

Kazakhstan securities market: migration to T+2 settlement cycle

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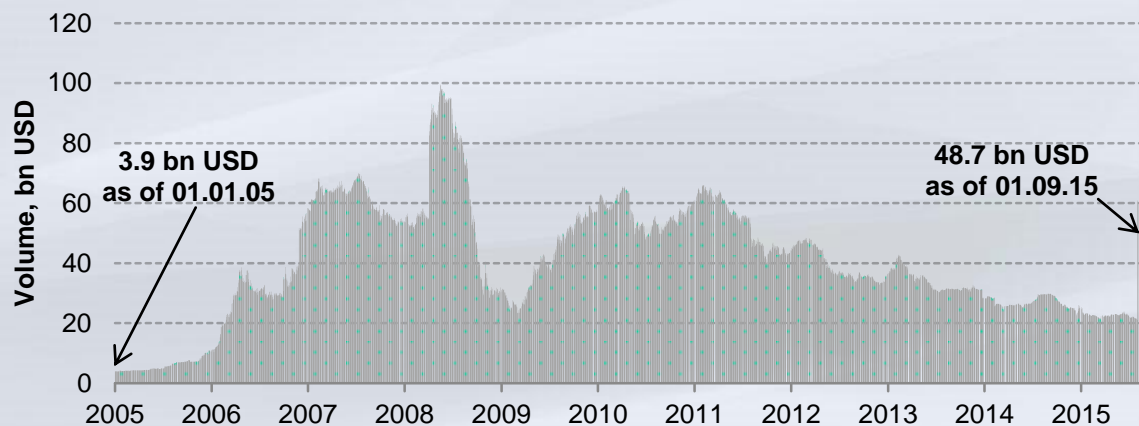
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- T+2: goals
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- From T+0 to T+2



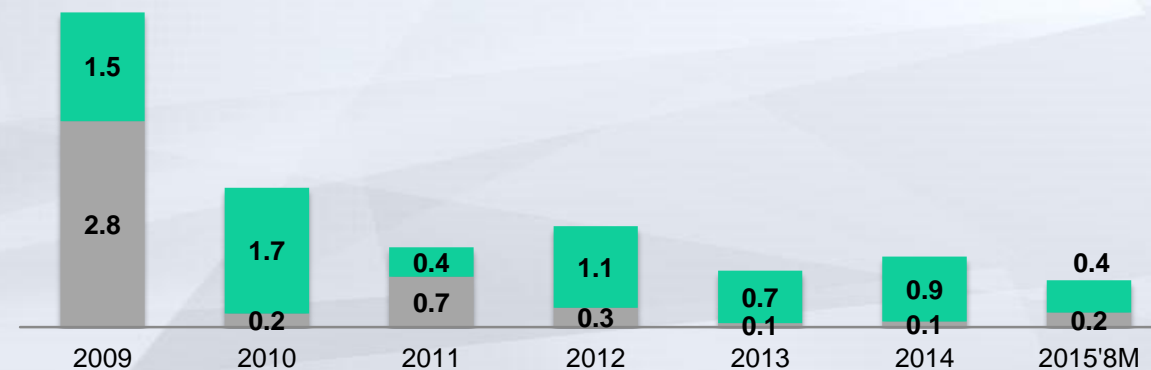
Shares market: statistics

Market Capitalization, bn USD

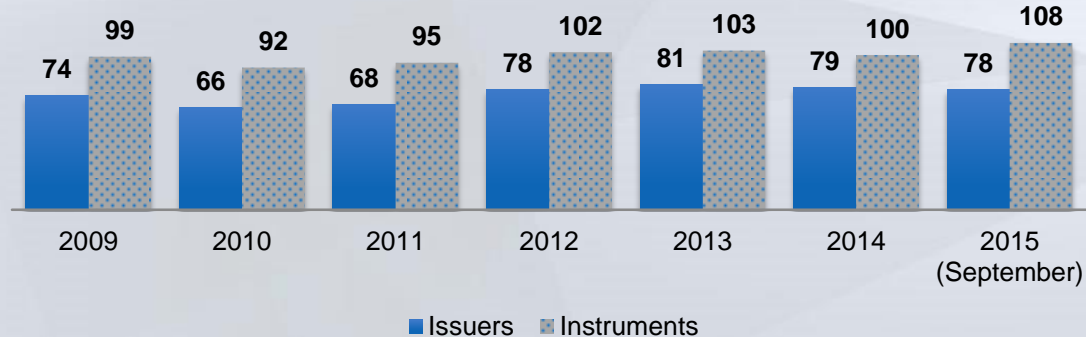


Traded Volume, bn USD

■ Primary market (IPO) ■ Secondary market



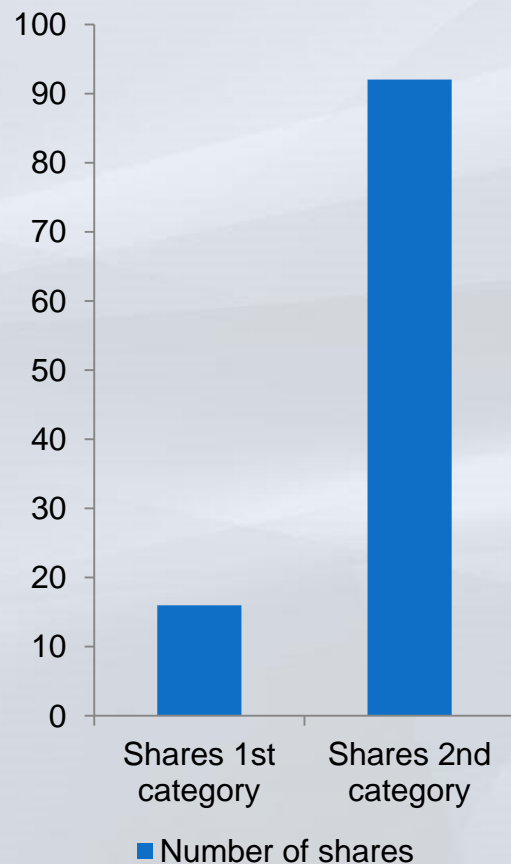
Equities Market



Issuers by Industry Sectors

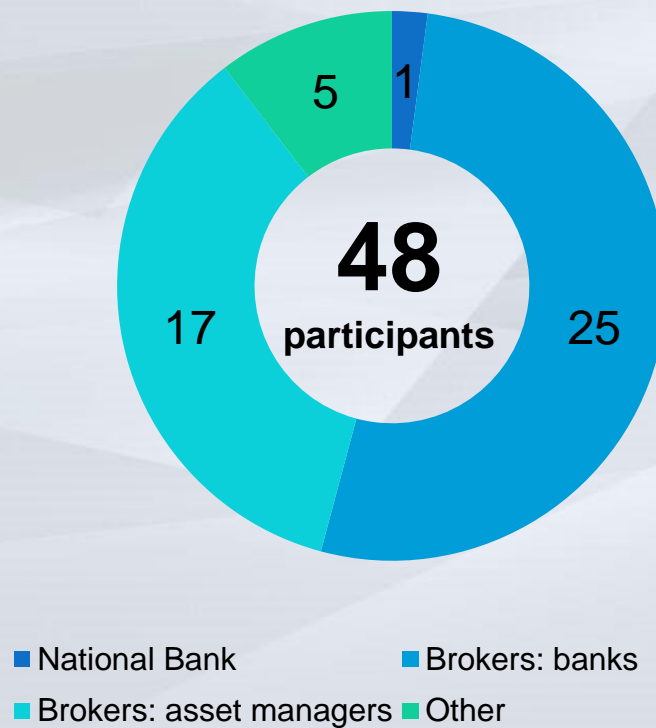


Shares market: statistics

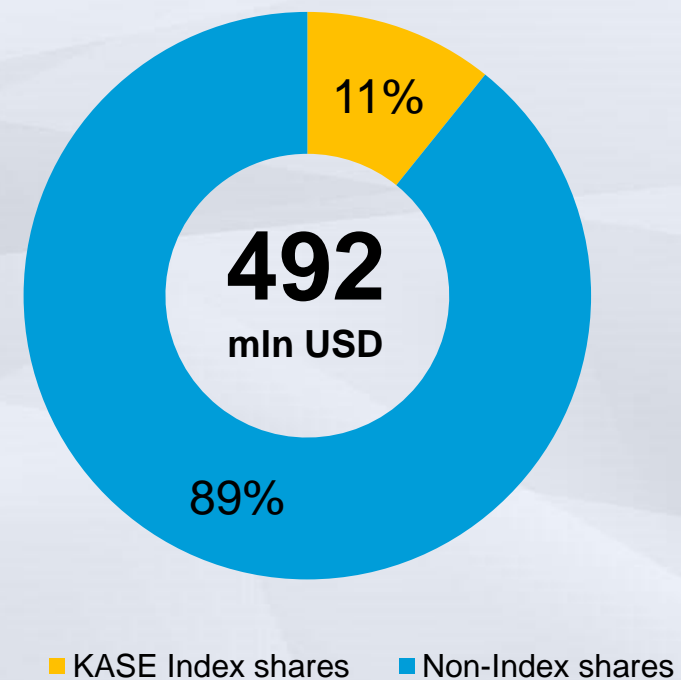


Total number of shares is 108

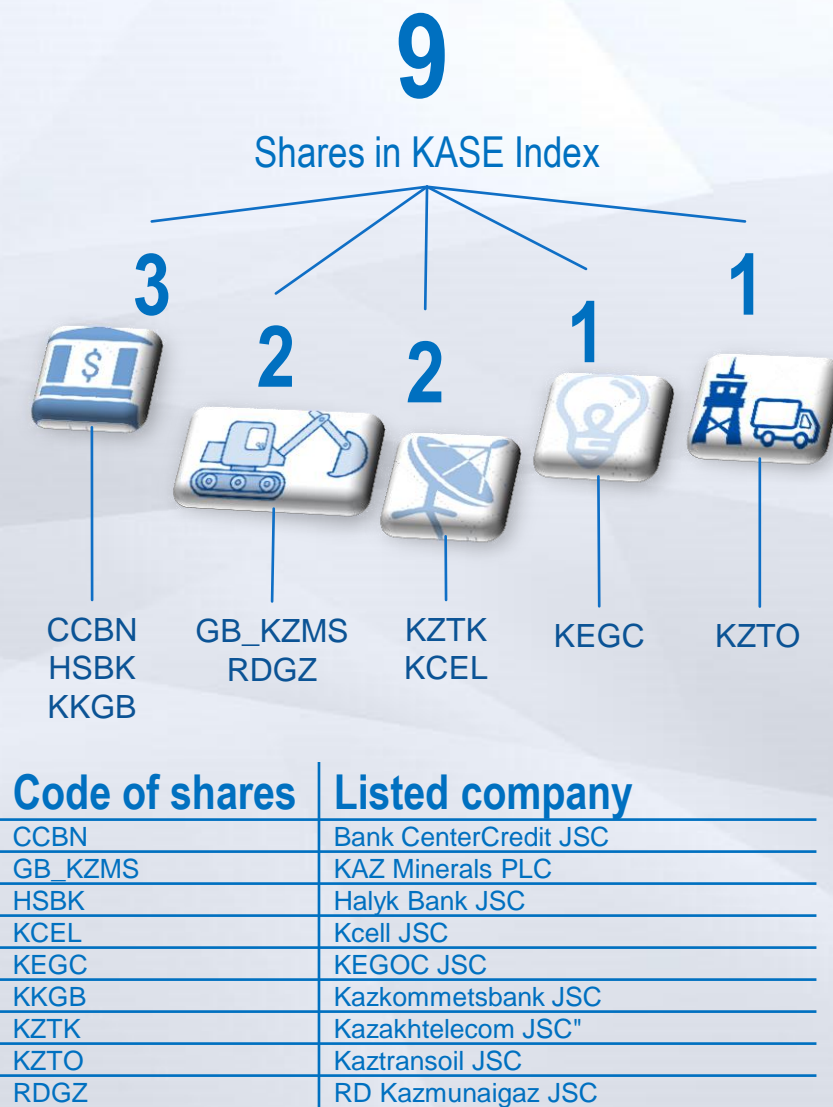
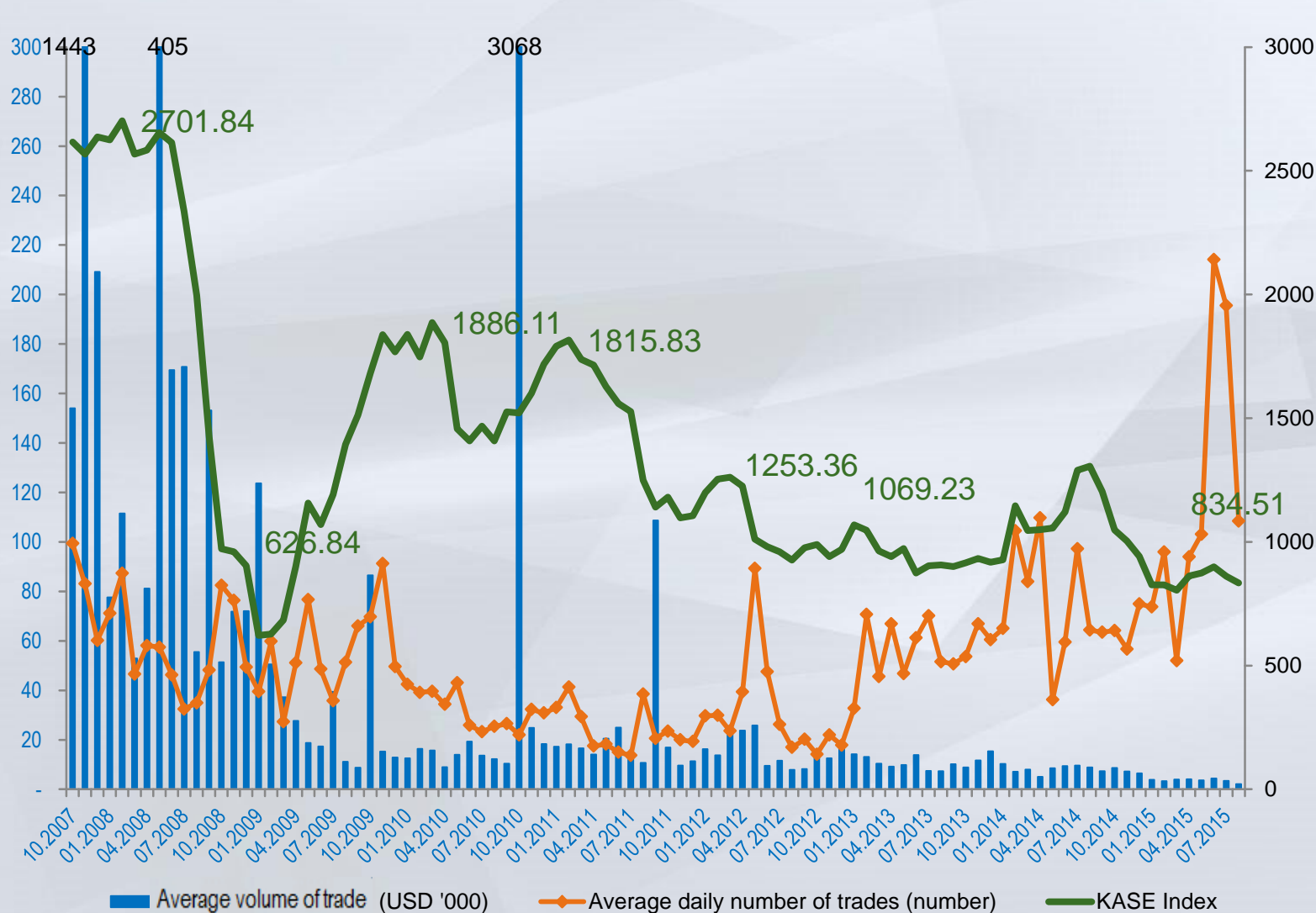
Members of securities market
(as of 01.09.2015)



Volume of shares trading
(for 8 months 2015)



KASE Index – Kazakhstani securities market business card



T+2: goals



- Increasing liquidity of Kazakhstan shares market by attracting foreign investors and increasing activity of Kazakhstan based investors
- Providing to trade participants/investors additional opportunities to effectively manage assets/liquidity during the trading day and up to the date of settlement of the executed securities transaction
- Reducing number of settlement transactions and investors' costs associated with execution of deals (as obligations and rights will be offset and settlements will be done based on unified net position)
- Establishing clearing and settlement system compliant with international standards

T+2: recommendations and standards



"Introducing a T+3 settlement cycle, as a consequence, has a considerable direct impact on liquidity."



"if the T+3 settlement system is introduced, the multilateral netting scheme will be enabled, and KASE will be able to efficiently respond to increasing liquidity"



"Continuous settlements should be conducted on all securities markets. Final settlements should be done no later than on T+3."

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"Gradual transition to the T+n settlement system"



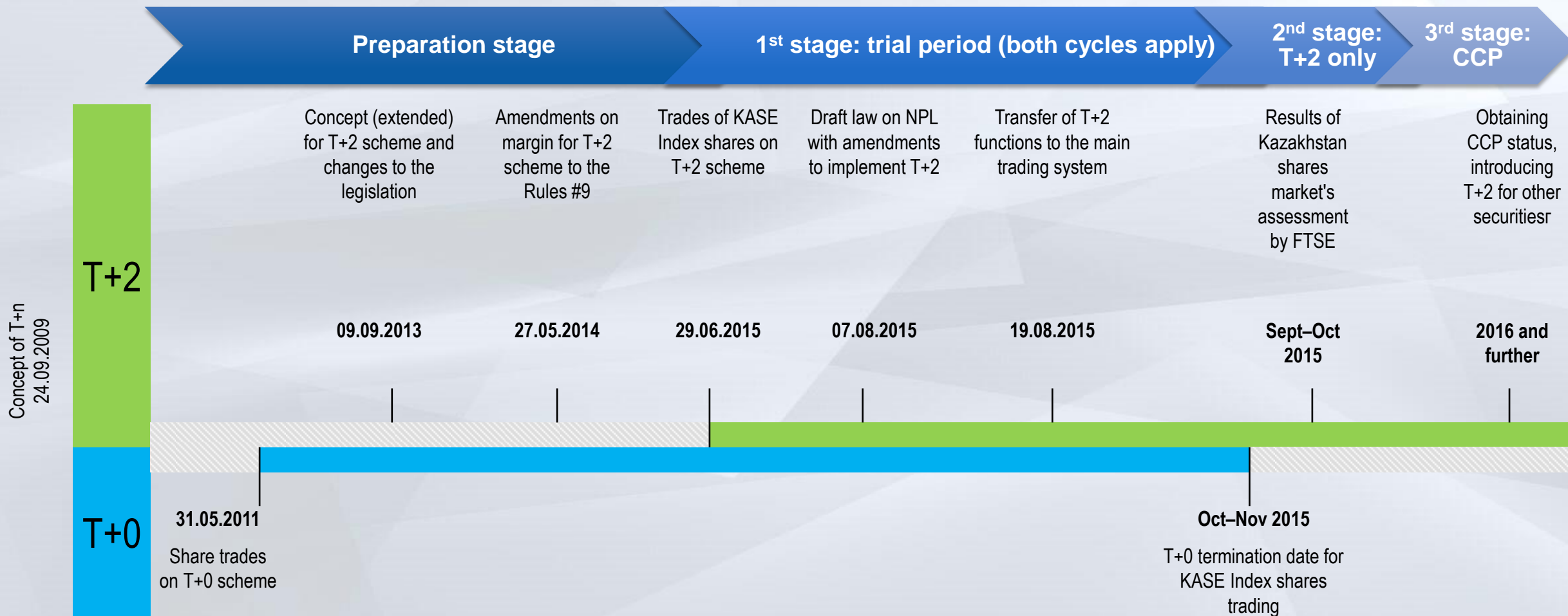
"Members providing for clearing and settlement strive to comply with CPSS / IOSCO / G-30 requirements"



"Clearing & settlement - T + 3 , T + 5 for Frontier"

More than 90% of stock exchanges on FTSE list use T+n scheme

Transition from T+0 to T+2: timeline



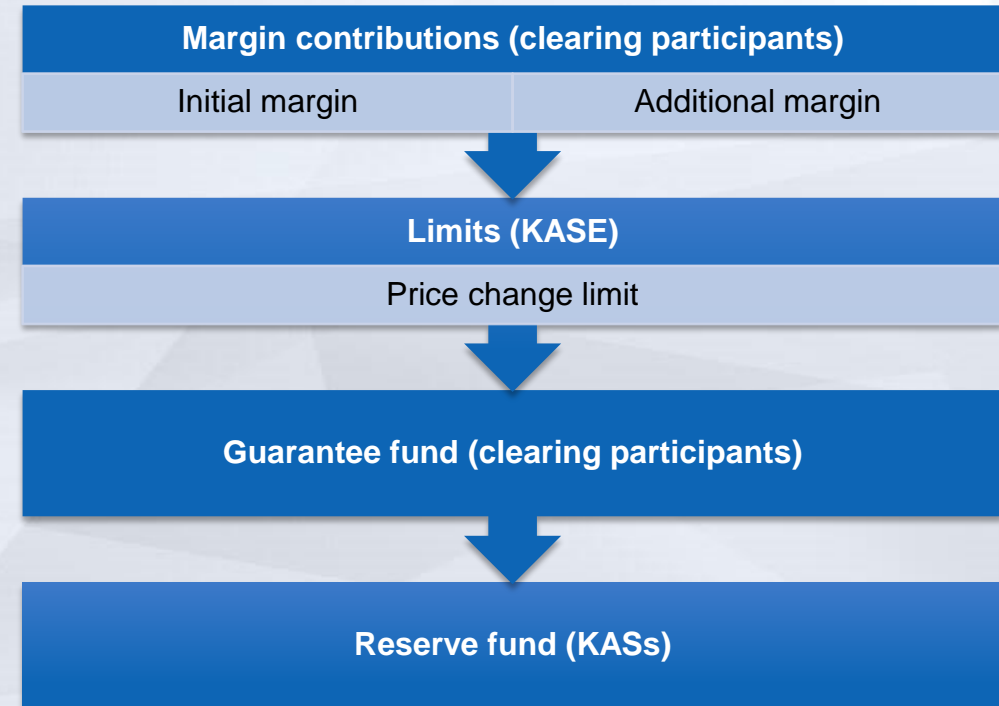
T+2: main conditions

- **Clearing House** – KASE
- **CCP** – KASE (at a later stage of the project)
- **Settlement House** – Central Securities Depository
- **Financial instruments** – KASE Index shares
- **Prefunding** – partial (i.e. margin, see rates) and full (100% of securities for sell orders and repo open orders)
- **Clearing members** – KASE securities market members
- **Settlement cycle** – T+2 ongoing periodic settlement
- **Clearing** – multilateral netting
- **Unified position:** unified position of the trade participant to account for margin and assets used in order to cover payment obligations during settlement
- **Short selling** – allowed
- **Securities lending** – repo with netting
- **Default management** – until T+5 incl., separation procedure, auction to sell default positions, final cash settlement (default fee 0.01% of volume for each day)

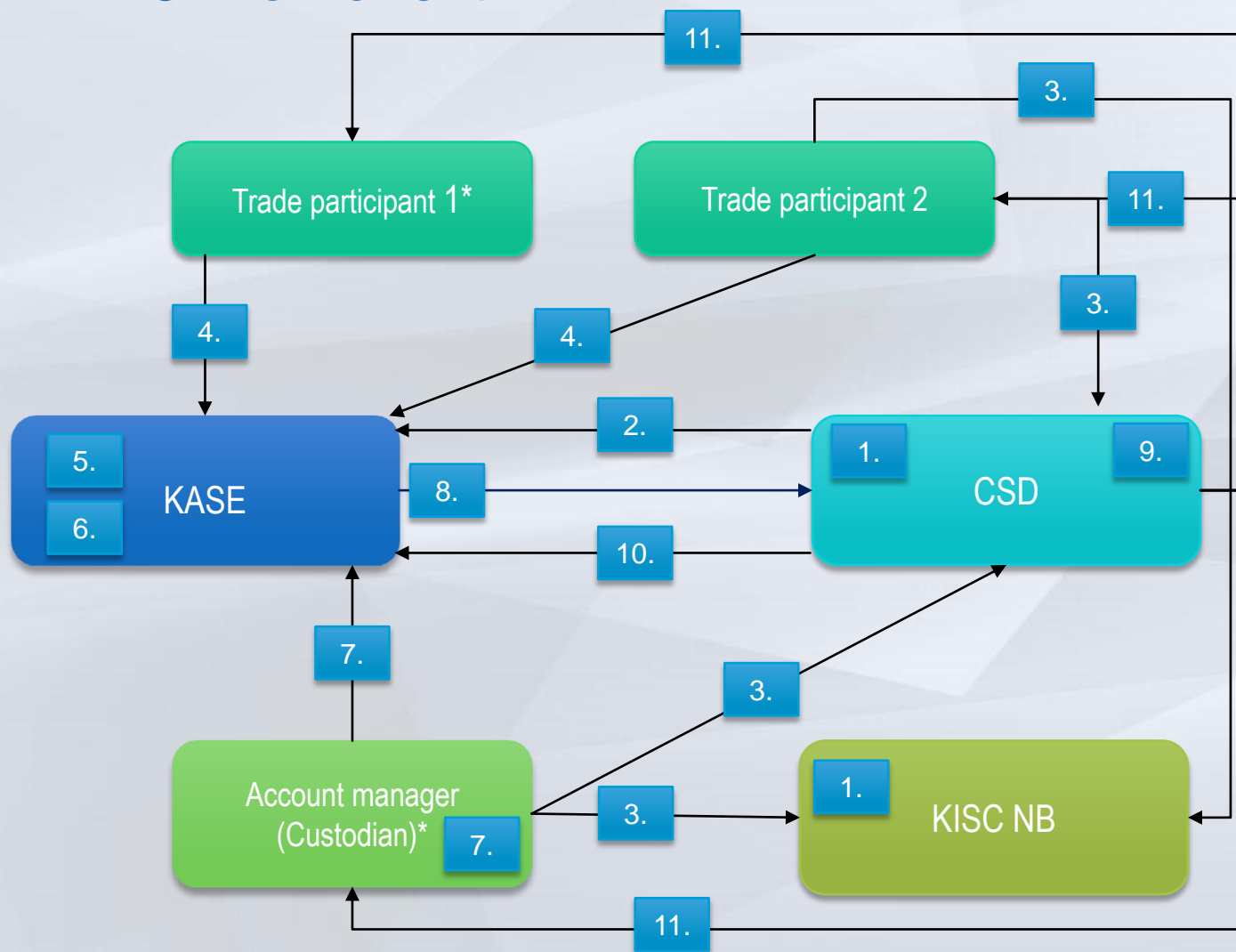
T+2: prefunding requirements

KASE Index share	Price change limit (%)	Initial margin rate (%)
CCBN	14	28
KZTK	13	26
GB_KZMS	14	28
HSBK	7.5	15
KCEL	7	14
KEGC	10	20
KKGB	11	22
KZTO	9	18
RDGZ	7	14

T+2: risk management elements



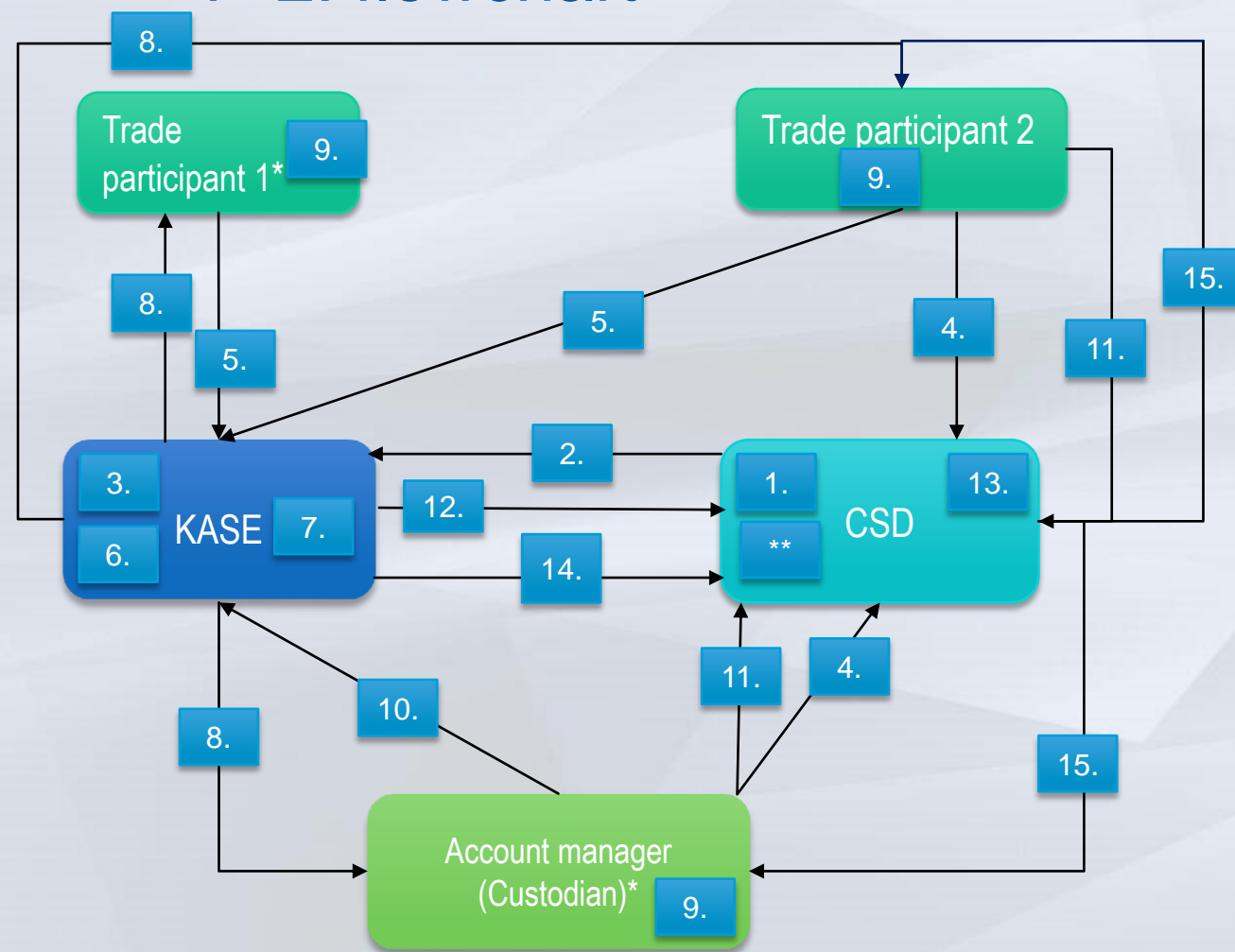
T+0: flowchart



*Provide services to custodial client

1. Securities and cash accounts are maintained in CSD, except for cases where cash accounts of banks are maintained in KISC of the National Bank
2. CSD provides KASE information on balances of accounts in CSD
3. Trade participants, or in case of custodial clients – asset managers, provide assets for settlements in CSD and/or KISC NB
4. Trade participants submit orders
5. Checking orders in the TS for assets availability and, if deal is fully covered, accepting orders
6. Matching orders in the TS, blocking assets when concluding deals
7. Confirmation of concluded deals in TS by account managers
8. KASE provides CSD an order to conduct settlements
9. CSD conducts settlements in accordance with KASE order
10. CSD provides KASE with report on execution of the order
11. CSD provides results of settlement to trade participants and account managers

T+2: flowchart



*Provide services to custodial client

** CSD controls minimal balances availability

T+0

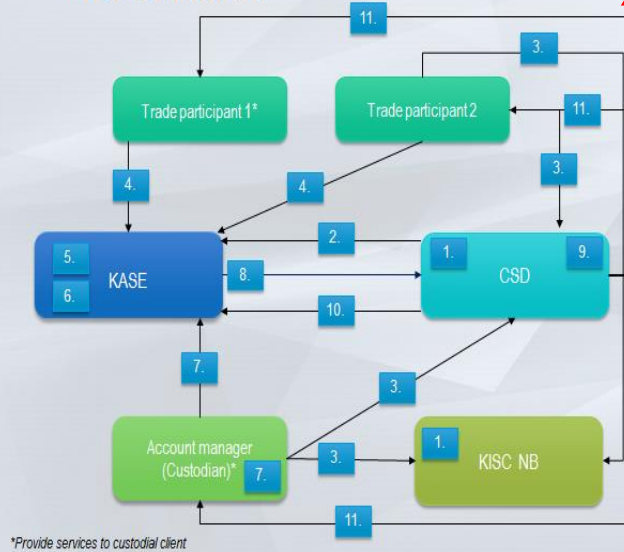
T+1

T+2

1. Maintaining securities accounts of trade participants and account managers in CSD
2. CSD provides KASE information on the balances of accounts in CSD
3. KASE prepares and uploads to TS information for the trading day: settlement prices, price change limits and margin rates
4. Trade participants, or in case of custodial clients – asset managers, provide margin
5. Trade participants submit orders based on set limits and margin rates
6. Checking orders in TS for compliance with limits and margin rates and if compliant, accepting orders. Matching orders in TS, blocking margin when concluding deals
7. KASE conducts clearing on concluded deals
8. KASE provides clearing session results to trade participants and asset managers
9. Trade participants and account managers reconcile concluded deals in TS on T+1 (making changes or submitting cancellation requests)
10. Account managers provide settlement instructions to KASE on T+2
11. Trade participants, or in case of participation by custodial clients – by account managers, provide assets for settlements to CSD accounts
12. KASE provides CSD the order to conduct settlements
13. CSD conducts settlements based on KASE order
14. CSD provides KASE the report on execution of the order
15. CSD provides trade participants and asset managers with settlement confirmations

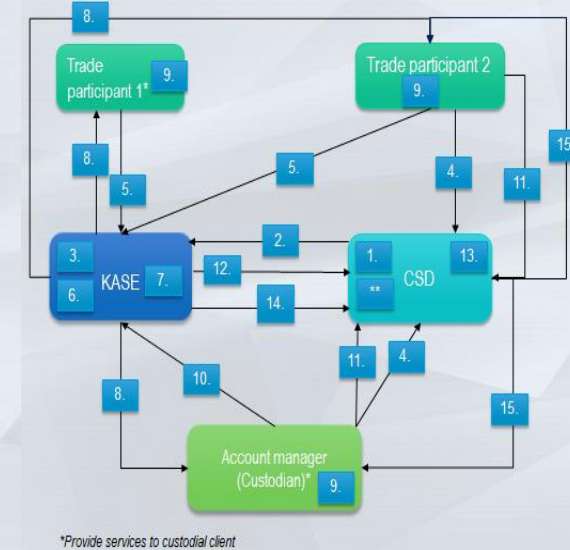
From T+0 to T+2

T+0: flowchart



- [X] fully prefunded orders
- [X] transaction should be fully prefunded at transaction execution time
- [X] settlements are done at transaction concluding day
- [X] management of assets used as collateral is complicated
- [X] It is inconvenient to serve international clients
- [X] is not compliant with international trade execution procedure

T+2: flowchart



- [V] partially prefunded orders
- [V] transactions execution results in lower transaction costs (due to netting)
- [V] settlements are done on the second working day
- [V] is compliant with international trade execution procedure
- [V] facilitates more convenient assets management
- [V] allows for more convenient services to international clients

Questions?



Thank You!

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