



ASTANA INTERNATIONAL EXCHANGE MARKET CONSULTATION PAPER NO. 2 /2020

AIX BUSINESS RULES REVISION

I. Overview

1. This consultation paper is issued by Astana International Exchange Limited (AIX) in order to invite all interested parties to comment on the revised AIX Business Rules.
2. Revision of AIX Business Rules comprises five streams:
 - a. Introduction of a new chapter for Regional Equity Market Issuers;
 - b. Simplification of regulation for Issuers that have their securities traded on an Equivalent Regulated Exchange;
 - c. Incorporation of the separate AIX Business Rules chapters into AIX Business Rules as a single document (such as Belt and Road Market Rules, Listed Funds Rules, Pre-IPO Chapter, Mining Company Rules, Green Bonds Rules);
 - d. Enhancement of the existing chapters of AIX Business Rules (clarification, correction of factual errors and inconsistencies, exclusion of redundant or inapplicable provisions);
 - e. Aligning AIX Business Rules with amendments to AIFC Market Rules (**MAR**).
3. All comments should be in writing and sent to a.ashimov@aix.kz.
4. In sending your comments by email, please state "AIX Consultation Paper No. 2/2020" as the subject and include your name, job title, contacts and organisation you represent in the email body. AIX 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 June 22, 2020.
6. Comments received as part of Market Consultation will be considered and will or will not be incorporated in the final draft of AIX Business Rules at the discretion of AIX.

II. Introduction of a new chapter for Regional Equity Market Issuers

Background

The initial underlying set of assumptions which served as a basis for the current regulatory framework of Astana International Financial Centre (**AIFC**) and AIX is considered to an extent not suitable for the majority of Kazakh and regional businesses seeking funds.

AIX jointly with Astana Financial Services Authority (**AFSA**) intends to introduce a new regulatory approach reflecting the updated estimations on how capital markets in the AIFC will evolve. For this purpose, a new chapter for medium-sized private Kazakh and regional businesses with quoted or proposed aggregate market value of shares of up to USD200 million to raise equity financing in the AIFC (“Regional Equity Markets Segment Issuers” abbreviated as “**REMS Issuers**”) has been drafted.

Note: this set of proposed amendments should be read in conjunction with AFSA Consultation Paper on Enhancing AIFC Markets and Market Infrastructure Framework (<https://afsa.aifc.kz/files/legals/319/file/consultation-paper-no-0003-on-aifc-markets-and-market-infrastructure-framework.pdf>).

Summary of key modifications

With this revision of AIX Business rules, AIX aims to optimise the listing and compliance burden incentivising the REMS Issuers to go public and is hence proposing the new REMS chapter with the following parameters:

- (i) Simplified the structure of the prospectus, which will be submitted by the REMS Issuers in lieu of a premium-style Prospectus as currently required under MAR (please refer to MAR proposed amendments);
- (ii) Deadline for filing of the first annual report extended by 2 months;
- (iii) Audited financial statements are required to cover 1 previous year as opposed to 3 years;
- (iv) Previous years’ financial statements are not required to demonstrate net profit;
- (v) No requirement to demonstrate independence from the controlling shareholder;
- (vi) Free float requirement reduced from 25% to 15%;
- (vii) Simplified Corporate Governance requirements for all equity Issuers, including REMS; differentiated approach for Issuers of Debentures (please refer to MAR for proposed amendments and to Annex 2 to this paper for AIX suggested mark-up of MAR provisions);
- (viii) Share offerings only, GDR offerings are not eligible;
- (ix) Free-float market capitalisation should not exceed USD200 million;
- (x) If free-float capitalisation remains over USD200 million for 12 consecutive months, the Issuer will have to transit to the Main Board and comply with the Main Board ongoing requirements within 12 months following AIX Notice;
- (xi) Any Share offerings during the “transition period” are subject to a full Prospectus; at the same time the Issuer will continue to benefit from REM

- concessions until the end of transition to the Main Board (i.e., free-float 15%; no profitability requirement; no controlling shareholder requirement);
- (xii) Equity issuers admitted to trading on AIX prior to the enactment of REM Rules do not qualify for REMS, except for Pre-IPO Issuers, which may qualify subject to REMS free-float capitalization requirement at the time of offering.

Corresponding provisions have been included into the new AIX Regional Equity Market Rules, as well as AIX Prospectus Rules, AIX Markets Listing Rules, AIX Mining Company Rules (to manage potential overlaps between the two chapters), and AIX Glossary (in terms of “Aggregate Market Value”).

III. Simplification of regulation for Issuers that have their Securities traded on an Equivalent Regulated Exchange

Background

In order to facilitate cross-border listings AIX proposes to simplify regulation and provide clarification on certain related issues.

Summary of key modifications

- (i) MLR 14-1.2 has been added to clarify that meeting listing requirements on an Equivalent Regulated Exchange would serve as evidence of meeting certain listing requirements of AIX;
- (ii) PR 7 (previously PR 1.7) has been modified to clarify that AIX may recognize a Prospectus produced under jurisdiction of an Equivalent Regulated Exchange;
- (iii) MDR 2.1.4(13) has been modified to clarify that Reporting Entities that have their Securities traded on an Equivalent Regulated Exchange are not, as a rule, required to make any additional disclosure on AIX;
- (iv) MDR 2.1.4(14) has been added to replace the obligation to inform AIX of Price Sensitive Information prior to disclosing it to the public with the obligation to inform AIX of the intended time of disclosure.

IV. Incorporation of the separate AIX Business Rules chapters into AIX Business Rules as a single document

Background

In order to increase efficiency and readability, as well as to avoid the risk of AIX Business Rules being misread, AIX is proposing to incorporate the separate chapters into a single document.

Summary of key modifications

- (i) AIX Belt and Road Market Rules, AIX Listed Funds Rules, AIX Chapter for Pre-IPO Listings, AIX Mining Company Rules, and AIX Green Bonds Rules have been included in AIX Business Rules consolidated text;
- (ii) Terms and definitions from respective chapters have been synchronized and included in AIX Glossary;
- (iii) Several provisions from the chapters mentioned above have been moved to other chapters as applicable.

V. Enhancement of the existing chapters of AIX Business Rules

Background

A part of AIX Business Rules lifecycle is constant gradual improvement and enhancement of the Rules based on: growing number of practical cases to rely on; changing external environment; the necessity to correct any factual errors and inconsistencies; and the necessity to clarify and provide a more detailed approach for certain provisions.

Summary of key modifications

- (i) AIX Code of Conduct and Governance Rules have been excluded from AIX Business Rules and will be approved as a separate document since they only regulate matters related to AIX and AIX staff;
- (ii) Audit Committee Rules of AIX have been excluded from AIX Business Rules and the only provision of the former (i.e., the ongoing requirement to maintain the Audit Committee) has been incorporated into AIX Market Listings Rules (MLR 20 - Continuing Obligations);
- (iii) Substantive Rule (R) and Guidance (G) signposts have been checked for relevance and introduced if missing;
- (iv) MLR20.4 (Purchase of own Shares) have been modified to include overlapping provisions of ADS 6.2 regarding Share repurchase. requirement to conduct repurchase by way of a tender offer has been removed, as excessive. Buyback price has been changed from “not be higher than the volume weighted average price for 6 months” to “not be higher than 5% above the average market value of the Issuer's Shares for the 5 business days prior to repurchase”, as 6-month period is considered excessive in the context of a volatile market;
- (v) Modifications to AIX Markets Listing Rules and AIX Prospectus Rules have been introduced with the aim to distinguish application requirements between prospectus offers and undocumented offers;
- (vi) Indexation of Pre-IPO Chapter has been changed from “MLRSupp” to “PRE” to enhance readability and ensure consistency (and a note “Formerly MLRSupp” has been added to avoid any confusion);
- (vii) PRE 1.4(2) has been modified to clearly prevent multiple admissions to Pre-IPO segment;

- (viii) ADS 4.5.3 has been modified to clarify the requirements to Securities Issuance Programmes as per current practice;
- (ix) A differentiated approach to Equity and Public/Private Debt issuers has been adopted for certain cases:
 - a. Listing requirement regarding profitability (MLR 4.1(2)) has been disapplied to Pre-IPO and Debt Issuers;
 - b. Listing requirements regarding conflicts of interest managing conflicts of interest and Corporate Governance (MLR 8, previously MLR 9) has been narrowed to Equity and Public Debt Issuers;
 - c. Listing requirements regarding controlling shareholder (MLR 7, previously MLR 8) has been narrowed to Equity Issuers only (does not apply to REMS and pre-IPO);
 - d. Listing requirement regarding audit committee (MLR 20.5(4), formerly ADT 1) has been limited to apply to Equity Issuers only;
 - e. Disclosure of interests by Connected Persons (MDR 3) has been limited to apply to Equity Issuers only;
- (x) MDR (Appendix) has been modified to clarify and moderately expand the disclosure obligations of Listed Entities;
- (xi) DCR 2.3 has been modified to increase the quorum for a meeting of a Disciplinary Committee to three persons (including the Chairman and an independent member) – that is intended to prevent the Chairman effectively making Disciplinary Committee rulings on his/her own in case only two members including the Chairman are present;
- (xii) The numbering of provisions has been optimised to improve usability and consistency while keeping the risk of misleading the users to a minimum;
- (xiii) References within AIX Business Rules have been updated;
- (xiv) Duplicating provisions have either been deleted or merged, such as:
 - a. ADS 1.5 and MDR 1.5 (precedence of AIFC Law over AIX Business Rules) deleted due to duplication of GEN 3.2;
 - b. PR 5.5.(2) (use of the term “Prospectus Offer”) deleted due to duplication of PR 5.1;
 - c. ADS 3.1.1 (provision by an Issuer of enforceable undertakings to AIX and AFSA) deleted;
 - d. ADS 5.1.6 (provision to AIX of electronic copies of any disclosure) consolidated into MDR 7.2 (previously MDR 7.1.2);
 - e. MDR (Appendix) Tables 2.1 and 2.2 (Islamic Securities disclosure requirements) consolidated into a single Table 2;
 - f. TRD 9.3 (the types of orders permitted to be submitted to the Order Book) consolidated into TRD 9.2;
 - g. D 3 (the obligation of Members declared a defaulter to comply with AIX Business Rules) deleted due to duplication of D 4.1 (formerly D 5.1);
 - h. LFR 1.4 (regarding AIX Business Rules chapters not applying to Units, Listed Funds or fund Managers) deleted due to duplication of LFR 1.2; and
 - i. GLO 2.1 (regarding references to rules in AIX Business Rules) consolidated into GLO 2.2(4);
- (xv) Misplaced provisions have been moved, such as:
 - a. MLR 17.4.3 (time required by AIX to process an Application) to MLR 17.3.3;

- b. PRE 3.1(11) (Pre-IPO disclosure requirements) to MDR (Appendix) Table 4; and
- c. ADS 6.2 (Share repurchase programme) to MLR 20.4.2(2);
- (xvi) Certain defined expressions (such as “Members” and “Trading Members”; “Notice” and “Circular”) have been collapsed into one; the meaning of others (such as “Admitted”) has been broadened;
- (xvii) Certain terms have been excluded due to inapplicability, such as:
 - a. “AIX Admission and Listing of Securities Rules”;
 - b. “AIX Audit Committee Rules”;
 - c. “AIX Code of Conduct”;
 - d. “PDM Rules”; and
 - e. “Listing Committee”;
- (xviii) For certain clauses broader terms have been used in order to broaden the application of the Business Rules, for example:
 - a. “Market Participants” instead of “Members” in AIX General Business Rules; and
 - b. “Equity Securities” instead of “Shares”;
- (xix) The term “Official List” has been broadened to include “Investments” along with “Securities” in order to accommodate the use of Units admitted to the Official List;
- (xx) Clarifications have been made for the avoidance of doubt;
- (xxi) Other editorial changes.

VI. Aligning AIX Business Rules with amendments to MAR

Background

AFSA Consultation Paper on Enhancing AIFC Markets and Market Infrastructure Framework (<https://afsa.aifc.kz/files/legals/319/file/consultation-paper-no-0003-on-aifc-markets-and-market-infrastructure-framework.pdf>) and the related MAR amendments bring about the need to introduce respective amendments to AIX Business Rules. Additional modifications allowing to avoid duplications and provide for general alignment AIX Business Rules and MAR are also proposed.

Summary of key modifications

- (i) The approach to Audited Financial Statements has been updated to correspond with MAR (for example, MLR 4.1, MDR (Appendix) Table 1/6.3); the use of terms “audited financial statements” and “annual/semi-annual reports” has been aligned with MAR;
- (ii) Provisions duplicating MAR have been excluded (for example, PR 3, PR 5.2, PR 5.3, PR 9.1, PR 10, PR 13.2);
- (iii) Instead, provisions providing guidance and referring to respective sections of MAR have been added (for example, PR 4.1);
- (iv) Provision contradicting MAR has been excluded (PR 6.3(2)(b));
- (v) References to MAR throughout AIX Business Rules have been cross-checked and updated.