

# KAZAKHSTAN STOCK EXCHANGE

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## **Agreed on**

with the Agency of the Republic of  
Kazakhstan on Regulation and Supervision of  
Financial Market and Financial Organizations

on September 17, 2010

Deputy Chairman of the Agency of the  
Republic of Kazakhstan on Regulation  
and Supervision of Financial Market  
and Financial Organizations

## **Approved**

by Kazakhstan Stock Exchange  
Board of Directors decision

(protocol No. 14 of June 25, 2010)

## **Effective**

from October 20, 2010

A. ALDAMBERGEN

## **NOTICE**

Regulations below in English have been translated by employees of Kazakhstan Stock Exchange for information purposes only. In case of any incompliance of this translation with Regulations original version in Russian, the latter prevails.

# **REGULATIONS**

## **on Derivatives Market Reserves and Guarantee Funds**

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Almaty

2010

## LIST OF AMENDMENTS

### 1. Addition No. 1:

- agreed upon with the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations on November 2, 2010;
- approved by a decision of the Board of Directors of JSC "Kazakhstan Stock Exchange" (meeting minutes No. 22 dated October 4, 2010);
- effective from November 8, 2010.

### 2. Amendment No. 2:

- agreed upon with the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations on April 4, 2011;
- approved by a decision of the Board of Directors of JSC "Kazakhstan Stock Exchange" (meeting minutes No. 3 dated February 24, 2011);
- effective from April 13, 2011.

### 3. Amendments No. 3:

- agreed upon with the Committee on Regulation and Supervision of Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan on December 2, 2011;
- approved by a decision of the Board of Directors of JSC "Kazakhstan Stock Exchange" (meeting minutes No. 28 dated October 27, 2011);
- effective from February 1, 2012.

These Regulations define Kazakhstan Stock Exchange (hereinafter – the Exchange) Reserves and Guarantee Funds forming, use and recovery procedure.

### Section 1. GENERAL PROVISIONS

1. Used in these Regulations concepts are similar to defined in the Exchange Board of Directors approved Rules of Execution of Clearing Activities on Derivatives Market (hereinafter – the Rules).
2. The Reserves and Guarantee Funds is formed in Kazakhstan tenge (hereinafter – KZT) according to these Regulations set procedure.
3. The Reserves and Guarantee Funds forming, use and recovery are controlled according to the procedure set by the Exchange internal documents.
4. In case of making any amendments and additions to these Regulations such amendments and additions must be brought to the Exchange members notice not less than 10 working days before they shall become effective.

The notice on made by the Exchange Board of Directors decision related to the change in the Reserves Fund and/or the mandatory guarantee fee size is brought to the Exchange members notice not less than 10 working days prior to the Reserves Fund size change.

5. The Exchange publishes the data on Reserves and Guarantee Funds on its Internet site ([www.kase.kz](http://www.kase.kz)).

### Section 2. RESERVES FUND FORMING PROCEDURE

6. The derivatives market Reserves Fund is formed at the Exchange expense in Kazakhstan tenge in the amount and according to the procedure defined by the Exchange Board of Directors decisions.
7. Means of the Exchange's Reserves Fund must be kept on the Exchange's bank accounts (*this item was changed by the Exchange Board of Directors decision of February 24, 2011*).
8. The Reserves Fund is replenished at the expense of:
  - 1) a single fee;
  - 2) monthly payment at the expense of commission fees based on trades results on the derivatives market in the size of fifteen percent from these commission fees amount, received for the past month during fifteen working days following the past month;
  - 3) additional amounts in the size defined by the Exchange Board of Directors special decisions.

### Section 3. GUARANTEE FUNDS FORMING PROCEDURE

9. The Guarantee Funds are formed for each sector of derivative instruments individually (*this item was changed by the Exchange Board of Directors decision of October 27, 2011*).
10. The derivatives market Guarantee Funds are formed at the expense of mandatory fixed size single guarantee fees in Kazakhstan tenge payable by the derivatives market members.
11. Different sizes of mandatory guarantee fees are set for different sectors of derivative instruments (*this item was changed by the Exchange Board of Directors decision of October 27, 2011*).
12. The mandatory guarantee fee size for the currency derivative instruments sector makes up KZT2,000,000 (two million) (*this item was changed by the Exchange Board of Directors decision of October 27, 2011*).
- 12-1. The mandatory guarantee fee size for the stock derivative instruments sector makes up KZT1,000,000 (one million) (*this item was included by the Exchange Board of Directors decision of October 4, 2010 and changed by the Exchange Board of Directors decision of October 27, 2011*).

13. The decision on mandatory guarantee fee size change is made by the Exchange Board of Directors.
14. The Exchange does not add and does not pay an interest on guarantee fees.
15. The Guarantee Funds are kept on the Exchange correspondent account.
16. The information on the rest of the money on the Exchange member guarantee fee account is provided to the Exchange member in the Exchange Certificate by results of each trading day.

**Section 4. RESERVES AND GUARANTEE FUNDS RESOURCES USING PROCEDURE**

17. The Reserves and Guarantee Funds resources are used in compliance with these Regulations and the Rules.
18. The Exchange forms Reserves and Guarantee Funds exclusively to use their resources in case of insolvency of one or more Exchange members in order to fulfill their net obligations on a variation margin, the size and settlement procedure of which is set in compliance with the Rules.
19. Resources of each Guarantee Funds can be used to settle on one type futures contracts for which these funds have been formed.
20. In order to fulfill net obligations on a variation margin of one or several insolvent Exchange members resources of Reserves and Guarantee Funds are used for a corresponding futures contract type as follows:
  - 1) the money of one or several insolvent Exchange members on its (their) guarantee fee account (accounts);
  - 2) the money on the Exchange solvent members guarantee accounts in the order set by item 21 of these Regulations;
  - 3) the Reserves Fund resources considering limitations set by item 24 of these Regulations.
21. In compliance with terms set by item 20 of these Regulations the following formula is applied to calculate the money amounts used from each Exchange solvent members guarantee account:

$$S_k = \min\left(\frac{\sum (D_i - M_i - G_i)}{N}; G_k\right), \text{ where:}$$

min – the mathematic function that defines the least value;

i – the Exchange insolvent member,  $i=1,2,\dots, X$ ;

k – the Exchange solvent member,  $k=1,2,\dots, N$ ;

$S_k$  – an amount of money used (drawn) from k Exchange solvent member guarantee account;

$D_i$  – a net obligation on variation margin of i Exchange insolvent member;

$M_i$  – an amount used from the margin account of i Exchange insolvent member;

$G_i$  – an amount of money used (drawn) the guarantee account of i Exchange insolvent member;

$G_k$  – an amount on k Exchange solvent member guarantee account.

22. In case of two and more Exchange insolvent members and insufficient resources to cover net obligations on the Exchange insolvent members variation margin:
  - 1) in order to calculate net obligations on the Exchange insolvent members variation margin covered at the expense of Reserves and Guarantee Funds resources on correspondent futures contracts type the following formula is applied:

$$L_i = (R + \sum G_k) * \frac{D_i - M_i - G_i}{\sum (D_i - M_i - G_i)}, \text{ where:}$$

- $L_i$  – the size on net obligation on variation margin of the Exchange Board I insolvent member, covered at the expense of Reserves and Guarantee Funds resources on corresponding type of futures contracts;
- $i, k, D_i, M_i, G_i, G_k$  – definitions as specified in item 21 of these Regulations;
- $R$  – Reserves Fund resources available to repay net obligations of one or several Exchange insolvent members considering the limitation set forth by item 24 of these Regulations.

Meanwhile  $\frac{D_i - M_i - G_i}{\sum (D_i - M_i - G_i)}$  is a unit weight of a net obligation on variation margin of the

Exchange  $i$  insolvent member in the total amount of all Exchange insolvent members;

- 2) the following formula is applied to calculate the amount of money transferred to each margin accounts of the Exchange solvent members, in relation to which the Exchange insolvent member did not fulfill its net obligations on variation margin (hereinafter – aggrieved members of the Exchange):

$$Z_q^i = L_i * \frac{V_q^i}{\sum_q V_q^i}, \text{ where:}$$

- $q$  – an aggrieved member of the Exchange,  $q=1,2,\dots, F$ ;
- $Z_q^i$  – an amount of money transferred to the margin account of a  $q$  aggrieved member of the Exchange on obligation on variation margin of an  $i$  insolvent member of the Exchange;
- $V_q^i$  – an obligation on variation margin of an  $i$  insolvent member of the Exchange in relation to a to a  $q$  aggrieved member of the Exchange;
- $L_i$  – a definition as specified in sub-item 1) of this item.

23. The Reserves and Guarantee Funds resources are used on the working day following the day of forced closing of positions of one or several insolvent members of the Exchange.
24. On obligations occurred on the day of forced liquidation of positions of one or several insolvent members of the Exchange can be used Reserves Fund resources in the amount not more than twenty five percent from this fund resources on the positions forced liquidation day.
25. By the results of a day, when Guarantee Funds resources were used, the Exchange sends Exchange Certificates with a notice to:
  - 1) each Exchange insolvent member on the size of its net obligations on variation margin considering the use of resources on its margin guarantee accounts;
  - 2) each Exchange solvent member on the amount used from its guarantee account to fulfill net obligations on variation margin of one or several Exchange insolvent members.

#### **Section 5. RESERVES AND GUARANTEE FUNDS RESOURCES RECOVERY PROCEDURE**

26. Each Exchange member, on net obligations on variation margin of which were used Reserves and Guarantee Funds resources, must reimburse them in the full volume via transfer to the Exchange correspondent account.
27. The money, transferred by an insolvent member (insolvent members) of the Exchange in compliance with the previous item, are used to recover Reserves and Guarantee Funds resources as follows:
  - 1) the Reserves Fund resources are liable to recovery first and foremost;
  - 2) the Exchange solvent members guarantee fees.

The following formula is used to calculate liable to recovery amount on each guarantee

fee account:

$$Y_k = \sum (P_i - R_i) * \frac{S_k}{\sum S_k}, \text{ where:}$$

$Y_k$  – a liable to recovery amount on the Exchange k solvent member guarantee fee account;

$P_i$  – the money transferred by an i insolvent member of the Exchange;

$R_i$  – an amount of money earlier used to fulfill net obligations on variation margin of an i insolvent member of the Exchange and allocated to recover the Reserves Fund resources;

$S_k$  – an amount of money as specified in item 21 of these Regulations;

3) the Exchange insolvent member guarantee fee is recovered last of all.

28. If an insolvent member of the Exchange does not reimburse the Guarantee Fund resources in the full volume during three working days, following the date when they were used, on the fourth working day after this fund resources use the Exchange:

1) notifies solvent members of the Exchange on this situation;

2) informs these members on the need in their guarantee fees recovery.

29. Upon receipt of a notice on the need in the guarantee fee recovery each solvent member of the Exchange during three working days must enter the money to its guarantee fee account up to the size, set forth by item 12 of these Regulations.

If the Exchange member does not fulfill an obligation to recover its guarantee fee that Exchange member shall be applied measures stipulated by article 27 of the Rules as well as other measures, set forth by the Exchange internal documents.

#### Section 6. FINAL PROVISIONS

30. In case of Reserves and Guarantee Funds resources use in compliance with these Regulations:

1) an aggrieved member of the Exchange does not have the right to claim against the Exchange to reimburse that part of a net obligation on variation margin that was not transferred by an insolvent member of the Exchange and not fulfilled at the expense of the Reserves and Guarantee Funds.

Non-fulfilled obligations on variation margin of one or several insolvent members of the Exchange to the Exchange aggrieved member (members) are regulated by these parties independently without involvement of the Exchange;

2) The Exchange member guarantee fee, resources of which were used to fulfill the net obligations on variation margin of one or several insolvent members of the Exchange are liable to recovery in compliance with the procedure set forth in Section 5 of these Regulations.

The Exchange is not obliged to reimburse funds used from guarantee accounts of the Exchange members over the amount transferred by one or more insolvent Exchange members to recover these accounts.

31. Disputes and controversies related to the Reserves and Guarantee Funds forming and use procedures shall be solved through negotiations.

32. Disputes and controversies unregulated by parties are considered by the Exchange Arbitration Board.

33. In case of membership termination on the Exchange derivatives market and the absence of any non-fulfilled obligations, previously transferred by this organization guarantee fee is due to return to this organization during seven working days following the day of making by the Exchange Board of Directors of the decision on its derivatives market membership termination.

President

K. Damitov