

June 2021

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. 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

This edition of the Newsletter covers:

- 1) general overview of Issuers’ and Trading Members’ continuing obligations;
- 2) disciplinary action for breach of AIX Business Rules enforced by R&C in 1H2021.

I. Overview of Key Continuing Obligations

(i) Issuers' Continuing Obligations

Once a company has been admitted to the AIX Official List, it becomes subject to continuing obligations which require a company to:

- ✓ Market Disclosure Obligation: publish timely information such as routine financial information and information that could affect the value of its Securities or is otherwise material to an investor for making an informed investment decision;
- ✓ Corporate Governance Principles: adhere best governance practices and recommendations, which set framework within and by which authority is exercised and controlled within the Issuer. Good corporate governance promotes investor confidence, which is crucial to the ability of companies listed on the AIX to compete for capital;
- ✓ Continuing Listing Eligibility Standards: continue to meet various financial and non-financial listing eligibility standards, which are generally similar to initial listing standards. If an Issuer fails to meet these continuing listing standards, AIX R&C may remove or “delist” the Issuer’s securities from the AIX Official List; and
- ✓ Specific Undertakings: fulfill any specific undertakings assumed by an Issuer pursuant to its Listing Agreement.

AIX R&C has adopted the [Guide to continuing obligations of listed companies](#) to help Issuers to understand the AIX disclosure and admission eligibility standards. The Guide provides direction on applicable standards and the general approach relating to the AIX R&C’s assessment of the suitability of the Issuer or its business for continuing listing.

For further details concerning continuing obligations of the Issuers please refer to a dedicated section on AIX web-site [Issuer's ongoing obligation](#) and/or contact listings@aix.kz.

(ii) **Trading Members & Participants Continuing Obligations**

In order to preserve their AIX membership and/or AIX CSD participation, Trading Members and CSD Participants should comply with their continuing obligations set out in AIX Group Business Rules and their Membership (Participation) Agreements, which generally include:

- ✓ Continuing Membership Eligibility Standards: various financial and non-financial membership eligibility standards, which are generally similar to initial membership standards. If a Member or Participant fails to meet these continuing membership standards, AIX R&C may terminate its membership.
- ✓ Reporting Obligations: provide information to AIX R&C, including:
 - annual reporting: audited financial statements, compliance statements, capital adequacy statements, AML questionnaires (please refer to R&C Oversight Programme at AIX website: [“Already a Member”](#) or [“Already a Participant”](#));
 - trade reporting: [OTC-post trade reporting](#), [Negotiated Deal trade reporting](#);
 - notifications on significant changes and events: changes in profile or management, events of default, regulatory investigations or sanctions;
 - Recognition Requirements reporting (for RNAMs only): annual reporting on continuing compliance with the Recognition Requirements to retain RNAM status under AIFC Recognition Rules.
- ✓ Specific Undertakings: fulfill any specific undertakings assumed by a Trading Member or Participant pursuant to its Membership (Participant) Agreement.

AIX R&C has adopted the [Guide to the Key Continuing Obligations of Trading Members](#) and [Guide to the Key Continuing Obligations of CSD Participants](#) to help Trading Members and CSD Participants to understand the AIX membership requirements and standards.

For further details concerning continuing obligations of AIX Trading Members and AIX CSD Participants please refer to dedicated sections on AIX web-site [“Already a Member”](#) or [“Already a Participant”](#) and/or contact broker@aix.kz.

II. Disciplinary Action Update

Contravention of AIX Group Business Rules is enforced by AIX R&C under AIX Disciplinary Rules of [AIX Business Rules](#) (DCR). AIX may bring disciplinary action against Trading Members, CSD Participants and listed Issuers for contravention of AIX Business Rules, including warnings, fines, trading suspension. Please also refer to [Guidance on enforcement action](#) that can be taken by AIX R&C.

(i) Disclosure breach by an AIX Issuer

Background and Sanction

In February 2021, AIX R&C found an Issuer failing to make the required market disclosures in timely manner pursuant to the AIX Market Disclosure Rules and failing to disclose series of related party transactions between the Issuer and its controlling shareholder pursuant to AIFC Market Rules.

Upon completion of the investigation and taking into account that the Issuer failed to respond to AIX R&C's warnings timely and knowingly ignored its continuing disclosure obligations, AIX R&C imposed a fine of US\$4,000 without any discounts.

Expected Standard for Issuers

Issuers must disclose to the market all matters prescribed by the AIX Market Disclosure Rules Appendix (MDR 7). Issuers must ensure that information is disseminated to the market through AIX Regulatory Announcement Service and its website (MLR21.2.2). Issuers must take reasonable care to ensure that information it is required to disclose is clear, fair and not misleading, false or deceptive (MLR 21.2.3 and MDR 7.3). If a Issuer enters into a Related Party Transaction or a series of Related Party Transactions, the Issuer must, no later than the time when the terms of the transaction or arrangement are agreed, make public disclosure which sets out: (a) the nature of the Related Party relationship; (b) the name of the Related Party; (c) the date and the value of the transaction or arrangement; and (d) any other information necessary to assess whether the transaction or arrangement is fair and reasonable pursuant to AIFC Market Rules (MAR2.5.3).

(ii) **Erroneous trade by AIX Trading Member**

Background and Sanction

In January 2021, AIX R&C found a Trading Member failing to have sufficient order management systems, procedures and controls designed to prevent the entry of erroneous orders to AIX trading system, which resulted in short selling and late settlement.

Upon completion of the investigation and taking into account cooperation of the Trading Member and that the erroneous trade has not had impact on the market integrity, AIX R&C imposed a fine of US\$2,500 (with a possibility of discounting it to US\$1,000 if the Trading Member implemented the required internal control and system within 30 calendar days following the Disciplinary Notice) for transmission of error to the AIX trading system (TRD3.3) triggering:

- (i) failure to verify that the seller of Admitted Securities had sufficient Securities available in its account (TRD4.1),
- (ii) failure to give proper instruction by authorized individual to AIX of cancelled order (TRD12.2),
- (iii) execution of uncovered short selling (TRD20),
- (iv) late settlement (STR3 and Attachment 2 to AIX CSD Procedures).

Expected Standard for Trading Members

A Trading Member must have adequate order management systems and controls that are designed to avoid errors (in particular, human errors) in orders submitted to the trading system (TRD3.3). Before submitting any order to the Order Book, a Trading Member must ensure that its trade can be settled including by verifying that a seller has sufficient unencumbered securities available in its account; and/or a buyer has sufficient cash available in a settlement account (TRD4.1). A Trading Member may modify or cancel an order at any time before it is executed but must do so through instructions given by authorized individuals within the Trading Member who notified to AIX to give such instructions (TRD12.2). A Trading Member may not enter an order to short sell securities where a selling Trading Member has not, prior to the execution of the sale, obtained a firm commitment for borrowing equivalent securities or otherwise affirmatively identified the availability for purchase of such securities, as will enable delivery of the same to be made to the purchaser under the said sale (TRD20).

Trading Members may consider a voluntary arrangement with AIX CSD on the Security Lending and Borrowing (SLB) to prevent settlement fails in any securities admitted to trading on AIX. Please refer to [SLB Program and SLB Procedures](#).