



## **ASTANA INTERNATIONAL EXCHANGE CENTRAL SECURITIES DEPOSITORY**

### **MARKET CONSULTATION PAPER NO. 7 /2022**

### **AMENDMENTS TO AIX CSD BUSINESS RULES AND PROCEDURES**

#### **I. Introduction**

1. This consultation paper is issued by Astana International Exchange Central Securities Depository Limited (AIX CSD) in order to invite all interested parties to comment on the amendments to AIX CSD Business Rules and Procedures.
2. Amendments to AIX CSD Business Rules and Procedures were prepared in order to establish the relevant settlement processes and other terms and conditions related to settlement of repo transactions.
3. All comments should be in writing and sent to [A.Kolesnichenko@aix.kz](mailto:A.Kolesnichenko@aix.kz)
4. In sending your comments by email, please state “AIX CSD Consultation Paper No. 7/2022” as the subject and include your name, job title, contacts and organisation you represent in the email body. AIX CSD reserves the right to publish and share with third parties any comments received as part of Market Consultation, unless expressly requested otherwise at the time of making comments.
5. The deadline for providing comments is 11 April 2022.
6. Comments received as part of Market Consultation will be considered and will or will not be incorporated in the final draft of revised AIX CSD Business Rules at the discretion of AIX CSD.

#### **II. Background**

AIX and AIX CSD see demand among their customers to conduct repo transactions with Admitted Products. Thus, AIX intends to introduce a repo market. The repo market will initially be limited to transactions on equities denominated in USD.

Settlement will be conducted in the Avenir depository system, which is operated by AIX CSD.

AIX Business Rules already contain the necessary provisions and mechanisms to allow repo transactions on AIX. However, currently, AIX CSD does not have appropriate rules and procedures for the settlement of repo transactions. Therefore,

AIX CSD intends to introduce new provisions on settlement of repo transactions. For this purpose, a new chapter and amendments have been drafted.

### **III. General Model**

To conduct a repo transaction, a person should be a Member of AIX and a Participant of AIX CSD (Participant Member).

A repo transaction consist of the following two Transactions:

- 1) start leg – a sale of Securities by a selling Participant Member to a buying Participant Member for repo value on conditions of an obligation of its subsequent repurchase.
- 2) closing leg – a repurchase of Securities by a selling Participant Member with the payment of the repurchase value to a buying Participant Member.

Settlement of the start leg of a repo transaction will be carried out on T0 basis in close to real-time mode after the transaction itself. The closing leg will be set as the settlement date of the start leg plus the number of days of the repo period (+1 / +7 / +14 / +28):

T+1 repo period – start leg settles on T0, closing leg on T+1;

T+7 repo period - start leg settles on T0, closing leg on T+7;

T +14 repo period - start leg settles on T0, closing leg on T+14;

T+28 repo period - start leg settles on T0, closing leg on T+28;

Main settlement cycle of the closing leg will take place on the day marked as the end of the repo period, between 11:30 a.m. and 12:00 p.m. of a Business Day. If any date for the closing leg of the repo transaction will not be a Business Day, then the Settlement takes place on the next Business Day between 11:30 a.m. and 12:00 p.m.

### **IV. Summary of key modification**

Summarizing all above, AIX CSD is proposing to add new section 6-1 on settlement of repo transactions to the AIX CSD Business Rules and Procedures, and amend the settlement fail procedure in AIX CSD Procedures to extend it to repo transactions.

**V.Draft of proposed amendments for Market Consultation**

**AMENDMENTS**  
**to**  
**AIX Central**  
**Securities**  
**Depository**  
**Business**  
**Rules**  
**and**  
**Procedures**

## 1.1 Definitions

<b>Repo Transaction</b>	means a <b>Transaction</b> in which selling <b>Participant Member</b> agrees to sell an <b>Admitted Product</b> to the buying <b>Participant Member</b> against the payment of the repo value, and simultaneously agree that the buying <b>Participant Member</b> shall sell back the same <b>Admitted Product</b> at the end of specified <b>Repo Period</b> against the payment of the repurchase value by the selling <b>Participant Member</b> .
<b>Repo Period</b>	means the period of the purchase (start leg) and the repurchase (closing leg) of Admitted Products under a Repo Transaction.

- 5.1.8. Any **Participant** in the **Depository's** settlement system that settles **Transactions** in the system on its own behalf or on behalf of a third party shall **Settle** such **Transactions** on the intended **Settlement Date**. As regards transactions in securities executed on **AIX**, the intended **Settlement Date** shall be the second **Business Day** after the trading takes place. This requirement does not apply to off-market **Transactions** defined in the Rules 5.3. and **Repo Transaction** defined in the Rules 6-1.

## 6-1. Section: Repo Transaction

### 6-1.1 General

- 6-1.1.1 **AIX CSD** may, by **Notice**, specify **Admitted Products** which are available for **Repo Transactions**.

### 6-1.2 Settlement of Repo Transaction

- 6.1.2.1 **AIX CSD** conducts **Settlement of Repo Transaction** as a **Delivery-versus-Payment Settlement of Transaction**.
- 6-1.2.2 **Stock Exchange Transaction Settlement** described in the **Rule** 5.2 shall apply to **Repo Transaction** to the extent it is not defined otherwise in the **Procedure** for conducting **Settlement of Repo Transactions**.

### 6-1.3 Corporate Actions

- 6-1.3.1 During the **Repo Period**, all corporate entitlements in respect of **Admitted Product** arising from a **Corporate Action** are due to the actual owner of such **Admitted Product** and **Rule** 4.5 shall apply accordingly.

## AIX CSD PROCEDURES

### Section 6-1: Repo Transactions

#### *Procedures for Rule 6-1.2.2*

1. Settlement of the start leg of a Repo Transaction takes place on T0 basis.
2. Settlement of the closing leg of a Repo Transaction takes place on the day marked as the end of the Repo Period.
3. If any date for the closing leg of the Repo Transaction is not a Business Day, then the Settlement takes place on the next Business Day;
4. AIX CSD will define in a Notice the requirements for the Participant Members, the relevant Settlement processes and other terms and conditions for conducting Settlement of Repo Transaction.

### Attachment 2

#### SETTLEMENT FAILS

- 3.1. Settlement Fail shall be deemed to have occurred, if a Participant failed to deliver either securities or money before the Main Settlement cycle on the intended settlement date (ISD), which shall be:
  - i) T+2, or
  - ii) in respect of Repo Transactions, the end of the Repo Period (closing leg) specified in Notice.
- 4.1. AIX CSD manages Settlement Fail, which has not been rectified by the Failing Participant before 05:30pm on ISD + 1 business day, through the process of Buy-in / Close-out, as described in 4.4.
- 4.2. Notwithstanding the section 4.1, AIX CSD manages Settlement Fail, which has not been rectified before 05:30pm on ISD + 1 business day, through the process of Cash Compensation, as described in 4.5, in the following cases:
  - 4.2.1. sufficient amount of securities is not available to purchase;
  - 4.2.2. the liquidity strains of the transactions for AIX CSD is high; or
  - 4.2.3. the aggregate amount of market losses and expenses may exceed the Available Guarantee
- 4.3. If Settlement Fail has been rectified by 05:30pm on ISD + 1 business day, provisions of 4.4 – 4.5 do not apply to such Settlement Fail.
- 5.7. If a valid cash-settlement facilitation request is received to AIX CSD's satisfaction and accepted by AIX CSD any time:
  - 5.7.1. before the Main Settlement cycle on the ISD, the requesting Participant shall only pay the service charge and no fees for failure to settle will apply,
  - 5.7.2. after the Main Settlement cycle on the ISD and before 05:30pm on ISD + 1 business day, the requesting Participant shall pay the service charge and the applicable fees for failure to settle.In each case as set out in the market notice "AIX CSD Fees for Unsettled Transactions".

- 5.8. If the cash-settlement facilitation request is received by AIX CSD after ISD + 1 business day, regular settlement fail procedure pursuant to section 4 (Management of settlement fails) shall apply.

## Annex 2 to AIX CSD Procedures

### Description of Buy-in transaction

#### AIX Transaction:

Day	Buying Broker	Buying Broker Account	Selling Broker	Selling Broker Account	ISIN	Quantity	Price (KZT)	Amount (to be settled)
3	Broker A	Client 1	Broker B	Client 2	KZ001	100	8,000	800,000

Broker B failed to deliver the securities on ISD (day 3) and on ISD +1 (day 4).

At the end of day 4 the last traded price is 9,200 KZT.

#### On day 4 (end-of-day):

AIX CSD cancels the settlement transaction in the AIX CSD system.

AIX CSD transfers 1,000,000 KZT (which includes a buffer) to Broker X\* for the purchase of the shares (as we do not know what the actual transaction price will be the next day).

AIX CSD orders Broker X (with which AIX CSD has a client account) to buy 100 KZ001.

AIX CSD enters a settlement transaction into its system where AIX CSD (from its client account with Broker X) will deliver 100 KZ001 to Broker A (the sub-account of Client 1) for 8,000 KZT per share.

AIX CSD notifies both parties that it will perform a buy-in of 100 KZ001 at the risk and expense of Broker B.

*\*Broker X is referred to as a trading member with which AIX CSD has a client account, and which can buy or sell securities on behalf of AIX CSD*

#### On day 5:

Broker X successfully buys 100 KZ001 on behalf of AIX CSD at a price of 9,200 KZT per share. To be settled on day 7.

AIX CSD sends invoice to Broker B where it should pay to AIX CSD within 7 working days:

120,000 KZT (to cover the market loss incurred by AIX CSD);

*n* (KZT to cover the brokerage fees levied by Broker X to AIX CSD);

*n* KZT (as a service charge payable to AIX CSD for the execution of the buy-in).

On day 7:

The AIX CSD purchase of 100 KZ001 (at a price of 9,200 KZT) settles.

The AIX CSD sell of 100 KZ001 to Broker A (Client 1) settles.

AIX CSD requires Broker X to return the 80,000 KZT to AIX CSD's account.

The Available Guarantee is now 159,880,000 KZT (160 million KZT minus the 120,000 KZT which has not yet been recuperated).

Within day 12:

Broker B pays its invoice to AIX CSD. Available Guarantee is again 160 million KZT.

Same approach is to be applied for the Repo fail transactions from the business date of its closing leg settlement.



## Annex 3 to AIX CSD Procedures

### Description of Cash Compensation

AIX Transaction:

Day	Buying Broker	Buying Broker Account	Selling Broker	Selling Broker Account	ISIN	Quantity	Price (KZT)	Amount (to be settled)
3	Broker A	Client 1	Broker B	Client 2	KZ001	50,000	8,000	400,000,000

Broker B failed to deliver the securities on ISD (day 3) and on ISD +1 (day 4).

At the end of day 4 the last traded price is 9,000 KZT. Best Bid / Ask were 8,950 and 9,050 KZT respectively.

The liquidity needs (for the purchase of the securities) of An estimated 450 million KZT is more than the Available Guarantee. Thus, AIX CSD will proceed to Cash Compensation. Available ask orders towards the end of trading hours totaled 10,000 securities and, in AIX CSD's opinion, a purchase of 50,000 securities in the market would have a significant impact on the trading price.

Maximum Valuation Adjustment is 10% for KZ001. Spread Rate is 1%.

#### On day 4 (end-of-day):

AIX CSD cancels the settlement transaction in the AIX CSD system. AIX CSD performs calculation of Cash Compensation:

Fair price in the market (9,000 KZT) is adjusted upwards by 10% to 9,900 KZT.

Number of shares \* (Fair Price \* (1 + Spread Rate) – original transaction price)) becomes:  
 $50,000 * (9,900 * (1 + 0.01) - 8,000) = 99,950,000$

AIX CSD notifies both parties that the settlement transaction in AIX CSD has been cancelled and that AIX CSD has proceeded to calculate Cash Compensation due to the size of the transaction. Further, that the estimated current market price of the securities has been adjusted upwards by 10% from 9,000 KZT to 9,900 KZT.

With a Spread Rate of 1%, original share price of 8,000 KZT and volume of 50,000

securities, the cash compensation is calculated to be 99,950,000 KZT.

AIX CSD will further send an invoice to Broker B of this amount payable within 7 business days.

AIX will credit Broker A as the Non-Failing Participant the equal amount.

Same approach is to be applied for the Repo fail transactions from the business date of its closing leg settlement.