

April 2023

# AIX Regulation Newsletter

*AIX Regulation Newsletter is a regular update from AIX Regulation & Compliance office (“**R&C**”), which is issued from time to time to provide information and guidance for AIX Market Participants on various regulatory matters, expected standards and disciplinary action taken for breaches of AIX Group Business Rules.*

## About R&C

R&C operates under a self-regulatory (SRO) model to ensure the effectiveness of regulation and market integrity of AIX Markets. R&C performs front-line regulatory functions on the AIX Markets under supervision of Astana Financial Services Authority (“**AFSA**”) and reports on regulatory matters to AIX Board of Directors.

R&C is responsible for the monitoring the AIX Markets, developing and enforcing the AIX Group Business Rules and related procedures and facilitating effective engagement between Market Participants, R&C and AFSA.

Any dispute in relation to R&C’s regulatory rulings may be referred to the AIX Appeals Committee at [secretary@aix.kz](mailto:secretary@aix.kz). If appeal has failed at the level of the AIX Appeals Committee, it could be referred to AFSA at <https://afsa.aifc.kz/submit-your-complaint/> and/or to the AIFC Court as the final court of appeal.

## This Newsletter Content

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- II. Preparation of Annual Reports by Issuers;
- III. Submitting Orders to the AIX Order Book;
- IV. Use of foreign omnibus accounts by AIX Trading Members;
- V. New regime for taxation of dividends.

## I. Thematic Guidance for Issuers

Guidance to market participants is an important tool to promote fair and transparent markets. In the course of 2022, AIX R&C issued several thematic guidelines for Issuers relating to:

- Liquidity Management Programme adopted on 10 August 2022: the Programme will assist the companies from the same Group in managing their liquidity by redistributing funds from cash-generating entities to cash consuming entities within the Group using debt instruments listed on AIX. The guidance sets out requirements for the Programme and its admission to listing and trading on AIX.
- ESG Voluntary Reporting adopted on 27 June 2022: ESG disclosure guidelines promote improved ESG practices and investment in sustainable development. The Guidance is designed for all AIX-listed companies, including equity and debt issuers, funds and asset managers. AIX intends to gradually shift the approach from voluntary reporting to ‘comply-or-explain’, which will be announced to the market in advance.
- ESG-Labelled Bonds adopted on 4 November 2022: in response to higher demand for responsible investment instruments, AIX introduced ESG-Labelled Bonds using “open architecture” structure. This guidance defines ESG bond categories and corresponding international standards endorsed by AIX, which allows issuers to attract responsible financing for their ESG projects through a wider range of instruments under internationally recognized standards.

All guidelines are available in section “Rules & Regulations” on AIX website: <https://aix.kz/about-aix/rules-regulations/>

## II. Preparation of Annual Reports by Issuers

Annual reports are designated to give the market a full review of the Issuers' financial and operational results of the year, including principal activities, financial & operational results, likely developments and expected results and other key information as required by AIFC MAR 3.2 ([the link](#)).

Our key observations from detailed analysis of the Issuers' annual reports for the previous reporting periods are the following:

- the most common reporting gaps were in respect of Issuer's operational results & projections and qualitative disclosure on compliance with the Corporate Governance Principles;
- the form of an annual report was not always consistent with the MAR requirements: absence of signing/ approval of the report; lack of Directors' “going concern” statement and assurance regarding the accuracy of financials.

R&C is encouraged by the overall improvement in the completeness and consistency of disclosures. However, we remind our Issuers of the following expectations as they prepare future annual reports:

- R&C strongly encourages Issuers to continue to deepen their familiarity with the AIFC Corporate Governance Principles (MAR2.2 and MAR Schedule 3). R&C would ordinarily expect a listed company to achieve the outcomes intended by these principles, whilst taking into account the nature, scale and complexity of their businesses. Generally, if an Issuer does not adopt the best practice standards, or adopts them only partially, R&C would expect the reasons for doing so and any alternative measures adopted to achieve the outcomes intended by the Corporate Governance Principles to be disclosed in the annual reports (MAR 2.2.9).
- The Directors' statement must be included in the annual report, on whether the business of the Issuer is a going concern, with supporting assumptions or qualifications (MAR3.2.1(2)(h)).
- The Issuer must ensure that the annual report is signed by at least two Directors or approved by a competent governing body (MAR3.2.2).

If you have any questions, please contact Issuers Regulations at [listings@aix.kz](mailto:listings@aix.kz).

### **III. Submitting Orders to the AIX Order Book**

AIX operates an Order Book market model where bid and offer Orders are submitted by AIX Trading Members to the Order Book. The Order Book provides automated anonymous matching of submitted Orders and results in transactions that are binding on respective parties.

Before submitting any Order to the Order Book, a Trading Member must ensure that its trade can be settled and any submitted Order includes all information prescribed by the Rule TRD8 of the [AIX Business Rules](#), including a unique numeric identifier of a holder of Securities (NIN).

In 2022, R&C observed an increased number of incomplete Orders, where NIN information was not included, which resulted in interrupted settlement processes.

AIX R&C strongly encourages its Trading Members to accurately observe the requirements of the Trading Rules. Submission of incomplete Orders may negatively impact the settlement cycle and may lead to disciplinary action and penalties (please refer to [Guidance Note on Penalties and Enforcement Action](#)).

If you have any questions, please contact Market Supervision at [supervision@aix.kz](mailto:supervision@aix.kz).

#### IV. Use of foreign omnibus accounts by AIX Trading Members

AIX and AIX CSD operate the individual and omnibus account structures. Omnibus account allows AIX Trading Members to hold and manage Securities on behalf of multiple clients and efficiently aggregate Orders into a single trade, reducing transaction costs.

In 2022-2023, AIX observed a sharp increase in the use of omnibus structures, whereby almost half of AIX trades are executed via omnibus accounts. While there are benefits of using omnibus accounts, AIX Trading Members are expected to meet high compliance standards for the use of omnibus accounts.

AIX operates an international marketplace and is committed to ensuring compliance of its Market Participants with all regulatory and legal obligations, including those related to sanctions enforced by the United Nations Security Council, the European Union, the United Kingdom and the U.S. ("International Sanctions"). It is crucial to ensure that International Sanctions are not breached and respective transactions on AIX Markets do not represent, directly or indirectly, any prohibited activity under International Sanctions and do not result in the violation, directly or indirectly, of International Sanctions by AIX Group and AIX Group's stakeholders, customers and counterparties.

Recently, AIX CSD announced a series of instructions requiring full transparency on transactions involving Russian and Belarusian Persons:

- [OTC settlement with Russian counterparties via Euroclear](#)
- [Holdings on behalf of Russian and/or Belarusian Persons](#)
- [Additional Instructions in respect of holdings on behalf of Russian and/or Belarusian Persons](#)

AIX Trading Members are expected to:

- Ensure appropriate KYC/AML framework, including Sanctions-related assessments of their customers, enabling the AIX Trading Member to detect individuals and entities subject to International Sanctions in a timely manner;
- Regularly review its customers (up to the beneficial owners);
- Report to AIX CSD any customers, beneficial owners, or assets that are targeted by International Sanctions (in relation to AIX CSD Participant's account(s)), and take the measures required by applicable legislation and/or competent authorities;
- Transfer the securities entitlements, irrespective of the securities jurisdiction, ultimately owned by the identified Russian Person or Belarusian Person to a segregated account (individual or omnibus) in the AIX CSD post-trade system.

Please contact AIX CSD at [ptd@aix.kz](mailto:ptd@aix.kz) for additional information on omnibus account regime.

## V. New regime for taxation of dividends

Starting 1 January 2023, income tax exemption<sup>1</sup> applies to dividends of publicly traded Equity Issuers in Kazakhstan with conditions. Income tax exemptions in respect of dividends will only be available, if equity securities meet certain trading parameters determined in a [Joint Order](#):

- The value of transactions is at least KZT 25 million per calendar month; and
- The number of transactions is at least 50 transactions per calendar month.

AIX publishes trading information on eligible securities in the section [“Trading / Equity: income tax exemption eligibility”](#) on its website.

For equity securities listed on two exchanges – AIX and KASE, the trading information should be retrieved by Issuers and compiled from both stock exchanges. KASE trading information is available at <https://kase.kz/en/shares/>

Market Participants may obtain full trading information about all AIX instruments at <https://market.aix.kz/> (live) and <https://market.aix.kz/historical> (historic).

<sup>1</sup> Clause 6(7(3)) of the Constitutional Law of the Republic of Kazakhstan dated 7 December, 2015 No. 438-V «On Astana International Financial Center»