Astana International Exchange Central Securities Depository Limited

Market Notice 2019-12-11_01

Securities Lending & Borrowing Eligibility Requirements & Operational Procedures

Date	11/12/2019

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1. INTRODUCTION

1.1. Securities Lending and Borrowing eligibility requirements & operational procedures (hereafter – Notice) are developed pursuant to 6 Section of AIX Central Securities Depository Business Rules and AIX CSD Procedures.

1.2. A Participant of the Astana International Exchange Central Securities Depository Limited (hereinafter, "**AIX CSD"**) may lend or borrow Admitted Products on AIX CSD, subject to requirements set out in this Notice, AIX Central Securities Depository Business Rules and AIX CSD Procedures, Global Master Securities Lending Agreement or any other bilateral agreement approved by AIX CSD (hereinafter, "GMSLA"). In this Notice, the term "GMSLA" refers to either the Global Master Securities Lending Agreement or any other bilateral agreement approved by AIX CSD. The parties to a lending and borrowing transaction may change the terms and conditions of the GMSLA subject to the AIX CSD Business Rules, AIX CSD Procedures and this Notice.

1.3. From time to time AIX CSD Participants may enter into transactions (hereinafter, "Lending Transaction") in which a Lender transfers to a Borrower Admitted Products against the transfer of a Collateral (as defined below) with a simultaneous agreement by the Borrower to transfer to the Lender Admitted Products equivalent to such Admitted Products on a fixed date or on demand against the transfer of assets equivalent to such Collateral by the Lender to the Borrower .

2. SCOPE

2.1. The Notice applies to a Participant or its client (where applicable, when such client acts as the Lender), who is or intends to be a Lender or a Borrower of Admitted Products.

3. LENDER AND BORROWER

To act as a Lender or Borrower, an Applicant must obtain the approval of AIX Group Regulation (AIX Regulation & Compliance acting for AIX and AIX CSD) through AIX CSD subject to meeting the following requirements:

3.1. The Applicant must be either:
   a. An AIX CSD Participant; in addition, a client of an AIX CSD Participant may also be an Applicant for lending;
   b. A Recognised non-AIFC Member which has an account with an AIX CSD Participant; or
   c. An AIFC Member which has an account with the AIX CSD (directly or indirectly).

3.2. The Applicant must submit its application to AIX Group Regulation according to the designated form accompanied with the information and documents supporting such application and referred to in the AIX CSD Procedures (Procedures for Rule 6.3.3.a), and more specifically:
   a. Evidence of the availability of the technical and administrative capabilities required to implement the tasks, and the management of the accounts related thereto;
   b. Evidence of the availability of the necessary solvency required to implement the tasks according to the standards issued by AIX Group Regulation in this regard;
   c. An organizational chart, indicating Departments / entities ;
   d. Evidence of the availability of a system for keeping the documents of the Lending transactions containing the customer names, the processes, collected commissions and fees;
   e. A report clarifying the technical systems and process systems used to manage the Securities Lending and Borrowing accounts;
   f. A report detailing the internal control systems and principles in relation to the lending and borrowing activity.

3.3. Once these are published, the Applicant must not have committed a material violation to the solvency standards as approved by AIX Group Regulation during the six months preceding the application approval date.

3.4. The Applicant must pay any approval fees that may be determined by the AIX Group Regulation as agreed with AIX CSD. These fees are waived for 2019 and 2020.

4. APPROVAL AND REGISTRATION

4.1. AIX CSD shall issue its decision approving or rejecting the application within 30 days from receipt of an application submitted under the requirements set out in these procedures. AIX Group Regulation may require any further clarifications, information or documents as it deems necessary to grant its approval.

4.2. Approval shall be valid for as long as Applicant is compliant with the eligibility set out in this Notice and / or Applicant's AIX CSD Participant agreement with AIX CSD is terminated or expires.

5. LENDER'S OBLIGATIONS

5.1.   Limit the Lending transactions to the Admitted Products defined by AIX CSD for the sole purposes thereof;
5.2.   To be registered with AIX CSD as a Lender;
5.3.   Enter into a GMSLA with the Borrower;
5.4.   Maintain an account with AIX CSD directly or through an AIX CSD Participant;
5.5.   Ensure that there is a sufficient quantity of Admitted Products of the Lending transaction to complete the lending process;
5.6.   Receive sufficient Collateral from the Borrower;
5.7.   Keep the records in relation to Lending transactions for at least six years and keep a backup thereof for the same period. Such records must include all the agreements, instructions and otherwise;
5.8.   Maintain its solvency according to the solvency standards issued by AIX Group Regulation.

6. LENDER REPRESENTATIVE MUST:

6.1.   Record the Lending transactions implemented by any of its customers (borrowers) who are Participants with AIX CSD according to the procedures followed thereby;
6.2.   Provide AIX CSD with a copy of GMSLA;
6.3.   Obtain an authorization from the customer;
6.4.   Inform the customer of all the particulars and steps taken; and
6.5.   Keep the records in relation to Lending transactions for at least 6 (six) years and keep a backup thereof for the same period. Such records must include all the authorizations, agreements and instructions.

7. GMSLA

7.1.   Pursuant to Clause 6.3.2 of AIX CSD Procedures, GMSLA must be entered into by the Lender and Borrower, in line with this Notice, requirements and terms issued by AIX CSD.
7.2.   The Lender shall be entitled to all the material rights related to the lent Admitted Products unless the agreement between the Lender and the Borrower states otherwise.
7.3.   Each of the Lender and the Borrower must inform AIX CSD of any Lending transaction, and must provide AIX CSD with any reports, information or documents immediately or within the timeframe fixed by the Lender or the Borrower.

8. COLLATERAL

8.1.   Unless otherwise mutually agreed by the parties to the GMSLA, a collateral provided for borrowing Admitted Products must be either:
   a.   A cash deposit not less than (105%) of the loaned Admitted Products;
   b.   An unconditional bank guarantee issued by a bank of not less than (105%) of loaned Admitted Products payable upon request. If the Lender is a natural person residing in the Republic of Kazakhstan, such bank guarantee must be issued by a bank operating in the Republic of Kazakhstan; or
   c.   Admitted Products owned by the Borrower with market value no less than (110%) of the loaned Admitted Products.
8.2.   The above-mentioned deposit or bank guarantee must be held with the Lender or the Lender Representative, and the obligations set forth in Clauses 8.4 to 8.7 of these Procedures must apply to the holder of such cash deposit or bank guarantee.
8.3.   Admitted Products provided as Collateral must be held within the system of the AIX CSD, provided that the Lender observes the obligations set forth in Clauses 8.4 to 8.7 of these Procedures.
8.4.   The Lender or the Lender Representative must recalculate the Collateral amount on a daily basis according to the market value of the Admitted Products (the Closing Rate).
8.5.   The Lender or the Lender Representative must require the Borrower to restore the Collateral when the Collateral amount falls below the rate of 100% when the collateral exists in the form of securities and 95% for collateral held in cash or bank guarantee. .The Collateral must be restored no later than two working days from the date of such request.

8.6. In case the Collateral amount cannot be restored to such rate (mentioned in Clause 8.5), the Lender must recall the Borrowed Product in part or in full to restore the Collateral.

8.7. The Lender or the Lender Representative, or AIX CSD must liquidate the submitted Collateral if the Borrower fails to submit the additional Collateral within the fixed deadline, and such liquidation must be done on the day following the expiry of the deadline set out in Clause 8.3.

8.8. The Lender or the Lender Representative must, upon liquidation of the Collateral, inform AIX CSD of such liquidation.

8.9. In case of any inconsistency between sections 8.2-8.8, on one hand, and the GMSLA, on the other hand, the GMSLA prevails.

9. PROCEDURES

9.1. The Borrower should submit the Borrowing Request (Appendix 1) to the Lender or the Lender Representative and scanned copy of the request to AIX Group Regulation.

9.2. The Lender should submit the Lending Request (Appendix 2) to the AIX Group Regulation to express intention to lend available Admitted Product.

9.3. The Lender accepts/declines the Borrower's Request.

9.4. Once the Borrower's Request is approved, the Lender or the Lender Representative must submit FOP instruction in accordance with section 6.3.3.b of AIX CSD Procedures to transfer the loaned Admitted Products to the Borrower's account.

9.5. The Borrower must submit FOP instruction in accordance with section 6.3.3.b of AIX CSD Procedures to transfer the loaned Admitted Products from the Lender's account.

9.6. The Lender or the Lender Representative must submit the applications/ letter of request or notification to AIX Group Regulation in the following cases:
   a. The Lender recovering its lent Admitted Products from the Borrower's account (letter of request);
   b. Recording the details of the Lender, and modification of such details (notification);
   c. Updating the details of the loan and the Collateral (notification);
   d. Termination of the GMSLA with or without recovering the lent Admitted Products (Appendix 3, copying the Borrower); or
   e. Any other cases as required by AIX Group Regulation (letter of request/notification).

9.7. The Borrower must submit notification to AIX Group Regulation in case of recording the details of the Borrower, and modification of such details.

9.8. The lent Admitted Products must be transferred from the Lender's account to the Borrower's account by the AIX CSD as soon as possible and, in any case, within the same working day.

9.9. AIX CSD may refrain from or cancel any Lending transaction and recover the loaned Admitted Products in case of failure to observe this Notice. In case of insufficiency of the Admitted Products, AIX CSD may determine the necessary action on a case by case basis after consultation with the Lender or the Lender Representative.

9.10. In case the Borrower intents to return the lent Admitted product the relevant Request form should be submitted to the Lender and scanned copy of the request to AIX Group Regulation (Appendix 4)

10. END OF THE LOAN AND / OR RECALL

10.1. The transfer of the borrowed Admitted Products at the end of the loan or in case of recall shall be made in accordance with the GMSLA and, in part of transfers within the system of the AIX CSD, the AIX CSD Business Rules and Procedures.

11. FEES AND COMMISSIONS

11.1. Securities Lending fees are agreed upon between the Lender and the Borrower.

11.2. AIX CSD determines the fees applicable to Free-of-Payment (FoP) internal transfers in relation to Securities Lending and Borrowing transactions.

12. PENALTIES

In case of breach of the above Notice, AIX CSD may:

12.1. Send a warning to the Borrower or to the Lender Representative;
12.2. Withhold or cancel the approval given to the Borrower or to the Lender or prevent the Lender Representative from lending Admitted Products;
12.3. Suspend or prevent AIX CSD Participant from acting as Lender Representative;
12.4. Refer any breach to AIX Group Regulation to consider the violation and impose any suitable penalty.

13. DEFINITIONS

13.1. The definitions applied in this Notice bear the meanings defined in the Acting Law of AIFC and AIX CSD Business Rules unless explicitly defined otherwise.

14. Appendix 1 – Borrowing Request Form

(Letterhead of BORROWING REPRESENTATIVE)

Date:
Ref:

To: [Lender]

<u>BORROWING REQUEST</u>

Name of Borrower:
Transaction Confirmation Number:
Reason for borrowing *[mandatory field-indicate reason and code]***:**
Code: Reason:

1 = DVP fails settlement
2 = Market making
3 = SLB loan replacement

Transfer Loaned Securities to Borrower or Borrower's Investor Client			Details of Lender	
NIN	**Account Number**	**Name**	**Name:**	

No.	Stock Code	Stock Name	Loan Quantity	Expiry Date [99/99/9999 for indefinite loans]

Signature

Name of authorised signatory   (Company Stamp)

CC. (AIX Group Regulation)

15. Appendix 2 – Lending Request Form format

(Letterhead of LENDING REPRESENTATIVE)

Date:
Ref:

To: AIX Group Regulation

LENDING REQUEST

Name of Lending Representative:
Transaction Confirmation Number:

Transfer from (Details of Lender)				Transfer to (Name of Borrower)
NIN	**Account Number**	**Name**		

No.	Stock Code	Stock Name	Loan Quantity	Expiry Date [99/99/9999for Indefinite loans]	Fee Type [1=Lender pays 2=Borrower pays all]

Signature

Name of authorised signatory   (Company Stamp)

16. Appendix 3 – Application to Terminate Loan without the Return of Loaned Securities Form format

(Letterhead of LENDING REPRESENTATIVE)

Date:
Ref:

To: AIX Group Regulation

APPLICATION TO TERMINATE LOAN WITHOUT THE RETURN OF LOANED SECURITIES

1. Lender Details

NIN	Account Number	Name

2. Details of Outstanding Loans

No.	Loan Reference Number	Stock Name	Stock Code	Outstanding Loan Quantity

Cancellation Effective Date

Reasons for Cancellation*
*(copy of supporting documents must be enclosed)

Signature:

Name of authorised signatory   **(Company Stamp)**

CC. (Borrower)

17. Appendix 4 - Loan Return Request Form

(Letterhead of BORROWER)

Date:
Ref:

To: [Lender]

APPLICATION TO RETURN LOANED SECURITIES

Name of Borrower:

Transfer from (Details of Borrower or Borrower's Investor Client)			Transfer to (Name of Lender)
NIN	**Account Number**	**Name**	

No.	Loan Reference No.	Stock Code	Stock Name	Quantity	Effective Date of Return

Signature

Name of authorised signatory   (Company Stamp)

CC. (AIX Group Regulation)