1. To carry out settlements on securities, a trading participant must have a personal account with the Central Depository and sub-accounts<sup>1</sup> opened within this personal account.
2. Settlements on securities are carried out from KASE section, opened on the sub-account of a trading participant in the Central Depository.
3. To carry out cash settlements, a member of the first group must have a position<sup>2</sup> in the interbank data transmission system of the Republican State Enterprise "Kazakhstan Interbank Settlement Center" (hereinafter – ISMT KISC), a member of the second group – a bank account (own<sup>3</sup> and client's aggregated<sup>4</sup>) in the Central Depository.
4. The position in the ISMT KISC and bank accounts in the Central Depository are accounts to which the preliminary delivery of money is carried out (hereinafter – prepayment accounts).
5. Each sub-account of a trading participant or user of the control and collateral system opened in the Central Depository corresponds to the trading and clearing

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<sup>1</sup> The subaccounts account for the trading participant's own securities or the securities of his clients.

<sup>2</sup> A position in the ISMT KISC is understood as a position that is intended to account for the money of the user of the ISMT KISC system, transferred by him to the ISMT KISC account in the National Bank.

<sup>3</sup> The trading participant's own money is accounted for on his own account

<sup>4</sup> The client's aggregate account records the money of the trading participant's clients

account, which is opened in the trading and clearing system of the Exchange. The trading and clearing account code is assigned in accordance with the Exchange's internal document determining the procedure for assigning abbreviations to members of the Exchange and their accounts, users of trading systems, issuers of securities and financial instruments of the Exchange.

The trading and clearing account records the securities and money of a trading participant and/or his clients intended for execution of settlements on transactions concluded at the trades.

Particular denominations of securities and money in different currencies are recorded on one trading and clearing account in the trading and clearing system.

**Article 5. Entering information about balances on trading and clearing accounts**

1. Every day, no later than 08:00 o'clock, Almaty time, of each trading day, information on the number of financial instruments and the amount of money of trading participants and their clients (initial balances) is entered into the Exchange's trading and clearing system.
2. Initial balances on securities are entered in accordance with the information provided by the Central Depository at the request of the Exchange.
3. Initial cash balances are carried over from the previous trading day, and can also be entered by the trading participant and the user of the control and collateral system independently.

**Article 6. Positions of trading participants in the Exchange's trading and clearing system**

1. In the Exchange's trading and clearing system, the following positions are used to account for money (in the context of each currency) on the trading and clearing account of trading participants:
  - 1) the beginning position reflecting the amount of money (beginning cash position) held in a position in the ISMT KISC or in a bank account at the Central Depository, information about which is transferred from the previous trading day or is independently entered by a trading participant at the beginning of a trading day;
  - 2) the current position, reflecting the entry position, taking into account the money received or withdrawn from the trading participant as a result of transactions concluded with settlement codes "Z0" and "B0", as well as a result of external crediting/write-offs of money and internal money transfers made by the trading participant in the trading and clearing system of the Exchange, at the current moment of the trading day;
  - 3) planned and settlement positions calculated by the Exchange's trading and clearing system as the difference between the amount of money in the current position of a trading participant and the amount of money blocked based on the parameters of active buy orders with the settlement code "Z0" submitted by this trading participant to the trading and clearing system, and the amount of money issued for execution reports on purchase deals with settlement codes "Z0" and "B0".
2. The following positions are used in the trading and clearing system for securities accounting:
  - 1) the beginning position reflecting the number of securities on the KASE and REPO sections on the accounts of a trading participant at the Central Depository, information about which is provided by the Central Securities Depository at the request of the Exchange at the beginning of the trading day, taking into account the settled transactions with settlement codes "Z0"

- and "B0" and taking into account external transfers on securities;
- 2) the current position reflecting the number of securities on the KASE and REPO sections on the trades 'accounts in the Central Depository, information about which is provided to the Exchange by the Central Depository during the trading day, taking into account the securities received or withdrawn from the trading participant as a result of concluded deals with settlement codes "T0", "Yn", "Z0" and "B0", as well as other transactions carried out by a trading participant in the trading and clearing system of the Exchange at the current moment of the trading day;
  - 3) the planned position calculated by the Exchange's trading and clearing system based on the current position of a trading participant, taking into account (minus) parameters of active sell orders with settlement codes "T0" and "Z0" submitted by this trading participant to the Exchange's trading and clearing system, and issued reports for execution on deals with settlement codes "Z0" and "B0";
  - 4) the settlement position calculated by the Exchange's trading and clearing system based on the planned position of a trading participant, net on deals with partial collateral with the settlement date falling on the current trading day;
  - 5) the planned position T+, calculated by the Exchange's trading and clearing system, based on the planned position T+ for the previous settlement date, taking into account the net on deals of the corresponding settlement date and less liabilities on active orders for sale of securities of the corresponding settlement date. The planned position T+ as of the current settlement date is calculated as the value of the settlement position.

**Article 7. Verification of the submitted application and its acceptance**

1. The Exchange's trading and clearing system automatically checks each submitted order and/or execution report for compliance with position limits and for the possibility of fulfilling obligations.
2. In case of a negative result of the check carried out in accordance with item 1 of this article, the trading and clearing system rejects (does not accept) the order and/or the report for the fulfillment of obligations.
3. In case of a positive result of the check carried out in accordance with item 1 of this article, the trading and clearing system accepts an order and/or a report for execution and performs the following actions in an automated mode:
  - 1) blocks money and/or securities as collateral for this order/report on the fulfillment of obligations;
  - 2) changes the values of the planned and settlement positions of the trading participant who submitted this order/execution report to the size of this order/execution report.
4. Control over compliance with the limits of positions of trading participants is carried out taking into account information about securities received from the Central Depository, information about money received from trading participants by checking their beginning, current and planned positions carried out by the Exchange's trading and clearing system.
5. Verification of orders submitted by participants of special trades for the offering, purchase, redemption or sale of securities for the sufficiency of money or securities for making settlements based on the results of such trades is carried out by the Exchange's trading and clearing system at the time of submitting an order, if for such special trades the settlement code "Z0" is set, or at the time of

submission of the execution report, if the settlement code "B0" is set for such special trades.

**Article 8. Conclusion of deals and execution of settlements thereupon**

1. When concluding a deal and accepting execution reports for execution in the trading and clearing system of the Exchange in an automated mode on the trading and clearing account using which this deal was concluded:
  - 1) a position is formed for a separate name of the security;
  - 2) the values of the current, planned and settlement positions in money and the beginning position on securities change.
2. The Exchange's trading and clearing system, at the time of registration therein of the fact of conclusion of a transaction and/or at the time of accepting an execution report for execution, generates and sends to the Central Depository an order to settle the transaction. An order is generated in case of compliance with the limits of positions and the possibility of fulfilling obligations and is sent taking into account the following:
  - 1) one order is generated and sent for each deal or for each execution report;
  - 2) the generation and sending of the order is carried out in the order of registration in the trading and clearing system of the fact of the conclusion of the deal or receiving the execution report;
  - 3) the form and contents of the order for settlement of the deal are determined by the agreement between the Exchange and the Central Depository.
3. The Central Depository, on the basis of the Exchange's order and in accordance with its internal documents, makes settlements for each order sent and sends a report on this to the Exchange's trading and clearing system.
4. After receiving from the Central Depository a positive report on order execution in the Exchange's trading and clearing system, the values of the incoming, current, planned and settlement positions in securities and the values of the current, planned, settlement positions in money are changed.

After receiving a negative report on execution of the order from the Central Depository, the Exchange notifies the trading participants who concluded this deal by means of messages sent through the Exchange's trading and clearing system, or by other possible communication methods.
5. The injured trading participant has the right, at his own discretion, to terminate this deal or to agree to repeat settlements thereon.

Termination of the deal is carried out by a decision of the affected trading participant after the Exchange receives the notice of such termination submitted to the trading and clearing system.

Repeated settlements on an unexecuted deal are carried out upon mutual consent of the parties to such a deal after the Exchange receives messages on their consent to their implementation, submitted to the trading and clearing system by each of the parties to this deal.
6. In order to prevent multiple use of assets by trading participants when concluding repo transactions' opening deals until the information specified in item 4 of this article is received from the Central Depository, the planned and settlement positions of such trading participants are calculated taking into account the parameters of this deal.

**Article 9. Changes in positions during trading**

1. The trading and clearing system of the Exchange does not allow a trading participant to change the current position if, as a result of such a change, the limits on one or several positions of the trading and clearing account are violated.
2. During trading, trading participants have the opportunity to change the number of securities on their sub-accounts in the Central Depository and in the trading and clearing system.
3. Information about the increase in the number of securities on the KASE section on the sub-accounts of the trading participants is transmitted by the Central Depository to the Exchange's trading and clearing system immediately after such a change.

Based on information about the increase in the number of securities in the trading and clearing system, the values of the beginning, current, planned and settlement positions on securities are changed.

4. The request to decrease the number of securities on the KASE section on the sub-account of the trading participant in the Central Depository is sent by the Central Depository after receiving the corresponding order from the depositor of the Central Depository.

The Exchange, based on the request of the Central Depository, verifies compliance with the position limits of such participant.

In case of a positive check, the Exchange approves the write-off of securities in full in accordance with the request for such write-off and reduces by the same amount the beginning, current, planned and settlement positions in securities on the trading and clearing account.

In case of a negative check, the Exchange refuses to write off the securities.

5. Change in the amount of money in the prepayment accounts of a trading participant in the ISMT KISC or the Central Depository is carried out only after checking the compliance with the limits of positions of such participant.
6. Responsibility for non-settlement of deals concluded in the trading and clearing system of the Exchange, as a result of changing positions or imposing restrictions on the disposal of money on the accounts of a trading participant, is assigned to the party of the deal on whose accounts the restrictions on money disposal were changed or established.

**Article 10. Control and collateral system**

1. Deals on purchase and sale of securities and repo transactions' opening deals concluded in the trading and clearing system on accounts, using which such deals must be confirmed by users of the control and collateral system, are sent by the Exchange's trading and clearing system for settlements to the Central Depository only, if confirmations on such deals have been received from users of the control and collateral system.
2. The user of the control and collateral system must send the confirmation of the repo transaction's opening deal and of the order submitted to participate in the special trades to the Exchange's trading and clearing system, no later than the end of the control and collateral system's operation set by the Exchange's internal document governing the working hours of such users.
3. If the repo opening deal is not confirmed by the user of the control and collateral system, such a deal is executed independently by the responsible trading participant in the manner prescribed by the Exchange's internal document

"Rules of execution of repo transactions in the trading and clearing system ASTS+".

4. The user of the control and collateral system who did not confirm the opening deal of the repo transaction before the end of the operation time of the control and collateral system, is obliged to provide the Exchange no later than the next business day with an official letter indicating the reasons for such non-confirmation.
5. The user of the control and collateral system cannot but confirm the opening deal of repo transactions due to the trading participant lacking money or securities, since the Exchange's trading and clearing system monitors compliance with the limits of positions of the trading participant when accepting orders from him for conclusion of opening deals of the repo transaction.

#### **Article 11. Responsibility for non-execution of transactions**

1. Trading participants are responsible for non-settlement of deals due to insufficiency of money or securities in their accounts.
2. If a securities purchase-sale deal is not executed before the start of the second settlement clearing session, then such deal is considered terminated.
3. The guilty trading participant is obliged to pay a fine to the affected trading participant in the amount established by the Exchange's internal documents "Rules for placement of state treasury bills of the Republic of Kazakhstan", "Regulations on trading methods in the trading and clearing system ASTS+" and "Rules of execution of subscribing to securities" (if he has a request to pay this fine), except for the case specified in item 4 of this article).
4. If the affected trading participant refused to re-settle the deal or did not send a message to the trading and clearing system about the consent to carry out the repeated settlement of the deal, the affected trading participant has no right to claim from the guilty party the payment of any fine provided for in item 3 of this article.
5. Specifics of concluding opening and closing deals of repo transactions in trading modes without the CCP, as well as the liability of participants of such deals for improper fulfillment of obligations thereunder are established by the Exchange's internal document "Rules of executing repo transactions in the trading and clearing system ASTS+".
6. In the event of repeated settlements on an unexecuted deal, the Exchange applies the following sanctions to the guilty trading participant:
  - 1) warning – if the trading participant has committed up to two cases of repeated settlements on deals within 30 calendar days;
  - 2) a fine in the amount of 50 MCI (monthly calculation indicator) – if the trading participant has committed more than two cases of repeated settlements on deals within 30 calendar days.

#### **Article 12. Fines payment procedure**

1. Upon termination of the deal, the guilty trading participant must pay the full amount of commission fees to the Exchange on the executed deal in accordance with the conditions established by the Exchange's internal documents, and without taking into account any benefits provided for payment of the Exchange's commission fees.
2. The affected trading participant has the right, within ten working days from the date of the conclusion of the securities purchase-sale deal, to provide the

Exchange with a written notification that he has claims against the guilty trading participant for payment of the for non-execution of this deal. At that:

- 1) if within the specified period the Exchange does not receive such a notification, the Exchange considers this fact as evidence of the absence of claims of the affected trading participant to the guilty trading participant over this deal;
- 2) if within the specified period the Exchange receives such a notification, it notifies the guilty trading participant of the need to pay a fine no later than the second business day following the day of receipt of such notification, and presents an invoice for its payment.
3. The guilty trading participant transfers to the Exchange's correspondent account opened with the National Bank of the Republic of Kazakhstan the amount of the fine within a period not later than the fifth business day following the day of receipt of the notification provided for by sub-item 2) of item 2 of this article.
4. The Exchange, within two working days following the day the amount of the fine arrived at the Exchange's correspondent account in accordance with item 3 of this article, transfers this amount to the affected trading participant according to the account details specified in the claim for payment of the fine.
5. The procedure of considering disagreements over payment of a fine arising in the course of transactions with financial instruments is provided for in a separate internal document of the Exchange "Procedure for resolving disputes and conflicts arising in the process of executing transactions with financial instruments".

**Article 13. Final provisions**

1. This Procedure and all changes and/or additions thereto shall be brought to the attention of trading participants by posting them on the Exchange's Internet resource ([www.kase.kz](http://www.kase.kz)).
2. This Procedure is subject to updating as necessary, but at least once every three years, counting from the date of coming into effect of this Procedure.
3. Responsibility for the timely making of changes and additions to this Procedure rests with the trading division.

Chairperson of the Management Board

A. Aldambergen