

# KAZAKHSTAN STOCK EXCHANGE

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**Approved**

by Kazakhstan Stock Exchange  
Board of Directors decision

(minutes of meeting No. 12 of May 31, 2011)

**Effective**

from July 1, 2011

## **POLICY**

### **on Risk Management of Kazakhstan Stock Exchange**

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Almaty

2011

**Terms Definition, Designations and Abbreviations**

<b>Exchange</b>	JSC "Kazakhstan Stock Exchange" (hereinafter – the Exchange)/KASE
<b>Currency Risk</b>	risk of occurrence of expenses (losses) related to fluctuations of foreign currencies' exchange rates during the Exchange's operations. The risk of expenses (losses) emerges due to re-valuation of currency positions in value terms
<b>Risk Owner (Proprietor)</b>	Structural unit of the Exchange responsible for all aspects of management of a certain risk in the course of its operations, in particular, for reducing the probability of emergence of a risk and/or reducing possible effect of consequences of realization of a risk on the Exchange's operations
<b>Internal Documents</b>	documents regulating conditions and procedure of operations of the Exchange, its bodies, units and employees, the procedure for rendering of services and payment thereof
<b>Opportunity</b>	Probability of occurrence of an event which will have a positive effect on achievement of goals set by the organization
<b>ERM</b>	Enterprise Risk Management (risk management within an entire organization)
<b>Risk Mapping</b>	graphical depiction of importance of the Exchange's risks, whereas one "axis" reflects potential damage or consequences of occurrence of a risk, and the other one indicates the probability of frequency of occurrence
<b>Key Risk Indicators (KRI)</b>	indicators of the level of critical risks and execution of additional measures by responsible units according to the approved Action Plan for Management of Critical Risks
<b>Credit Risk</b>	risk of non-fulfillment of liabilities towards the Exchange by correspondent banks, trading participants and the Exchange's debtors, as well as by securities issuers and the Exchange's counterparts on deals involving the own assets of the Exchange
<b>Critical Risks</b>	these risks include risks of the extreme (threatening) and high level according to the Risk's Seriousness Level Scale set by the Exchange's internal documents
<b>CSRM</b>	Corporate System of Risk Management
<b>Operational Risk</b>	risk of emergence of expenses (losses) as a result of drawbacks or faults in the course of implementation of internal processes committed by the Exchange's employees, during operation of the trading system and other information systems, as well as due to external events
<b>Residual Risk</b>	risk remaining after taking of additional measures aimed at altering the probability or the grade of effect of that risk
<b>Action Plan for Risk Management</b>	calendar plan-schedule of additional measures and actions which have to be implemented by responsible units and employees within the agreed time for the purpose of adjusting the risk assessment to an acceptable level
<b>Interest Rate Risk</b>	risk of emergence of expenses (losses) as a result of an unfavourable change in interest rates in the market
<b>Exchange's Working Group on Risks</b>	working group of the Exchange consisting of risk-coordinators of the Exchange's structural units and employees of the Risk Management Department
<b>"Sensible" Guaranty</b>	reflects the fact that uncertainty and risk relate to the future, which cannot be predicted by anyone, and a guaranty cannot be absolute. However,

	"sensible" guaranty does not mean that risk management may miss goals set before the Exchange
<b>Risks Register</b>	a table with description of the Exchange's risks used for storage and use of information on risks for the purpose of assessment and management, prepared and updated by the Risk Management Department and approved by decision of the Exchange's Management Board
<b>Reputation Risk</b>	risk of emergence of expenses (losses) as a result of a negative public opinion or reduced trust in the Exchange
<b>Risk</b>	probability of an event which will affect achievement of goals set by an institution
<b>Risk-appetite</b>	level of risk deemed acceptable by an organization in the course of achieving its goals
<b>Risk-coordinator</b>	employee of a structural unit of the Exchange responsible for identification, monitoring and preparation of reports on risk events occurring with regard to processes of the unit which is the risk owner
<b>Liquidity Loss Risk</b>	risk related to possible non-fulfillment or undue fulfillment of liabilities by the Exchange
<b>COSO</b>	The Committee of Sponsoring Organizations of the Treadway Commission
<b>Event</b>	incident or accident having an internal or external source with respect to an institution and making influence on achievement of set goals
<b>Strategic Risk</b>	risk of emergence of losses due to faults committed during making decisions defining the strategy of operations and development of the Exchange and taking the form of underestimation of possible threats, which can jeopardize the Exchange's operations, as well as due to barely justified definition of prospective directions of operations, lack of necessary resources which should facilitate achievement of strategic goals of the Exchange's operations
<b>Stress-testing</b>	methods of measuring of the potential impact on the Exchange's financial position made by extraordinary, yet possible events, which can influence its operations
<b>Authority</b>	a government body of the Republic of Kazakhstan regulating and supervising the stock market
<b>Risk Management</b>	process carried out by the Exchange's Board of Directors, Management Board and all employees of the Exchange, which commences during development of the strategy and influences entire operations of the Exchange. It is aimed at definition of events which can impact on the Exchange, and management of the risk related to those events, as well as controlling that the Exchange's risk-appetite should not be exceeded and a "sensible" guaranty of achieving the Exchange's goals should be provided
<b>Level of Risk Tolerance (acceptable risk)</b>	financial capability of the Exchange to cover its losses at the account of financial flows, provisions, and other liquid funds at occurrence of unfavorable events. Te maximum amount of funds which could be at any one time withdrawn from current operations without a substantial material effect on the Exchange's operations
<b>Price Risk</b>	risk of occurrence of losses (damage) due to a change in the value of financial instruments, which emerges only in case of changes in conditions of financial markets, having effect on the market value of financial instruments bought at the account of own assets of the stock exchange

### **Purpose and Application Area**

This Policy on Risk Management (hereinafter – the Policy) has been developed in accordance with the legislation of the Republic of Kazakhstan, regulatory acts of the authority of the Republic of Kazakhstan<sup>1</sup>, the Corporate Governance Code of the Exchange, as well as taking into account the international standard for risk management across the whole institution<sup>2</sup>.

The policy is a document of a top level in the Exchange's corporate system of risk management, which defines the basic principles of risk management, and contains:

- a key goal and tasks of risk management;
- principles, main components and organization of the procedure of risk management;
- a list of participants of the risk management procedure, their responsibilities, authorities and liability;
- the risk management reporting system.

The Exchange adopting this policy, confirms its loyalty to internationally recognized standards of risk management and considers the Policy as part of the Exchange's corporate culture built on principles of transparency, conscientiousness and responsibility.

The effect of this policy applies to all types of the Exchange's activities. The policy is subject to studying and use by all structural units of the Exchange and all employees of the Exchange.

### **Chapter 1. Key Goal and Tasks of Risk Management**

1. The key goal of risk management is finding the optimum balance between the Exchange's growth, its profitability and risks, as well as ensuring sustainable development of the Exchange in pursuance of its strategic plans and achievement of set goals.
2. Risk management's tasks are as follows:
  - determining the level of risk-appetite in accordance with the Exchange's development strategy;
  - improvement of the decision-making process with regard to emerging risks;
  - determining and management of the entire aggregate of risks inherent to the Exchange's operations;
  - reducing the number of unforeseen events and losses during the Exchange's operations;
  - use of opportunities for achievement of the Exchange's goals;
  - effective use of capital.
3. In the course of implementation of its strategic goals, the Exchange:
  - does not risk more than allowed by the equity;
  - does not create risky situations to gain excess profit;
  - keeps risks under control;
  - creates necessary reserves for covering risks;
  - establishes permanent survey of changes in risks;
  - prevents occurrence of risky situations.

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<sup>1</sup> including in accordance with Instruction on Requirements for Availability of Risk Management Systems at the Exchange approved by resolution No. 244 of the Management Board of the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations, dated November 30, 2009.

<sup>2</sup> COSO ERM.

## Chapter 2. Main Principles of Risk Management

4. The Exchange defines the following main principles of risk management:
  - 1) principle of continuity.

The process of risk management is a continuous process encompassing all departments of the Exchange;
  - 2) principle of awareness.

Risk management is used in the course of developing and forming the Exchange's strategy, applied in all fields of the Exchange's operations, at each level thereof and in each department; it concerns each employee of the Exchange and includes an analysis of a range of risks across the entire organization.

Employees of the Exchange executing transactions prone to risks are aware of transactions' risks and they identify, analyze and evaluate risks before executing transactions.

There are internal documents in operation at the Exchange, which regulate the procedure of execution of all transactions vulnerable to risks. Execution of new transactions in the absence at the Exchange of internal documents or appropriate decisions of collegial bodies regulating the procedure of their execution is not permitted;
  - 3) principle of involvement.

The Exchange's Board of Directors and Management Board are involved in the process of risk management and creation of control environment.

Risk management is not only responsibility of risk-managers; it is also integrated in all processes going on at the Exchange. Responsibility for realization of a particular risk event rests with the department (risk-owner) which initiates and executes certain processes within the Exchange's operations. The Risk Management Department's task is limitation of total possible losses of the Exchange and implementation of procedures of emerging risks' limitation;
  - 4) principle of conformity.

A risk management system must in the first place reflect requirements of the legislation of the Republic of Kazakhstan, as well as conform to the best international practices. The Exchange continuously improves all elements of the risk management, including data systems, procedures and technologies, with strategic tasks, changes in the environment, novelties in international risk management practices taken into account;
  - 5) principle of timeliness.

The risk management process is accompanied by the availability of objective, reliable and actual information. The Exchange's management, its collegial bodies on a regular basis consider reports on the level of accepted risks and facts of violation of established rules, limits and restrictions.

Faults in the risk management system and instances of their realization are timely brought to the knowledge of managers of the respective level, that of the Exchange's Management Board and Board of Directors and removed promptly;
  - 6) principle of authorities' separation.

The Exchange's risk management system stipulates a clear separation of employees' authorities and elimination of situations when an employee's area of responsibility admits a conflict of interests;
  - 7) principle of independence.

Avoidance of a conflict of interests by way of separation of the Risk Management Department from departments which are directly involved in the Exchange's business processes;

- 8) principle of economic expediency.

Defining priority measures for risk control should be implemented with economic expediency in view, under comparison of expenses associated with internal control procedures to the size of possible losses.

The described list of principles is not quite revealing and can be supplemented in the Exchange's internal documents concerning procedures of management of particular risks.

### Chapter 3. Components of Risk Management Process

5. The risk management process consists of eight interconnected components related to:
- 1) **internal environment.** The internal environment represents the ambience at the Exchange and defines how a risk is perceived by employees of the organization, and how they react on it. The internal ambience includes the philosophy of risk management and risk-appetite, honesty and ethical values, as well as the environment they exist in;
  - 2) **goal setting.** Goals should be set before the Exchange's management begins detect events which potentially may impact on their achievement. The risk management process provides a "sensible guaranty", that the Exchange's management possesses a correctly organized process of choice and setting up of goals, and that those goals conform to the Exchange's mission and the level of its risk-appetite;
  - 3) **definition of events.** External and internal events having an impact on achievement of the Exchange's goals should be defined taking into account their separation into risks or opportunities. Opportunities should be taken into account by the management in the process of strategy formation and goal setting;
  - 4) **evaluation of risks.** Risks are analyzed with account taken of the probability of their emergence and impact, in order to define which actions should be taken with regard to them. The level of risk is estimated from the point of view of inherent and residual risk;
  - 5) **reacting on a risk.** The management chooses the method of reacting on a risk – risk avoidance, acceptance, reduction or re-distribution of a risk, – coming up with a series of measures which allow bringing of the detected risk in accord with the Exchange's level of tolerance to risks and risk-appetite;
  - 7) **means of control.** Internal documents of the Exchange have been developed and established in such a way as to ensure a "sensible" guaranty that reacting on a risk takes place efficiently and on time;
  - 8) **information and communications.** Necessary information is determined, fixed and transmitted in such a form and time which allow employees to meet their responsibilities. Also, effective data exchange takes place across the Exchange top down and from the bottom up as well as horizontally;
  - 9) **monitoring.** The entire risk management process at the Exchange is monitored and corrected in case of need. Monitoring is carried out as part of the management's everyday tasks by periodically conducting evaluations.
6. Risk management is a multi-directed cyclical process in which all components impact on each other and which is based on timely detection of possible risks, evaluation of risk positions, as well as on usage of specific risk management methods. Procedures of evaluation of risks and their management are integrated into processes of implementation of the Exchange's current operations.
7. Implementation of components of the risk management process at the Exchange is provided via formalization of main stages of the risk management process and control procedures in internal documents of the Exchange and formation of the Exchange's organizational structure defining at all levels responsible persons, whose responsibilities include monitoring, analysis and risk management.

#### Chapter 4. Exchange' CSRМ and Distribution of Responsibility

8. CSRМ's organizational structure includes the following administrative bodies, committees and structural units of the Exchange:
- 1) the Exchange's Board of Directors ;
  - 2) the Exchange's Management Board;
  - 3) Committee of the Exchange's Board of Directors on Budget and Strategic Planning;
  - 4) Risk Management Department;
  - 5) risk-coordinators (from each structural unit);
  - 6) head of structural units – risk-owners;
  - 7) Internal Audit Department;
  - 8) all employees of the Exchange.
9. **The Exchange's Board of Directors** plays a key strategic role in the Exchange's risk management and in supervision of the Exchange's CSRМ. The Exchange's Board of Directors executes the following functions in the CSRМ's structure:
- correct setting of strategic and financial goals of the Exchange;
  - approval of an adequate risk-appetite of the Exchange;
  - creation of an efficient control environment;
  - approval and updating of the Exchange's Policy of Risk Management;
  - setting of threshold values of key indicators of risks for critical risks of the Exchange;
  - regular control of the Exchange's critical risks;
  - regular control of the efficiency of the Exchange's Risk Management System and conformity of the risk management strategy to the Exchange's strategy and development goals.
10. **The Exchange's Management Board** ensures effective organization of the Exchange's CSRМ and creation of the culture of "risk awareness" at the Exchange. The Management Board executes the following functions in the CSRМ's structure:
- implementation of tasks and goals set by the Exchange's Board of Directors;
  - efficient organization of internal control and risk management systems;
  - maintenance of the Exchange's risk levels within set threshold levels;
  - operational management of the Exchange's risks;
  - approval of the Risk Register and Risk Mapping of the Exchange;
  - determining the tolerance level and risk-appetite of the Exchange;
  - determining of distribution of responsibility on risk control among departments – risk owners;
  - approval of measures on management of critical risks;
  - providing the Exchange's Board of Directors with credible information on risks;
  - operational control of the efficiency of the Exchange's Risk Management System and conformity of the risk management strategy to the Exchange's strategy and development goals;
  - improvement of internal procedures and regulations in the field of risk management.
11. **The Committee of the Exchange's Board of Directors on Budget and Strategic Planning** is an advisory body under the Exchange's Board of Directors and it takes part in preparing recommendations for the Exchange's Board of Directors on taking decisions on risk management

related issues. This committee's responsibilities include:

- consideration and agreement of plans for CSRM introduction and CSRM draft documents;
- securing of availability of risk-culture at the Exchange;
- providing of a floor for discussion of risk management related issues by representatives of authorized bodies, interested departments and employees responsible for risk management;
- control of interaction between the Exchange's units in the course of risk management process;
- providing of advice to the Exchange's Board of Directors upon results of monitoring of key risk indicators and risk limits observance;
- providing of advice to the Exchange's Board of Directors upon results of detection and evaluation of proposed measures to management of the Exchange's critical risks;
- analysis of results of monitoring of the CSRM's efficiency;
- providing of effective advice to the Exchange's Board of Directors on issues related to risk management and improvement of the Exchange's risk management system.

12. **Risk Management Department** is a structural unit of the Exchange maintaining and coordinating the entire process of the Exchange's risk management in prompt mode. The Risk Management Department carries out the following responsibilities:

- methodological support of the Exchange's risk management;
- information support of the Exchange's risk management, preparation of reports on risk events for the Management Board, Board of Directors and the authority;
- conducting of calculations and presentation to the Management Board and Board of Directors of information on the tolerance level and size of risk-appetite;
- effective co-ordination of the risk management process at the Exchange;
- arranging for activities at the Exchange on identification, analysis, evaluation and management of corporate risks, as well as monitoring of measures on management of risks assigned to risk-owners;
- co-ordination of preparation and monitoring of action plans on management of the Exchange's risks;
- arranging for definition of key indicators of risks and limits for substantial and critical risks of the Exchange and setting their threshold values;
- arranging for control of the level of corporate risks of the Exchange and level of key risk indicators;
- introduction of internationally recognized standards for risk management at the Exchange for the purpose of compliance with requirements of the World Federation of Exchanges for risk management;
- technical support (automation) of the Exchange activities in risk management;
- improvement of professional knowledge and teaching of the Exchange's employees in the field of risk management.

13. **Risk-coordinators** (from each structural unit). Risk-coordinators carry responsibility for conformity of risk management practices in the Exchange's structural units to approved CSRM procedures, as well as for:

- coordination of operations inside the structural unit for collection and updating of information on risks;
- permanent monitoring of occurrence of new risks, entering them into the Risk Register;
- permanent monitoring of the level of set risk indicators and limits on risks of own unit;

- permanent monitoring of the execution of approved measures on management or risks of own unit and presentation of reports thereon to the Risk Management Department;
  - coordination of other processes related to the risk management process, among organizational entities of a structural unit of the Exchange;
  - ensuring permanent contact with the Risk Management Department, including supply of operational and monthly reports on risk events;
  - control of conformity of risk management practices at a structural unit of the Exchange, which they represent, to approved procedures of the Exchange.
14. **Heads of units** (services, departments, divisions), which are risk-owners, carry the main load and play a key role, since they manage risks in their current everyday operations. They are responsible for:
- current monitoring of "own" risks and prescribed key risk indicators and limits thereupon;
  - management of "own" risks within given parameters;
  - review, specifying and supplementing of the Risk Register on an annual basis or upon detecting new risks;
  - timely detection and evaluation of risks, presentation of suggestions relating risk management and information requested to the Risk Management Department;
  - timely presentation of periodic reports on risk occurrence events regarding the activities executed to the coordinated chief and the Risk Management Department;
  - designing of measures aimed at reducing the level of "own" risks;
  - fulfillment of plans of measures aimed at management of "own" risks;
  - rendering support in respect of introduction of CSRM at the Exchange by way of introducing risk-culture and developing risk-communications in the coordinated unit;
  - ensuring interaction with other units of the Exchange within working groups;
  - observance of approved CSRM procedures;
  - inquiries aimed at detection and evaluation of risks which are subject to fulfillment by all structural units of the Exchange.
15. **Internal Audit Department.** Key task is evaluation of reliability and effectiveness of the risk management system at the Exchange, evaluation of conformity of the Exchange's CSRM to the legislation of the Republic of Kazakhstan and regulatory norms of the authority of the Republic of Kazakhstan and those of the Exchange.
- The internal audit is responsible for:
- developing the annual Auditing Plan with taking into account of substantial and critical risks of the Exchange;
  - permanent monitoring of fulfillment of the policy and CSRM procedures by way of random checks;
  - independent evaluation of the effectiveness of risk management procedures and internal control procedures and presentation of a report to the Exchange's Board of Directors along with recommendations for optimization and improvement;
  - targeted checks in accordance with the agreed annual Auditing Plan;
  - presentation of information to the Risk Management Department on new risks detected in the course of auditors' checks;
  - evaluation of the reliability and effectiveness of internal control systems and risk management system of the Exchange.

16. **Employees of the Exchange.** Each employee of the Exchange carries responsibility for risk management in the course of his duties. Employees' responsibility includes:
- presentation of information on new risks and incidents to the risk-coordinator of the unit;
  - continuous monitoring of emergence of new risks associated with performance of their duties, and informing their chiefs;
  - taking an active part in teaching risk management practices.
17. The CSRM's organizational structure is depicted in Appendix 1.

#### **Chapter 5. Classification of the Exchange's Risks and Main CSRM Instruments**

18. The Exchange in the course of its operations identifies and differentiates the following types of risks:
- 1) strategic risks;
  - 2) risk of liquidity loss;
  - 3) market risks, including currency risk, interest risk and price risk;
  - 4) credit risk;
  - 5) operational risks;
  - 6) reputation risk.
19. The CSRM's main instruments include:
- 1) regulation of control procedures and risk management procedures in the Exchange's internal documents;
  - 2) imposing of a strict system of limits for high-risk operations and their monitoring;
  - 3) establishing of an early warning system: setting of warning threshold values of key risk indicators for high-risk operations;
  - 4) annual qualitative evaluation of risks by way of self-evaluation of risks by the Exchange's experts and developing of the register and risk-mapping based on results of such evaluation;
  - 5) maintaining a database of risk events by way of collecting information about actually happened risk events and damage incurred by the Exchange and their analysis;
  - 6) quantitative statistical evaluation of risks based on actual events from the Exchange's base of risk events;
  - 7) modeling of scenarios of future risks (stress-testing);
  - 8) diversification and insurance of substantial risks;
  - 9) taking account of the risk premium on expected risks in tariffs for products and services;
  - 10) formation of a reserve capital for unexpected risks;
  - 11) developing a plan of adjusting measures and their monitoring.
20. The procedure and methods of identification, evaluation, monitoring and reacting on risks of the Exchange are reflected in the Exchange's internal documents determining procedures of identification, evaluation, monitoring and reacting on risks, approved by the Exchange's Board of Directors.
21. Procedures and instruments of credit risk management are regulated by internal Rules of Credit Risk Management approved by the Exchange's Management Board.
22. Procedures and instruments of liquidity loss risk management and market risk management are regulated by internal Rules of Management of Balance Positions' Financial Risks approved by the Exchange's Management Board.

23. Procedures and instruments of operational risks management are regulated by internal Rules of operational Risks Management approved by the Exchange's Management Board.
24. A risk management system also stipulates but is not limited to availability of the Exchange's internal documents concerning:
  - 1) corporate governance;
  - 2) information policy;
  - 3) policy of ensuring the continuity of operation;
  - 4) procedure of investing own assets;
  - 5) counteraction against legalization (laundering) of income earned unlawfully, and against financing terrorism;
  - 6) certification of Trading system users;
  - 7) execution of settlements upon results of trading in foreign currencies;
  - 8) rules of exchange trading and settlements on future contracts;
  - 9) execution of settlements upon results of trading in securities;
  - 10) general terms of settlements upon results of trading in securities;
  - 11) conducting of audit checks by the Internal Audit Department.

#### **Chapter 6. Process of Risk Management at the Exchange**

25. The Exchange in the course of its operations highlights the following main stages of the risk management process:
  - 1) determining the risk-appetite and level of the Exchange's tolerance for risk;
  - 2) identifying risks;
  - 3) analysis and evaluation of risks;
  - 4) reacting on risks;
  - 5) control and monitoring;
  - 6) data exchange and reporting.

##### **6.1. Determining the Risk-Appetite and the Exchange's Tolerance for Risks**

26. At the stage of drawing up/correcting the development strategy of the Exchange, the risk-appetite and the Exchange's tolerance for risks are determined/specified and desired results of implementation of the strategy are brought on conformity to them.
27. The risk-appetite is evaluated in terms of quality or by using quantitative indicators and is the point of origin while shaping the Exchange's development strategy.
28. Risk tolerance is that level of risk which the Exchange can tolerate without incurring significant financial losses, contrary to the risk-appetite indicating the level of risk which the Exchange desires to take on.
29. In order to determine the level of risk tolerance, the Risk Management Department analyzes the Exchange's financial capability to meet all losses possible as a result of risks' realization at the account of the available coverage potential (reserves) calculated based on corresponding financial indicators of the Exchange.
30. Approval of parameters of the strategy of operations, the level of risk-appetite and level of the Exchange's tolerance for risks are responsibility of the Exchange's Board of Directors.

## 6.2. Identification of Risks

31. Identification of risks means determining internal and external risks which the Exchange's operations may be exposed to.
32. Identification of risks in the context of their potential impact on achievement of the Exchange's goals is carried out both at the level of the Exchange and the level of the Exchange's activities. That means that account should be taken of previous as well as emerging internal and external factors which may cause emergence of risks, taking into account the scale of the Exchange's operations and evaluation of interaction between risks.

## 6.3. Analysis and Evaluation of Risks

33. Analysis and evaluation of risks means identification of the character of the impact risks have on achievement of the Exchange's goals from two points of view: probability of emergence of risk events and the degree of influence of risk events on the Exchange's operation in case of their emergence. That implies that the probability of emergence is a chance that a risk event occurs while the influence reflects consequences of occurrence of a risk event.
34. Analysis and evaluation of risks are carried out for purposes of ranking risks according to degree of importance and distributing responsibility regarding control and risk management among respective management bodies of the Exchange.
35. For purposes of evaluation of the Exchange's risks a combination of quantitative and qualitative methods for comprehensive evaluation of a risk is used. The choice of methods reflects the need for the accuracy of evaluation and specifics of operations of the Exchange's units.
36. Quantitative evaluation of risks determines the importance of a risk in numerical terms with the use of a statistical or expert approach.
37. The qualitative evaluation uses an expert approach and is applied to risks which due to their nature cannot be measured in precise numerical values, or in the absence of all necessary data for quantitative evaluation of a risk.
38. In the course of analysis and evaluation, ranking of risks in the descending order of their importance and definition of substantial and critical risks of the Exchange are carried out.
39. For risks classified as substantial and critical for the Exchange's operation key risk indicators are determined, which illustrate an increase or decrease in the level of risks.
40. Based on results of stages of identification, analysis and risk evaluation the Risk Register of the Exchange is drawn up, subject to approval by the Exchange's Management Board; it is reviewed, specified or supplemented on an annual basis and/or upon arrival of information on risk events. Responsibility for composing and updating of the Risk Register rests with the Risk Management Department.

## 6.4. Reacting on Risks

41. Reacting on risks means choosing the way of reacting on substantial and critical risks of the Exchange and implementing a set of measures to manage them, which ensure a residual risk not exceeding the limits of the level of the Exchange tolerance for the risk.
42. The Exchange uses the following strategies of reacting on risks:
  - 1) **Evasion of risks.** Activities leading to a risk are stopped;
  - 2) **Reduction of a risk.** Actions are taken to reduce the probability and/or influence of a risk;
  - 3) **Redistribution of a Risk.** It means transfer of potential damage (losses) from realization of a risk to a third party or re-distribution of a part of a risk (insurance, hedging etc.);
  - 4) **Accepting a risk.** No actions are taken to reduce the probability and/or influence of a risk.

43. When choosing the strategy of reacting on risks, it is necessary to consider them comprehensively taking into account their aggregation, since risks of particular units may match levels of the admissible risk set for those units, however taken as a total they may exceed the risk level acceptable for the Exchange as a whole. And vice versa, higher risks of some units may be naturally compensated within the Exchange, removing the need for additional measures on reacting on a risk.
44. To implement the chosen reacting strategy, risk owners in association with the Risk Management Department develop action plans for risk management, where they indicate specific measures and time of their implementation, distribution of necessary resources and responsible operators. Action plans for risk management are subject to annual revision and updating (at least once a year), as they have to reflect the current perception of risks by the Exchange.
45. Action plans for risk management include measures of preventive action against risks (consequences of risks). Measures can be conditionally divided into the following groups:
  - measures of organizational nature are aimed at preventing risks and include internal control procedure, ensuring information security, protecting business reputation, contingency plans etc.;
  - measures of technical nature are aimed at prevention of technically caused risks (testing of backup copies of the Exchange's data systems etc.);
  - measures of economic nature are aimed at financing of losses and ensuring of financial stability, including insurance, hedging, setting up of provisions and placement of capital.
46. When drawing up action plans for risk management, it is necessary to carry out an analysis of the effectiveness of chosen measures with regard to expenses on their introduction (effect from introduction, effect from non-introduction, as well as an analysis of expenses on introduction). Based on the results of the analysis, measures are selected which are optimal in terms of the effectiveness of risk level reduction or losses and expenses on their implementation.

#### **6.5. Control and Monitoring**

47. Control and monitoring of risks is evaluation of availability and quality of operation of components of the risk management process over a certain period of time, which ensures a "sensible" guaranty for effective execution of actions chosen as measures of reacting on risks.
48. Control of risks is one of directions of the Exchange's internal control system and it ensures control of observance of established risk management procedures and restrictions of the level of accepted risks. Control of risks is carried out across the Exchange as a whole, at all tiers and in all functional units.
49. The Exchange continuously monitors:
  - 1) the level of risks by way of monitoring the magnitude of key risk indicators (in particular, regarding observance of limits);
  - 2) completeness and timeliness of execution of action plans for management of the Exchange's substantial and critical risks.
50. Monitoring of the level of risks is carried out in the course of the Exchange's current operation. The current monitoring is integrated into operating activities of the Exchange's units and is carried out in real time, providing prompt reaction on changes.
51. Control of risks is ensured by way of periodic audit checks. Periodic audit checks concentrate directly on the effectiveness of the entire risk management process. The volume and frequency of checks mainly depend upon preliminary evaluations of the level of risks and effectiveness of the current monitoring.

#### **6.6. Data Exchange and Reporting**

52. Data exchange means as much as functioning of the process of exchanging data and reporting materials regarding risks between all CSRM participants.

53. The Exchange carries out efficient exchange of data necessary for operation and strategic risk management between the Exchange's Board of Directors, Management Board and all functional units, as well as timely provision of standard reports to the authority for the purpose of evaluation of the Exchange's compliance with requirements for a risk management system.
54. Risk reporting system of the Exchange includes:
- 1) an annual financial statement of the Exchange in accord with the IFRS. Statement addressed to shareholders saying that the Exchange's CSRM conforms to international standards. Policy of the Exchange on management of balance positions' risks, in particular: financial objectives, RMS's strategy; financial risks inherent to the Exchange's balance positions and their evaluation; measures and tools applied by the Exchange for management of financial risks inherent to the Exchange's balance positions; analysis of sensitivity of the Exchange's balance positions to an increase in the level of financial risks;
  - 2) the Exchange's development strategy. Description of risks associated with the chosen development strategy of the Exchange, and measures taken by the Exchange for their management;
  - 3) regulatory reports for the authority. Stress-testing reports: report on quarterly stress-testing of the currency risk, interest risk and price risk of the Exchange's own assets portfolio; report on semi-annual stress-testing of the trading system's operational risks. Annual report on compliance with requirements of the authority;
  - 4) risk register. The structure of the Risk Register includes: description of the risk; source of the risk; factors, causes of the risk; consequences of the risk realization; the risk-owner; evaluation of the effectiveness of current measures; level of the risk;
  - 5) reports on risk events for the Exchange's Management Board and Board of Directors. A report is drawn up by the Risk Management Department on any incident, occurrence of risk realization in the Exchange's units. The report is a basis for detection of new risks or re-evaluation of risks available in the Risk Register. The report includes: description of the incident; causes of emergence; measures taken; evaluation of the damage;
  - 6) report on management of critical and substantial risks. This report includes: the list of risks approved for risk management at the beginning of the reporting quarter; changes in the Risk Register during the reporting period; the status of completeness of approved plans for risk management; effectiveness of plans, results of KRI monitoring; possible changes in plans suggested for consideration;
  - 7) report of the Risk Management Department for the Exchange's Management Board and Board of Directors. The report is drawn up on an annual basis and contains information on operations of the Risk Management Department for the reporting year;
  - 8) auditor's report. Review of the CSRM's effectiveness with recommendations on improvement. The report facilitates continuous improvement of the CSRM.
55. The list of reports, responsible executors, recipients and deadlines for presentation of reports on risks are given in Appendix 2 to this Policy. Specific content and procedure of composing and submission of reports on risks are regulated by the Exchange's internal document governing the procedure of identification, evaluation, monitoring and reacting on risks.

#### **Chapter 7. Final Provisions**

56. In case of emergence of questions not regulated by this Policy, such questions shall be considered by the Exchange's Management Board upon their presentation by the Risk Management Department.
57. All supervisory bodies, committees, units and employees of the Exchange taking part in the Exchange's risk management process in accordance with item 8 of this Policy, carry responsibility for fulfillment of liabilities provided by this Policy, and for conformity of the risk management practice to

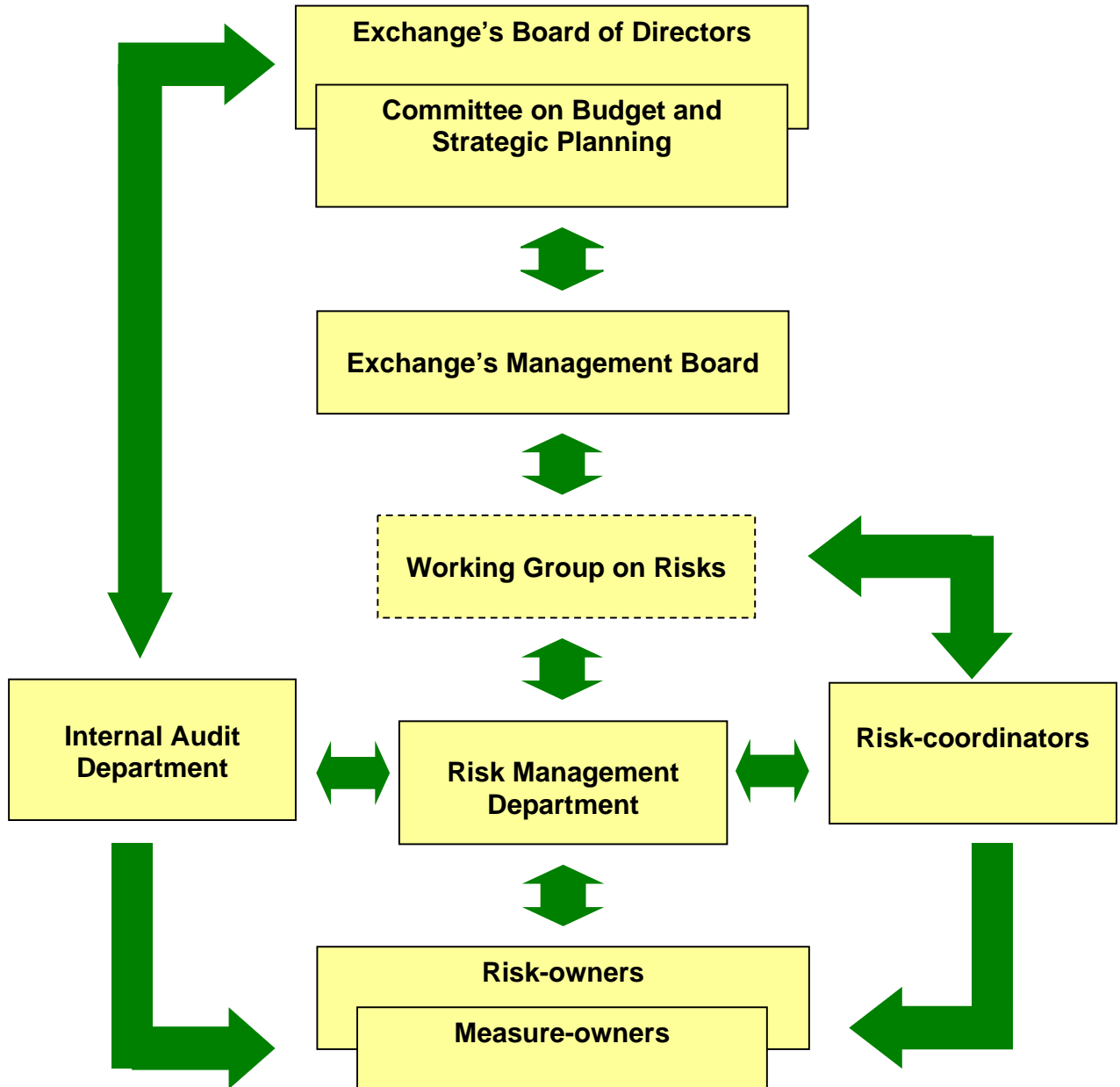
approved CSRM procedures.

58. The head and employees of the Risk Management Department have higher education, command professional competency and work experience of not less than three years in the field of risk management, as well as have knowledge of laws of the Republic of Kazakhstan on the stock market.

President

K. Damitov

Organizational structure of the Exchange's CSRМ



Types of the Exchange's reports on risks

Report	Contents	For whom	Responsible	How frequently
1. Annual report	Statement on CSRM's conformity to requirements of corporate governance, sensitivity analysis of the Exchange's balance positions	Shareholder	Exchange's Board of Directors	Annually
2. Development strategy	Strategy is shaped considering and taking into account critical risks of the Exchange	Employees, management, other interested parties	Management Board	Once every 5 years
3. Regulatory reports	Report on conformity to requirements of the authority, stress-testing of financial and operational risks	Authority	Risk Management Department	Annually Quarterly Once in a half-year
4. Register and Risk Mapping	Report including results of detection and evaluation of risks: register of risks for management	Exchange's Board of Directors, Management Board	Risk Management Department	Annually
5. Reports on risk events of units	Report on incidents and new risks	Management Board, Risk Management Department	Heads of units, risk-coordinators, Risk Management Department	Monthly and upon occurrence
6. Report on risk events of the Exchange	Report on incidents and new risks	Exchange's Board of Directors	Risk Management Department	Quarterly
7. Report on management of critical and substantial risks	Risk management plans (at the beginning of the year), results of implementation (monthly)	Vice-presidents, Risk Management Department	Heads of units, risk-coordinators	Monthly
8. Report of Risk Management Department	Report on activities of Risk Management Department	Exchange's Board of Directors, Management Board	Risk Management Department	Annually
9. Auditor's report	Evaluation of CSRM's effectiveness	Exchange's Board of Directors	Internal Audit Department	In accordance with Annual Auditing Plan