



**Astana Financial Services Authority
2022 Annual Report**

Table of Contents



AFSA

Astana
Financial
Services
Authority

1

AFSA Objectives _____ 2

2

Overview

Chairman's Foreword _____ 3

CEO's Statement _____ 4

3

Highlights of 2022 _____ 6

4

Key Achievements _____ 12

5

Board Members and Executive
Management

Board of Directors _____ 14

Executive Body _____ 21

6

Strategic priorities in 2022

Registration Dynamics _____ 26

Regulatory Framework _____ 28

Authorisation and Recognition _____ 28

Prudential Supervision _____ 32

Financial Conduct _____ 38

Capital Markets Oversight _____ 44

Anti-Money Laundering _____ 46

Enforcement _____ 53

Policy and Legal Framework

Policy Development _____ 54

Legislative Initiatives _____ 55

Continuing Initiatives _____ 59

Risk Management _____ 61

Encouraging Innovations _____ 62

International Affairs _____ 64

PR and Communications _____ 70

Operations Initiatives _____ 77

7

Conclusion _____ 80

AFSA 2022 Annual Report

AFSA OBJECTIVES

Who we are

The Astana Financial Services Authority (AFSA) is a body established in accordance with the Constitutional Statute #438- V (07/12/2015) responsible for the regulation of financial services and related activities in the AIFC.

AFSA's purpose is to facilitate business by maintaining the safety and robustness of the Astana International Financial Centre's AIFC financial system and to ensure that financial markets in the AIFC are fair, efficient and transparent. The AIFC Regulations and Rules provide for the authorisation, registration, recognition and supervision of financial firms and market institutions.

The organisation is independent in its activity and accountable to the AFSA Board, the AIFC Governor and the AIFC Management Council chaired by the President of the Republic of Kazakhstan.

What we do

AFSA is the integrated regulator of the following AIFC activities and Centre Participants:

- **Policy Development:** AFSA develops and adopts AIFC regulations and rules concerning the regulation of financial services;
- **Registration:** AFSA registers and incorporates all AIFC Participants, including regulated persons and persons offering ancillary and nonfinancial services;
- **Authorisation and Recognition:** AFSA authorises AIFC Participants to ensure that only the right firms, run by the right people, and selling the right products to consumers, are approved to do business in the AIFC. Recognition enables accepted financial firms to obtain electronic access to AIFC markets in a streamlined manner;
- **Supervision and Enforcement:** AFSA performs prudential and conduct supervision of firms offering financial services and enforces AIFC Regulations and Rules.

OVERVIEW



Chairman's Foreword

Marc Holtzman

2022 was a year of both opportunities and challenges for the world as well as for the Astana Financial Services Authority and Kazakhstan. It was a year when we were still recovering from the COVID-19 pandemic as people and businesses were going back to 'business as usual' and the world was finally awakening from a stressful several years.

It makes me particularly proud that despite these global setbacks, the Astana Financial Services Authority has remained true to its mission and values of establishing an environment that delivers fair and transparent financial and capital markets in which individuals and institutions act with integrity.

Not only has AFSA increased the number of firms choosing its jurisdiction, strengthened its regulatory framework, and grown more assertive, it also achieved a series of significant milestones. The Organisation for Economic Co-operation and Development (OECD) determined that the AIFC is a tax-friendly jurisdiction upon the adoption of the Economic Substance Rules in 2021, in collaboration with both the OECD and Kazakhstan Tax Authority.

Another important landmark was achieved when the International Swaps and Derivatives Association (ISDA) published a country update to all its global members provided by an ISDA Panel law firm on the enforceability of close-out netting under the Acting Law of the AIFC. The publication of the Informal Country Update is also an important contribution to Kazakhstan's financial market infrastructure as it will provide insights for globally active firms that want to carry out their financial transactions in the local market.

The global economic and political situation has led to many profound changes in the way the finance sector works. Many financial institutions had to re-visit their approaches to the regulation and supervision of firms. AFSA has proactively responded to this by strengthening its risk management systems. It

set up a Risk Committee of the Executive Body to integrate International Sanctions, Bribery and Corruption risks to the overall risk assessment framework for AFSA. Besides, the Authority has established the Strategic Fit Committee aimed at sanctions exposure, risk avoidance and mitigation.

These and many other achievements have contributed to the fact that when the International Organization of Securities Commissions completed its assessments of AFSA's compliance with IOSCO Principles 1-5, it confirmed the high-level implementation of IOSCO standards in the AIFC jurisdiction and highlighted several best practices applied in the Centre.

I would like to thank each and every one of the AFSA team for such significant results in 2022, which would not have been possible without your dedication, hard work and tremendous commitment. Special appreciation goes to the Chief Executive Officer and the Executive Body for the leadership that they have shown in coordinating such complex tasks.



Chief Executive Officer's Statement

Nurkhat Kushimov

Early January 2022 was a testing time in Kazakhstan for the socio-political and economic systems that went down in Kazakhstan's history as "Kantar" (kaz. "January"). The mass violent protests that took place over a period of several days put enormous strain on people, businesses and infrastructure. AFSA lived up to the challenge by immediately invoking its Crisis Management Communication Policy and forming a Crisis Management Committee. At that time, AFSA's immediate priority was to ensure the safety of its staff and restore communications channels. As the unrest subsided relatively quickly, AFSA resumed operations as soon as the state of emergency was lifted.

AFSA emerged stronger and more resilient after this demanding time. Despite the obvious external difficulties, more companies continued to choose AFSA as their jurisdiction, with the population of AIFC participants showing a 68%

increase compared to 2021. Furthermore, AFSA has become more assertive, which is evidenced by the fact that the number of authorised firms decreased slightly and 2022 saw the first cases of rejections due to inadequate fulfilment of applicants' fitness and propriety criteria. Similarly, we had to suspend the licenses of several companies and issue alerts and warnings to protect customer interests.

The regulator continued its work on growing its overall efficiency and transparency. Just to name a few initiatives, we increased adherence to the recommendations of the Financial Action Task Force by enhancing the AIFC's Anti-Money Laundering and the Financing of Terrorism Framework. We made amendments to the AIFC Currency Regulation Framework, which provided access for AIFC participants to Kazakhstan's commercial banks. AFSA initiatives were included in the 2030 Concept on development of the financial market of Kazakhstan.

Obviously, one of the many successes of 2022 was the positive assessment by the Eurasian Group on combating money laundering and financing of terrorism and FATF of Kazakhstan's and AIFC's AML/CFT frameworks for conformity with international standards. This recognition goes to show the growing role of AFSA as the knowledge hub and trend-setter in areas of AML/CFT in the region. As a result of this work, requirements governing AML and CFT are reflected and detailed in more than 80 AIFC Acts that regulate various areas of our participants' activities.

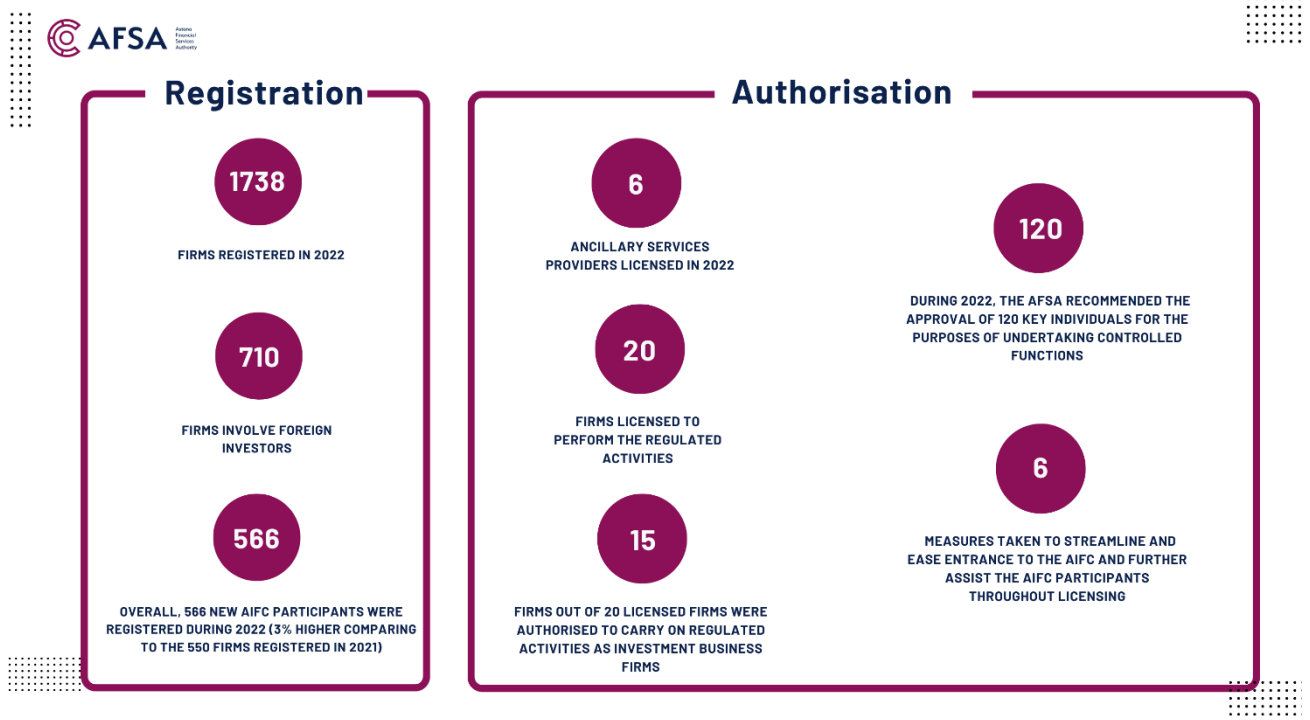
AFSA continued establishing itself as the region's fintech pioneer, with the pilot project on interaction between AIFC's crypto exchanges and Kazakhstan's commercial banks already involving 13 participants. The project plays a defining role in Kazakhstan's goals of becoming the region's crypto hub and its outcomes are expected to inform national and AFSA-specific policies governing digital assets.

The main reason we have been able to achieve all these milestones is because we listen to our community, understand, and take account of its needs. An example of this is the fact that AFSA was a champion in encouraging innovations by setting up the region's first FinTech Lab where firms can test out their ideas in a safe environment and take them forward if their projects prove viable. This level of interaction between the regulator and its participants requires trust, understanding and the ability to listen to each other's concerns and problem-solve. Last year saw the first FinTech Lab participant graduate and receive its full authorisation to work in live mode.

None of these achievements would have been possible without the unique features of the Astana Financial Services Authority. Our commitment to respond to the needs of customers, being client-oriented but firm, pragmatic and flexible is one of AFSA's unique features that help it stand out in the country, in the region and beyond.

I would like to say thank you to our fantastic team and their determination to serve the causes and mission of the Astana Financial Services Authority.

HIGHLIGHTS OF 2022



Supervision

Prudential supervision



	BANKS	INVESTMENT FIRMS	INSURANCE FIRMS	TOTAL
2022	13	42	4	59

During 2022, AFSA suspended the licences of



two Authorised Firms (an insurance company and a credit provider) for multiple breaches of the AIFC Regulations and Rules



One Authorised Firm dealing in investments was suspended after breaching the AFSA's capital and liquidity requirements



One Banking Business Firm was suspended due to non-compliance with the requirements of the banking prudential framework

During 2022 AFSA undertook the following supervisory actions in relation to Authorised Banks and Investment Firms by issuing



WARNING LETTERS DUE TO BREACHES OF PRUDENTIAL REQUIREMENTS



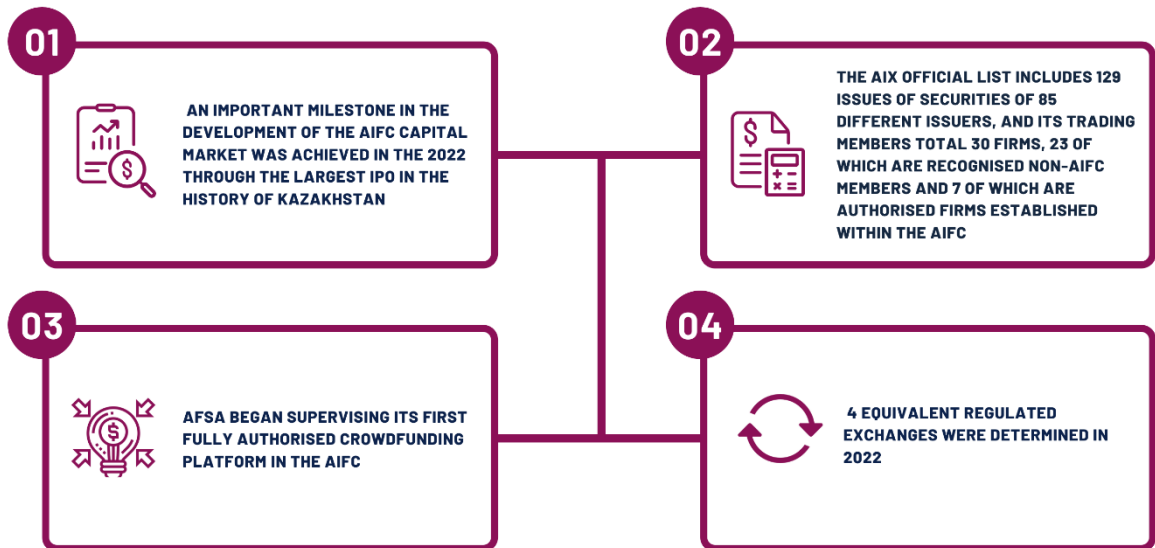
NO-ACTION LETTERS DUE TO BREACHES OF MINIMUM CAPITAL REQUIREMENTS AND LIQUID ASSETS REQUIREMENTS



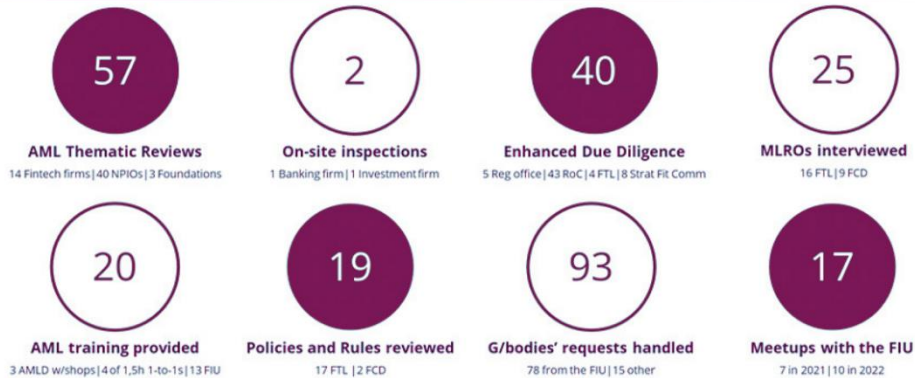
WRITTEN DIRECTIVES DUE TO BREACHES OF PRUDENTIAL REQUIREMENTS



LATE REPORTING FINES



KEY PERFORMANCE HIGHLIGHTS



Fintech firms

368 Findings

191 Recommendations

10

Firm-specific risk assessment reports issued by the AFSA

Investment firm

12 significant breaches of the AIFC AML Rules identified

4

follow-up interviews with compliance and MLRO functions conducted

The firm's management accepted all AML findings and committed to improve their compliance and MLRO functions

Banking firm

7 significant breaches of the AIFC AML Rules identified

43

deficiencies in the firm's AML systems and controls observed

The firm's license has been suspended

FATF/EAG Draft Mutual Evaluation Report on Kazakhstan

53 findings addressed throughout the Report

More than 300

pages worth of paperwork used to address the EAG comments in response to the findings

9

months of intensive preparations to EAG's on-site



International Swaps and Derivatives Association (ISDA) published an Informal Country Update on the enforceability of close-out netting under the Acting Law of the AIFC



Enhancements were made to the AIFC AML/CFT Framework per FATF Recommendations



OECD recognised the AIFC tax regime as compliant with global standards of tax transparency



Dealt with nine case referrals



Issued four cease-and-desist letters to companies offering authorised services without being authorised



Issued two private warnings



One Memorandum of Understanding signed with the Kazakhstan Anti-Corruption agency

Encouraging Innovations



Pilot project on interaction of AIFC crypto-exchanges and Kazakhstan's second-tier banks launched.



At the end of 2022, 4 FinTech Lab participants and 5 second-tier banks were approved for participation in the pilot project



Crypto exchanges should provide two key control systems, such as 'know your customer' and 'know your transaction'



Pilot project rules are aimed at minimising risks and providing sustainable development of digital assets markets by a) preventing the use of crypto-exchanges for money-laundering and terrorist financing b) ensuring guarantees of financial stability of crypto-exchanges and basic guarantees of investor rights c) protecting the interests of retail investors



FinTech Lab is in its 5th year of operations. Its participants and potential candidates represent over 20 jurisdictions (Hong Kong, USA, Latvia, Canada, Singapore and others)



In 2022 for the first time the FinTech Lab participant has successfully graduated and received full authorisation



By the end of 2022, the total number of licensed companies in Fintech Lab was 18



AFSA Fintech Office has developed two items of detailed guidance: in relation to general use of Digital Assets and another for Securities Token Offerings

International affairs

9

9 contributions made to research initiatives and surveys of standard setting bodies in 2022

98

Active participation in 98 events, international fora, which facilitated consultations, exchange of experiences and discussions globally among regulators

23

23 instances of collaboration with regulators from various jurisdictions across the globe

23

Two Memoranda of Understanding signed with the Agency of Securities Market Development and Specialised Registrar of the Ministry of Finance of the Republic of Tajikistan

5,700

World Investor Week attracted 5,700 participants from 17 cities in Kazakhstan and 20 other countries

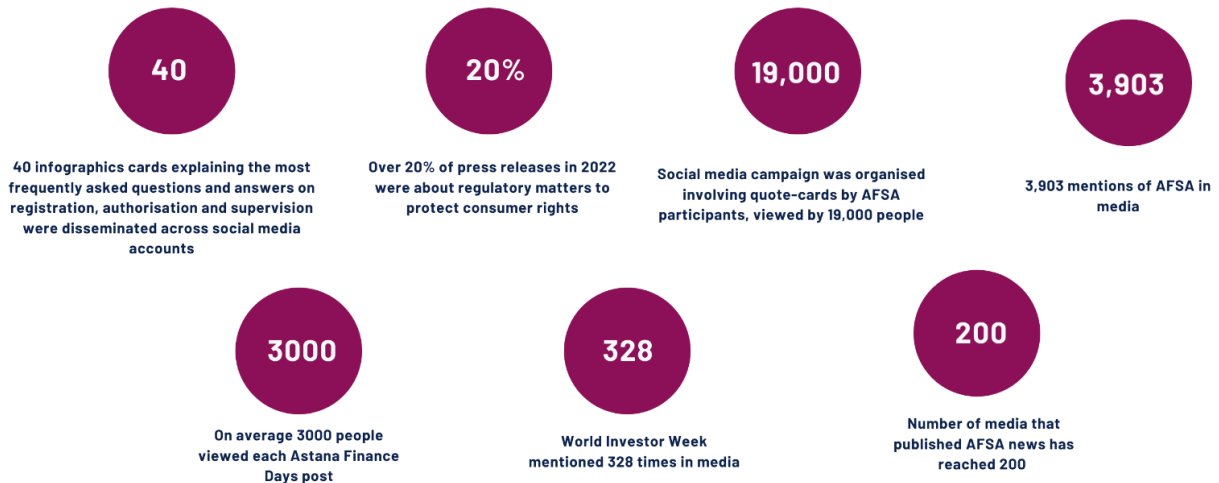
500

Regulatory Landscape Forum brought together over 500 participants and more than 20 speakers

59

59 external delegations received

Public relations and communications



KEY ACHIEVEMENTS

Several successes occurred in 2022, the Organisation for Economic Cooperation and Development (OECD) recognising that the tax regime of the AIFC complies with global standards of tax transparency. This was an important step in demonstrating the AIFC's compliance with global tax transparency standards. The recognition was the result of the adoption of Substantial Presence requirements for Kazakhstan to comply with Base Erosion and Profit Shifting (BEPS) that cost countries 100–240 billion US dollars in lost revenues annually - this is the equivalent of 4-10% of the global corporate income tax revenues.

The International Swaps and Derivatives Association (ISDA) has published an Informal Country Update on the enforceability of close-out netting under the Acting Law of the Astana International Financial Centre (AIFC). The publication of the Informal Country Update marks a significant milestone in the AFSA's work with ISDA that commenced in 2021 and marks the completion of the first step towards the full recognition of the AIFC as a 'netting-friendly jurisdiction'. The publication of the Informal Country Update is also an important contribution to Kazakhstan's financial market infrastructure as the update will provide insights for globally active firms that want to carry out their financial transactions in the local market.

2022 was an important year for AFSA's work with respect to Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT). A mutual assessment of the national AML/CFT system of Kazakhstan and AIFC for conformity to international standards was launched. The on-site assessment by a group of experts from the Eurasian group on combating money laundering and financing of terrorism (EAG) is seen as a particular success for AFSA and in turn the AIFC. AFSA successfully answered all technical compliance and effective compliance questions and, consequently, the draft report indicates that there are no actions that either AFSA or the AIFC is required to take.

A pilot project on interaction between AIFC-registered crypto exchanges and Kazakhstan's second-tier banks (STBs) was launched. As of today, six crypto exchanges (including Xignal&MT Ltd., ATAIX Eurasia Ltd, BN KZ (Binance), Biteeu (Intebix), Upbit Eurasia Ltd., Eurasia Blockchain Fintech Group Limited) and seven STBs (including Freedom Bank, Halyk Bank, Altyn Bank, Eurasian Bank, Nurbank, Zaman Bank and Bank CenterCredit) participate in the project. The pilot project is designed to provide an appropriate regulatory framework for further development of Kazakhstan's potential as a regional crypto hub. The pilot project's organisation of trading of digital assets in Kazakhstan within a regulated field, will ensure proper protection of the rights of retail and professional investors. Subject to successful implementation of the pilot project, changes will be made both to the national legislation and to the AIFC acts.

Obstacles on corresponding banking relationships between Kazakhstan's commercial banks and AIFC banks have been resolved following the enactment of the Law "On the Introduction of amendments and additions to Laws on the Development of the Securities Market, the Insurance Market and Banking Activity" was enacted. AIFC Insurance firms can now engage residents on direct insurance for 10 types of risk, as well as direct Islamic insurance and

reinsurance services, reinsurance of Kazakhstan insurance companies and the provision of insurance brokerage services.

The 2030 Strategy on financial markets development approved by the President recognises the role of the AIFC and AFSA in the development of Kazakhstan's financial markets and proposes more than 20 initiatives for AFSA to either be involved in or to be responsible for. This bolsters the role of the AIFC as an important delivery agent of the financial services ambitions of the Republic of Kazakhstan.

One of the milestone projects during 2022 was the Initial Public Offering of KazMunayGas, the largest IPO in the history of Kazakhstan. AFSA actively participated in the preparation for the IPO, mainly by creating the AIFC Steering Committee on IPO preparation by the Order of the AIFC Governor to discuss IPO timeline, status of preparation, direct subscription model framework etc. During the IPO the total amount of equity capital raised by issuer was USD 326m, out of which USD 35m was raised in AIX.

BOARD MEMBERS AND EXECUTIVE MANAGEMENT

Board of Directors

The Board is AFSA's governing body while the Executive Body is the operating body. The Board oversees the Executive Body and carries out overall oversight of AFSA's activities without interfering in AFSA's day-to-day operations. The Board identifies the strategic directions of AFSA's activities, adopts AFSA's regulatory acts and, within AFSA's competence, exercises other powers established by resolutions of the Management Council and/or the Governor within the competence of such bodies in accordance with the Applicable Law of the AIFC.

The Board is headed by the Chairman, who is appointed and dismissed by the AIFC Management Council. The Chairman of the Board is appointed by the Council for a fixed term.

Role of the Board of Directors

The Board is entrusted with the following powers and functions:

- Identifying strategic directions and/or objectives of AFSA and making strategic decisions affecting the future operation of AFSA;
- Approving AFSA's business plan, annual budget and annual report;
- Overseeing the discharge of AFSA's day-to-day business by the Executive Body;

- Monitoring the Executive Body’s performance against AFSA’s strategy, objectives, business plan and budget and ensuring any necessary corrective action is taken;
- Appointing and dismissing the Chief Executive Officer of AFSA and other members of the Executive Body;
- Regularly reporting (at least annually) to the Council and the Governor on AFSA’s activities;
- Reviewing and approving the financial statements of AFSA, not less than once a year;
- Appointing AFSA’s external auditors;
- Adopting AFSA’s rules and regulations concerning financial and related services and any other matter within AFSA competence;
- Approving (and agreeing on any revisions to) the AFSA corporate governance code, code of ethics and business conduct, and internal policies of AFSA;
- Determining and approving, at least annually, the types and threshold values for transactions that should be approved by the Board and then approving those transactions;
- Taking part in determining the values and culture of AFSA and overseeing their communication, implementation and enforcement; and
- Exercising, within AFSA’s competence, other powers established by decisions of the Council and/or the Governor.

Composition of the Board of Directors

The Board consists of a Chairman, non-executive and executive members. Each director’s roles and dates of appointment as a member of the Board are shown below:

Name	Positions held	Date of appointment / re-appointment
1. Marc Holtzman	<ul style="list-style-type: none"> • Chairman of the AFSA Board 	17 November 2018 - a member 1 January 2021 - a Chairman
2. Angela Knight	<ul style="list-style-type: none"> • Deputy Chairperson of the Board • Chairperson of the Audit and Risk Committee of the Board • Member of the Nomination and Remuneration Committee of the Board 	23 May 2020 (2 nd term)

Name	Positions held	Date of appointment / re-appointment
3. Akash Deep	<ul style="list-style-type: none"> Member of the Audit and Risk Committee of the Board 	22 May 2020 (2 nd term)
4. Daniel Heller	<ul style="list-style-type: none"> Member of the Legislative Committee of the Board 	1 February 2022 (2 nd term)
5. Gregory Tanzer	<ul style="list-style-type: none"> Chairman of the Legislative Committee of the Board Member of the Audit and Risk Committee of the Board 	23 May 2020 (2 nd term)
6. Masood Ahmed	<ul style="list-style-type: none"> Chairman of the Nomination and Remuneration Committee of the Board Member of the Audit and Risk Committee of the Board 	28 May 2020 (2 nd term)
7. Mukhtar Bubeyev	<ul style="list-style-type: none"> Member of the Audit and Risk Committee of the Board Member of the Legislative Committee of the Board 	17 March 2022
8. Aizhan Zhantayeva	<ul style="list-style-type: none"> Member of the Audit and Risk Committee of the Board Member of the Nomination and Remuneration Committee of the Board 	1 July 2022

Composition of the Committees of the Board of Directors

The Board of Directors has created three internal Committees that have both consulting and advisory functions:

- The Audit and Risk Committee
- The Nomination and Remuneration Committee
- The Legislative Committee

All committees are established by Board Resolutions. These Committees report to the Board at every meeting, through their respective Chairmen (appointed by the Board), on the most significant matters that they have addressed.

Audit and Risk Committee (ARCo) The Audit and Risk Committee is chaired by Ms Angela Knight and comprises five other members: Mr Akash Deep, Mr Gregory Tanzer, Mr Masood Ahmed, Mr Mukhtar Bubeyev and Ms Aizhan Zhantayeva.

The role of the ARCo is to review and monitor the integrity of AFSA's financial statements and, when

appropriate, make recommendations to the Board on risks, internal controls and compliance. It is also responsible for making recommendations to the Board on the appointment of AFSA's external auditors and for approving the terms of engagement for, and the fees to be paid to, AFSA's external auditors.

The ARCo meets regularly with the Executive Body and with the internal and external auditors to review the effectiveness of AFSA's risk management and internal controls systems. Other matters are raised in regular reports to the Audit and Risk Committee and the financial statements of AFSA before these are put to the Board.

Nomination and Remuneration Committee (RemCo)

The Nomination and Remuneration Committee is chaired by Mr Masood Ahmed and comprises two other members, Ms Angela Knight and Ms Aizhan Zhantayeva.

The primary function of the RemCo is to advise the Board, the Executive Body and the Governor about recruitment and severance policies and practices to enable AFSA to recruit and retain directors, executives and employees at all levels, at a cost that is commensurate with the resource requirements of AFSA, its budget and market conditions.

Legislative Committee (LegCo)

The Legislative Committee is chaired by Mr Gregory Tanzer and comprised of two other members, Mr Daniel Heller and Mr Mukhtar Bubeyev.

The LegCo is responsible for making recommendations on discharging AFSA's policy-making and legislative functions within AFSA's competence and responsibilities pursuant to the Applicable Law of the AIFC.

Overview of Key Outcomes of Work of the Board of Directors

- Approved and held the Executive Body accountable for the implementation of KPIs for 2022 by examining Executive Body Reports in April, June and December;
- Reviewed the effectiveness of AFSA's risk management and internal controls systems, and monitored the integrity of AFSA's financial statements with the assistance of the Audit and Risk Committee;
- Endorsed the Risk Statement of AFSA's Risk Management Policy for 2022;

- Reviewed the financial statements for the year that ended 31 December 2021;
- Strengthened the regulatory framework by the Board's approval, pre-approval or consideration of the following:
 - Amendments to the AIFC Fees Rules;
 - Enhancement of the AIFC Market and Recognition Frameworks;
 - Enhancements to the AML/CFT Framework;
 - Development of the Bank Resolution Framework;
 - OECD Financial Harmful Tax Practices Review;
 - Obtaining the ISDA Recognition of the AIFC Netting regime;
 - Amendments to AFSA's Corporate Documents.

Member Profiles



Mr Marc Holtzman

Independent non-executive member of the Board Chairman of the Board

Mr Marc Holtzman is the Chairman of Bank of Kigali, the largest Bank in Rwanda. Previously he headed KazKommertsBank in Kazakhstan, Meridian Capital HK and served as Vice Chairman of Barclays Capital and as Vice Chairman of ABN Amro Bank. Mr Holtzman also currently serves as a member of the Board of Directors of TeleTech and Bank of Kigali, the world's leading provider of analytics-driven technology-enabled services and FAT Brands, a global franchisor of leading restaurant brands.



Ms Angela Knight CBE

Independent non-executive member of the Board Deputy Chairperson of the Board Chairperson of the Audit and Risk Committee

Ms Angela Knight is an Independent non-Executive Director at Taylor Wimpey Plc, Arbuthnot Latham Ltd, Encore Capital Group Inc. and chair of its Nomination and Governance Committee, Provident Financial PLC and Chair of its Group Risk Committee, Warden of the Worshipful Company of International Bankers and Chair of Pool Re.

She has served on several other UK company boards and has been the CEO of Energy UK, the British Bankers' Association, and the Association of Private Client

Investment Managers and Stockbrokers, and Chair of the Office of Tax Simplification for HM Treasury.



Mr Gregory Tanzer

Independent non-executive member of the Board Chairman of the Legislative Committee

Mr Gregory Tanzer is a qualified solicitor and barrister with extensive financial regulator experience in Australia. He serves as a director at Financial Counselling Australia Ltd and Financial Counselling Foundation Ltd and Strategic Advisor at Promontory Australia, a Division of IBM. He served as a Commissioner of the Australian Securities and Investments Commission and Secretary-General of the International Organisation of Securities Commissions.



Mr Masood Ahmed

Independent non-executive member of the Board Chairman of the Nomination and Remuneration Committee

Mr Masood Ahmed currently serves as President of the Centre for Global Development and is a board member of Nutrition International and International Rescue Committee. He has previously held several positions in the International Monetary Fund and served as Director-General for Policy and International Development at the UK Government's Department for International Development. Mr Ahmed has also held various positions at the World Bank.



Dr Akash Deep

Independent non-executive member of the Board

Dr Akash Deep is a Senior Lecturer in Public Policy at Harvard University's John F. Kennedy School of Government. He has served as Senior Economist at the Bank for International Settlements in Switzerland and has been a consultant and expert for the World Bank, the International Finance Corporation, the United Nations, the European Bank for Reconstruction and Development,

the Asian Development Bank, the Inter-American Development Bank, and the International Centre for Settlement of Investment Disputes.



Mr Daniel Heller

Independent non-executive member of the Board

Mr Heller is a digital currency and fintech specialist. He is head of Regulatory Affairs at Fnality International and a member of the Board at Bitlumens GmbH.

He was head of financial stability at the Swiss National Bank, head of the Secretariat of the Committee on Payment and Settlement Systems at the Bank for International Settlements, and Executive Director for Switzerland, Poland, Serbia, Azerbaijan, and four Central Asian republics (including Kazakhstan) at the International Monetary Fund.

He received his PhD from the University of Bern. Mr Heller's academic publications are on the optimal design of bond auctions, demand for central bank money, collateral requirements for over-the-counter (OTC) derivatives clearing and the future of money.



Mr Mukhtar Bubeyev

Non-executive member of the Board

Mr Bubeyev is a qualified professional in banking supervision and the financial services sector. Prior to his appointment as a non-executive member of the Board, he served as an executive Board member and AFSA's Chief Executive Officer from 9 July 2018 until March 2022. Mr Bubeyev headed banking supervision at the Financial Markets Supervision Agency of Kazakhstan and the National Bank of Kazakhstan. He also served as a board member of Kazakhstan's central bank responsible for monetary policy. Mr Bubeyev has been with AFSA since its establishment when he joined as Chief Policy Officer in January 2017.



Ms Aizhan Zhantayeva

Non-executive member of the Board

Ms Zhantayeva has more than 15 years of work experience in government bodies, corporate companies, start-ups and the national companies JSC National Agency for Export and Investment and JSC Corporation for Export Development and Promotion. Ms Zhantayeva joined AFSA in March 2018 as Managing Director and Chief Operations Officer prior to her appointment as a non-executive member of the Board. She worked as Adviser to the CEO of the AIFC Authority and as director of Human Resources at both the National Bank of Kazakhstan and ATF Bank.

Executive body

Role of the Executive Body

The Executive Body is the operating body of AFSA and is responsible for the implementation of strategic decisions set by the Board. It is also responsible for ensuring control and supervision over the enforcement of AIFC Acts through the regulation of financial services and managing day-to-day activities. The Executive Body may also exercise any other powers, as set out by resolutions of the AFSA Board and the AIFC Regulations and Rules. The members of the Executive Body including the CEO are appointed and dismissed by the Board. The Executive Body is chaired by the CEO, who acts on behalf of and represents AFSA in relations with other organisations.

Powers and functions of the Executive Body:

- Carry out the day-to-day operations of AFSA;
- Develop and submit strategies, policies, regulations and rules for adoption by the Board, within its competence;
- Implement the strategy and decisions approved by the Board;
- Develop and deliver the strategic objectives identified by the Board;
- Prepare AFSA's financial statements, business plans, annual budget and annual reports of the AFSA, and submit them to the Board for approval;
- Form committees of the Executive Body to consider specific issues, as required;

- Oversee the establishment of effective risk management and control systems;
- Exercise any other powers and functions, as set out by decisions of the Board and/or the AIFC Regulations and Rules.

Overview of key decisions

In March of 2022 Mr Nurkhat Kushimov was appointed as the new Chief Executive Officer (CEO) of the Astana Financial Services Authority, while Mr Gareth Ling was also appointed the Deputy Chief Executive Officer in addition to his role as the Chief Regulatory Officer.

Executive Body members, including the CEO and the Deputy CEO, meet regularly as often as is necessary and at least once per month to discharge their duties effectively. The Executive Body reviews and pre-approves all regulations and rules, as well as regulatory material before submission for approval to the AFSA Board of Directors.

During 2022, the Executive Body members met to discuss and approve (or preapprove) various issues, including, inter alia:

- Reports of the Executive Body Committees, divisions and internal auditor;
- Approval of proposed amendments to AIFC Fees Rules;
- Approval of amendments to the AMLD and Registration Division work plans;
- Pre-approval of Regulatory Guidance on Fitness and Propriety;
- Pre-approval of Guidance on Information Security for FinTech Lab (Sandbox);
- Pre-approval of the Guidance on regulation of Security Token Offering;
- Pre-approval of the Enhancements to the AIFC Market and recognition framework;
- Approval of Amendments to the AFSA Regulatory Office Procedure on On-Site Supervision;
- Pre-approval of Amendments to the Manual for Preparation of Returns for Banking Business Firms;
- Approval of Amendments to Business Trips Procedures of the Employees of the AFSA; Approval of Amendments to Risk Management Policy;
- Approval of Amendments to the Asset Management Framework;
- Approval of Amendments to the AIFC Recovery and Resolution Framework;
- Approval of Amendments to employment contracts;
- Approval of Enforcement Policy amendments;
- Approval of the practical Guidelines to AIFC Anti-Money Laundering and Counter-Terrorist Financing Framework;
- Pre-approval of the proposed supplemental agreement to the Services Level Agreement;

- Approval on AFSA Hotline issues.

Executive Body Committees

<p>Authorisation, Waivers and Modifications Committee</p>	<p>The objective of the Committee is to assist the Chief Executive Officer of AFSA in exercising responsibility and power to consider and render decisions and directions in respect of applications:</p> <p>a) for a licence or recognition to carry out any regulated activity provided in or under the AIFC Financial Services Framework Regulations (Framework Regulations); and/or</p> <p>b) to modify or waive any provision of the Rules issued under the Framework Regulations, by providing reasoned advice, guidance and recommendations in respect of the same.</p>
<p>Committee on Authorisation of Fintech Lab Applicants</p>	<p>The objective of the Committee is to assist the members of the Executive Body responsible for FinTech in exercising responsibility and power to consider and render decisions and directions in respect of applications to the FinTech Lab.</p>
<p>Enforcement Committee</p>	<p>The objective of the Committee is to assist the AFSA Executive Body in exercising its responsibility. The Committee has the power to consider and render decisions and directions in respect of specific issues related to enforcement.</p>

Member Profiles



Mr Nurkhat Kushimov

Chief Executive Officer

Mr Kushimov joined AFSA as the Registrar of Companies in May 2019 and since 1 January 2021 has been a Member of the AFSA Executive body responsible for FinTech.

Mr Kushimov has extensive experience in senior positions in financial market regulation. He started his career at the AIFC in 2018 at the Astana International Exchange (AIX), where he oversaw matters relating to the regulation of issuers and IPOs of Kazakhstan's and international companies. Over the years, he has held various leadership positions in the civil service, including the ministries of justice and interior. A Bolashak graduate, he holds an LLM degree from the University of Cambridge, Faculty of Law (2013).


In March 2022 Mr Kushimov was appointed Chief Executive Officer of AFSA.



Mr Gareth Ling

Deputy Chief Executive Officer, Chief Regulatory Officer

Mr Ling is an experienced regulator and compliance professional, having worked for over 20 years in a senior capacity in regulatory bodies such as the (former) UK Financial Services Authority, the Qatar Financial Centre Regulatory Authority and the Dubai Financial Services Authority. Following this, Mr Ling spent 10 years in the private sector, first heading Compliance and Financial Crime functions for Barclays Bank PLC in both Qatar/QFC and then Dubai/DIFC. Subsequently, he was Société Générale's Regional Head of Compliance & Financial Crime for the Middle East (based in Dubai), from which he joined

	<p>AFSA. Mr Ling has a Joint Honours degree in Politics & Economics. After ten years in the private sector, Mr Ling returned to the regulatory world with AFSA. From 7 December 2020 Mr Ling was appointed as AFSA’s Chief Regulatory Officer. In March 2022 Mr Ling became Deputy Chief Executive Officer and Chief Regulatory Officer of AFSA.</p>
	<p>Mr Ishaq Burney</p> <p>Chief Legal Officer</p> <p>Mr Burney has been AFSA’s Chief Legal Officer and Managing Director of Policy and Strategy since April 2021. His experience, over two decades, spans disputes, corporate and regulatory law in Australia and the Middle East across all facets of corporate and financial services transactions and regulation. He has led major strategic and legislative projects and several high-profile financial markets enforcement and takeover matters in his career.</p> <p>Mr Burney holds postgraduate degrees in law and management from the University of Queensland, the University of Melbourne and the University of Oxford (distinction). He is a regular speaker at public and regulatory forums and lectures in corporate governance and financial regulation.</p> <p>Mr Burney is an experienced governance professional and a Fellow of the Governance Institute of Australia.</p> <p>He is also a Centre for Effective Dispute (CEDR) accredited mediator.</p>



Ms Assel Bazhbenova

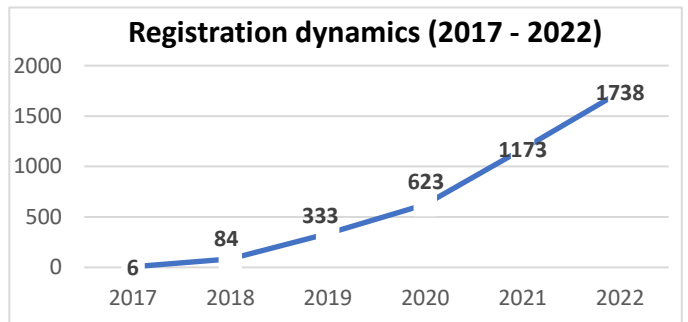
Ms. Bazhbenova is a qualified finance professional with over 20 years of experience across a variety of sectors. She has worked in senior positions in auditing for a number of large companies, including Deloitte & Touche, PricewaterhouseCoopers, Tele2, and Altel.

She joined AFSA in 2017 first as a Supervisor in the Finance Division and as of July 2022 she is AFSA’s Chief Operations Officer.

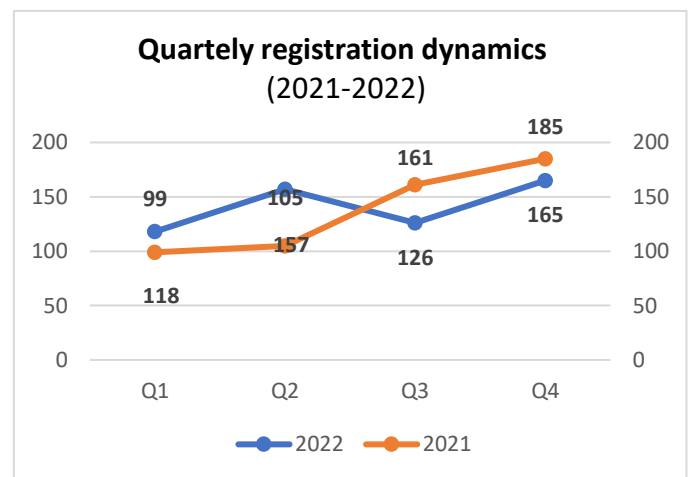
STRATEGIC PRIORITIES IN 2022

Registration Dynamics

The number of registered firms reached 1738 by the end of 2022, representing an 68% increase compared to the 2021 population of AIFC Participants. Year-end outcomes indicate an ongoing trend of new firms choosing the AIFC as their jurisdiction.



There has been a continued increase in registration dynamics in 2022, demonstrating the recovery of the business environment after the pandemic impact. The highest registration figures were reached in the second and fourth quarters of 2022.



Overall, 566 AIFC registered participants during 2022, which is 3% higher than the 550 firms registered in 2021. On average 14 firms per week were registered by the end of 2022.

Year-End Figures

TYPE OF ACTIVITIES	NUMBER OF FIRMS					
	2017*	2018	2019	2020	2021	2021
Authorised activities	4	39	84	57	53	32
Financial Activities	-	9	12	14	24	22
Ancillary Services	-	24	59	35	19	7
FinTech Lab	3	5	13	7	10	3
Authorised Market Institutions	1	1	-	1	-	-
Non-financial activities	2	39	165	233	497	534
Total	6	78	249	290	550	566

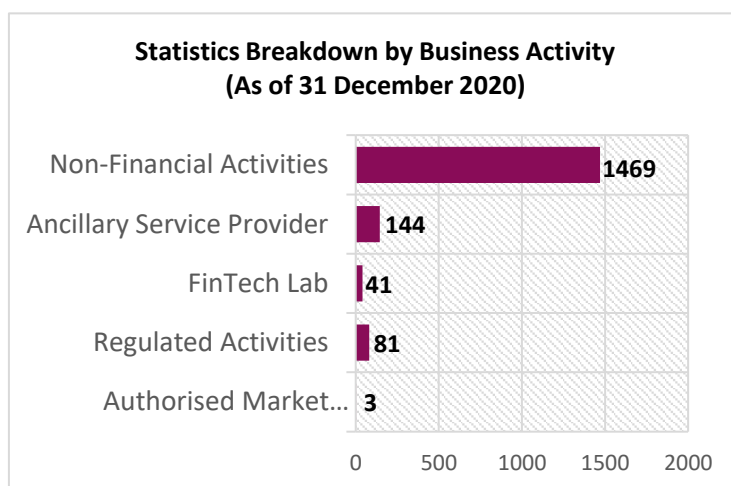
**for the period of the last three months of 2017 since the inception of the AFSA*

Breakdown by Business Activity

A breakdown of the data by business activity indicates that non-financial activities have been dominant during 2022, comprising 85% of all activities.

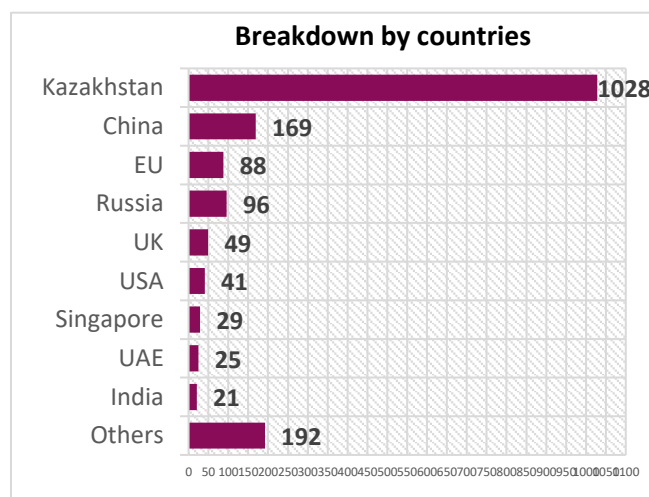
Most of the non-financial firms are mainly engaged in conducting and providing IT services, cryptocurrency mining, data processing and hosting activities,

agricultural, manufacturing, non-profit activities, activities of holding companies and other non-financial activities.



Geographical Coverage

710 firms (41% of the total number) registered and recognised in the AIFC involve foreign investors, representing 69 foreign countries, including Antigua and Barbuda, Australia, Austria, Bosnia and Herzegovina, Bahrain, Belize, China (incl. Hong Kong), Cyprus, Czech Republic, Cayman Islands, Egypt, Estonia, Finland, France, Georgia, Hungary, India, Italy, Latvia, Lithuania, Malaysia, Netherlands,



Republic of Yemen, Russian Federation, Singapore, Republic of Korea, Switzerland, Turkey, UAE, Ukraine, UK, USA and other countries.

REGULATORY FRAMEWORK

Authorisation and Recognition

2022 saw slightly fewer applications for authorisation compared with previous years. This relates mainly to the AFSA's decision to transfer the Ancillary Services' licensing function from the Authorisations Division to the Registrar of Companies. Thus, 6 Ancillary Services Providers were licensed during 2022 by the Authorisations Division before the transfer of this function to the Registrar of Companies.

There were 20 firms in total licensed by AFSA in 2022 to perform Regulated Activities. The increasing number of applicants from different regions demonstrates the AIFC's growing attractiveness as an international financial services centre. In 2022, new applicants represented China, Russia, the Netherlands, Georgia and Israel. Overall, AFSA continues to receive a significant number of applications across a range of activities (see Tables 1 & 2).

Table 1: Year-on-year statistics

	2018	2019	2020	2021	2022
Inquiries					
<i>Number of applications received</i>	55	93	77	50	37
Total number of firms authorised					
Authorised Firms, including:	4	12	15	28	28
<i>Licensed</i>	4	9	11	22	20
<i>Approved In-Principle</i>	-	3	4	6	5
<i>Rejected applications</i>	-	-	-	-	2
<i>Revocation of In-Principle Approval</i>	-	-	-	-	1
Ancillary Service Providers	23	59	39	21	6
Authorised Market Institutions	2	-	-	1	-
Recognised Non-AIFC Members	21	8	5	1	2
Recognised Non-AIFC Members Approved In-Principle	-	2	-	-	2

Recognised Non-AIFC Market Institutions	-	2	-	-	-
Recognised Non-AIFC Market Institutions <i>Approved In-Principle</i>	-	-	-	-	2
Approved Individuals	21	26	75	109	91

Table 2: Cumulative figures

	2018	2019	2020	2021	2022
Authorised Firms Licensed	4	13	24	46	65
Authorised Market Institutions Licensed	2	2	2	3	3
Recognised Non-AIFC Members	21	27	27	28	25
Recognised Non-AIFC Market Institutions	-	2	2	2	2

Authorised and Recognised Entities

The authorisation process was re-focused in 2022 to be centred exclusively on Authorised Firms, which has facilitated a stronger focus on regulated activities and a more in-depth and robust approach to the application review process.

Of note in 2022 was AFSA's first case of applications being rejected of applications due to the failure of applicants, their shareholders and/or candidates for key functions to satisfy AFSA's fitness and proprietary criteria. Thus, two applications were rejected on these grounds. There was also the first case of a revocation of In-Principle approval following the applicant's non-fulfilment of AFSA's pre-licence condition relating to capital injection. It should be noted that the official number of rejected applications does not include those that have voluntarily withdrawn their applications due to their failure to satisfy the pre-conditions of their licensing.

Authorised Firms

Investment Business. Interest in investment business continued to grow in 2022. 15 out of 20 licensed firms were authorised to carry out Regulated Activities as investment business firms. These firms will mainly provide advisory and arranging services, fund and asset management activities, and trading and brokerage activities. These Authorised Firms include both established firms (or their subsidiaries) and start-ups.

Islamic Finance. In 2022, AFSA issued a licence to carry out the Regulated Activity of Islamic Banking Business to one Islamic Bank.

Insurance Business. In 2022, AFSA licensed one Class 1 Captive Insurance firm.

Money Services Provider. In 2022, for the first time a FinTech Lab participant has successfully graduated from the AFSA's two-year incubation in its "sandbox" and received full authorisation as an Authorised Firm providing money services.

Approved Individuals and Other Key Individuals

During 2022, AFSA recommended the approval of 120 key individuals (91 Approved, 29 Approved In-Principle) for the purposes of undertaking Controlled Functions. To ensure that the appropriate risk and conduct culture is embedded in Authorised Firms, AFSA makes an objective assessment of the individuals that will manage firms' businesses and to verify their skills, expertise and experience required to fulfil their roles to the standard expected by the AFSA. When necessary, the candidates are interviewed on their professional competence and knowledge of the AIFC Rules and Regulations.

Recognised Non-AIFC Members and Recognised Non-AIFC Market Institutions

Through AFSA's recognition regime, 2 brokerage companies from Cyprus were granted Recognised Non-AIFC Member status in order to join the AIX in 2022. The on-going global geopolitical environment generated an increase in the number of applications for RNAM and RNAMI status, especially from entities licensed in the Russian Federation, for whom enhanced reviews were performed to ensure they had no sanctions nexus at any level. Thus, 5 Russia based firms applied for RNAM and RNAMI status, although their final recognition is subject to having arrangements for the exchange of information between the AFSA and the relevant Russia regulator(s).

Streamlining of the Authorisation Process

To enhance and simplify the authorisation process, ease entrance to the AIFC and further assist AIFC Participants throughout licensing, AFSA took the following measures.

1) Introduction of a more standardised approach to applicant and candidate assessments for key business functions, AFSA has developed and published Regulatory Guidance on Fitness and Propriety online. The Guidance applies to Authorised Persons, Approved Individuals and Controllers, and is used to bring

together the various elements of their fitness and propriety in a transparent and more explicit way. The primary objective of assessing the fitness and propriety of persons in Controlled Functions is to protect depositors, investors, policyholders, creditors, or the public against possible harmful conduct by those persons in the future.

2) AFSA drafted Regulatory Guidance on Assessment, Competency and Training for Controlled and Designated Functions. This Guidance will serve to clarify the principles and framework under which Authorised Persons should assess the competence of individuals who perform Controlled and Designated Functions, and sets the AFSA's expectations in relation to training and competency programmes for those individuals.

3) New application form supplements for the recognition of Foreign Fund Managers and Trading Facilities were introduced in 2022. The application form for Recognition of Foreign Fund Managers must be submitted by a person that is neither established, nor operates in the AIFC, and is seeking to be recognised as a Foreign Fund Manager and to register a Domestic Fund in the AIFC. The Trading Facilities supplement is to be submitted by applicants applying to become a participant with an Authorised Firm licensed to Operate a Multilateral Trading Facility and/or Operate an Organised Trading Facility.

4) Approval of Handover Procedures from the Fintech Lab to the Authorisations division. The Procedures describe steps applied to AFSA FinTech Lab Participants who are in the process of exiting from the Lab environment and are applying for a full licence via the AFSA's Authorisations Division.

5) AFSA continues to conduct outreach sessions and explanatory work on the regulatory regime in the AIFC for various interested parties. This is being done to raise awareness and understanding of the AIFC authorisation process.

6) AFSA continues its work towards the digitalisation of licensing processes for Regulated AIFC Participants through the AIFC's 'Digital Resident Portal'.

In 2023, AFSA aims to continue enhancing its authorisation process by: (1) digitalising the authorisation processes, and enabling licence applications to be accepted and processed online; (2) publishing AFSA's policy statement on authorisation of start-up banks; (3) updating internal procedures to encompass various potential scenarios that have not previously been foreseen, and (4) making improvements to the authorisation section of AFSA's website to widen and enhance the information on how potential applicants may become authorised.

SUPERVISION AND ENFORCEMENT

Prudential Supervision

AFSA’s approach to prudential supervision aims to ensure that the financial firms it supervises hold sufficient capital for their business and have adequate risk controls in place. As more authorised firms have commenced their operations in 2022, AFSA has implemented a prudential supervision programme to oversee them. Results from initial supervisory assessments indicate that regulated firms have had a positive start to commencing their businesses in the AIFC and look set to successfully continue with their business development plans in the future (Table 1).

Table 1: Prudentially Supervised Firms’ Statistics

	Banks	Investment firms	Insurance firms	Total
2022	13	42	4	59
2021	10	28	2	40
2020	4	11	2	17
2019	3	5	2	10

Prudential regulation mainly focuses on the financial stability of all Authorised Firms (except Rep Offices) by monitoring whether their financial resources and reserves are sufficient to cover potential losses. The ultimate objective is to protect savers, investors and insured persons. While micro-prudential supervision is concerned with single or specific financial firms, macro-prudential supervision looks at the overall picture and aims to preserve the stability of the nascent financial system in the AIFC as a whole. Thus, AFSA’s prudential supervision primarily deals with the quantitative assessment of a firm’s performance whilst incorporating a risk-based system of checks and balances. As of 31 December 2022, AFSA prudentially supervised 17 “higher impact” firms (such as banking business firms and insurers), an increase from 12 such firms at the end of 2021. The number of investment companies significantly increased from 28 to 42.

By the end of 2022 the banking sector in the AIFC consisted of 13 banks, including 3 branches of banks and 4 credit providers. The prudentially supervised investment sector consists of 42 firms, 9 of which are broker dealers, including 5 branches. The number of firms in the insurance sector has doubled in 2022 and reached 4 firms, 3 of which are captive insurance firms and 1 insurance intermediation firm.

Table 2 shows an overall increase in the assets of each AIFC regulated sector since 2020 with the highest growth indicators at the beginning of 2022.

Table 2: Annual changes in financial assets in the AIFC by sector (in USD 000s):

	Banks	Investment firms	Insurance firms	Total
01.01.2023	774,491	80,010	29,388	883,889
<i>change (Y-Y')/Y'</i>	<i>-24%</i>	<i>145%</i>	<i>58%</i>	<i>-18%</i>
01.01.2022	1,020,665	32,683	18,612	1,071,960
01.01.2021	398,567	9,263	17,303	425,133
01.01.2020	212,478	16,34	15,836	244,654

The infographics below (Figure 1) provide additional information, sector-by-sector, on financial market volumes and assets, number of firms, and geography of financial services offerings.

Figure 1:

Banking Business

BANKING BUSINESS FIRMS		GEO OF LOANS		Total
Banks	4	KZ	221	
Branches	3	China	-	
Credit Providers	4	UZB	32	
Money Services Providers	2	Hong Kong	3	
Total	13	Russia	0	
Representative Office	2	Total	255	
Total	15			

PERFORMANCE INDICATORS	Assets	Loans
(IN MLN USD)		
2019	212	-
2020	398	172
2021	1021	610
2022	774	255

Investment Business

INVESTMENT FIRMS	NUMBER	REGULATED ACTIVITIES
Broker-Dealers	10	Dealing as principal and as Agent
Asset Managers	26	Managing Investments and Managing CIS
Investment consultants	6	Investment consultants
Total	42	

Performance indicators

PERFORMANCE INDICATORS (IN MLN USD)	Assets
2019	16,3
2020	9,2
2021	33
2022	80,01

Insurance Business

INSURANCE FIRMS	
Captive insurers	3
Insurance intermediaries	1
Total	4

PERFORMANCE INDICATORS	ASSETS	GROSS WRITTEN PREMIUM
2019	15,8	
2020	17,3	1,7
2021	18,6	2,2
2022	29,4	22,3

INSURANCE BY TYPE OF PRODUCTS

Property insurance	12,511	56%
General liability	9,326	42%
Other	0,436	2%
Total	22,273	100%

Off-Site / On-Site Supervision

Overall, AFSA has been actively engaged in applying risk-based supervision throughout 2022. In particular, the supervisory focus has been on implementing the Supervisory Review and Evaluation Process (SREP) approach in prudential supervision of regulated higher impact firms, such as banks and certain large investment firms. It has also focused on adjusting the Risk Profiling and Early Warning System tools to assess firms' risk profiles. Prudential supervision builds its ongoing assessment of firms' risk profiles based on these supervisory tools.

AFSA's quarterly prudential supervisory reviews ensure constant monitoring of risk zones in Authorised Firms' activities or risks that they face, or might face, and facilitates the identification of any gaps or deficiencies (including any opportunities for improvement in aspects of regulation or supervision). Such monitoring, assessments and risk identification provides grounds for deciding which firms will need to be subject to inspection and when, or any other measure that may be appropriate in the circumstances.

Thus, AFSA conducted a special inspection of one of the banks in mid-2022 due to risks revealed during a desk-based review of its loan portfolio, which raised relevant concerns regarding the source of funds used as cash collateral as well as the economic sense of the overall business model of the bank.

Certain supervisory practices made it possible for firms to optimise much of their commercial potential and ensure they could capture business opportunities. For instance, the application of waivers and modifications concerning liquid assets requirements and risk exposure calculations were among the more flexible regulatory measures that provided support or relief in some respects to AIFC banks during the year.

Businesses in the AIFC continued to grow and expand during the period. As the AIFC saw a significant increase in the number of investment firms, including firms managing collective investment schemes, AFSA has applied a "portfolio-

based” prudential supervision approach of investment firms with similar characteristics to allow a more sector-focused oversight.

During 2022 AFSA suspended the licences of the following types of Authorised Firms:

- two Authorised Firms – an insurance company and a credit provider, connected by common shareholder, with immediate effect after the firms committed multiple breaches of the AIFC Regulations and Rules at the initial stages of obtaining a license. In particular, the firms failed to have adequate resources and compliance arrangements, whilst embarking on associated transactions with numerous related parties in a manner that has lacked acceptable governance and effective compliance controls. Both suspended entities were referred to the AFSA’s Enforcement Division for further investigation and use of enforcement powers;
- one Authorised Firm dealing in investments had its license suspended after a breach of AFSA’s capital and liquidity requirements. It also failed to ensure that all mandatory appointments were filled at all times by Approved Individuals or Designated Individuals as required by AFSA;
- A Banking Business Firm was suspended due to non-compliance with the requirements of the banking prudential framework in terms of concentration risk limits and liquidity coverage ratio.

During 2022 the AFSA undertook the following supervisory actions in relation to Authorised Banks and Investment Firms by issuing:

- **seven** warning letters due to breaches of prudential requirements, lack of systems and controls and late submission of prudential returns;
- **two** no-action letters due to breaches of Minimum Capital Requirements and Liquid Assets Requirements;
- **eight** written directives due to breaches of prudential requirements and non-compliance with Approved and Designated Individuals requirements; and
- **eleven** late reporting fines due to late or inaccurate reporting.

AFSA also keeps a close eye on currency transactions of AIFC Participants by collecting currency reports and aggregating them for further submission to the National Bank of Kazakhstan for the purposes of currency regulation. The total number of reports submitted to AFSA within the AIFC Rules on Currency Regulation and associated Provision of Information on Currency Transactions reached 636 by the end of 2022. Over the reporting period, the list of respondents included 60 entities, covering 41 AIFC Participants and 19 commercial banks of Kazakhstan that are subject to reporting on currency transactions carried out on behalf of AIFC Participants.

Effectiveness of the 2020 Supervisory Relief Measures

In response to the COVID-19 crisis, in September 2020 AFSA initiated the following relief measures by issuing modifications to reduce the negative impact of the pandemic on AIFC participants: (1) optimisation of Base Capital Requirements for Authorised Firms, including Banks, Credit Providers, Insurers, Insurance Intermediaries and certain types of Investment Firms; and (2) optimisation of the Liquid Assets Requirements for certain types of Investment Firms.

These relief measures were preserved throughout 2022 and will remain in effect until November 2023. The decision to further maintain such relief measures will be considered in 2023 depending on their effectiveness based on quantitative and qualitative analysis of the growth of the AIFC financial sectors.

Development of Supervision Systems

In May 2022 AFSA developed amendments to the AIFC Fees Rules by introducing annual supervision fees for all types of Authorised Firms as well as fines for breaches of the AIFC Rules and late fees for failure to provide proper notifications, reports or returns in a timely manner.

Following the requirements of the AFSA Supervisory Policy Statement on its approach to branch supervision, which sets out general expectations underpinning AFSA's effective supervision role, in 2022 AFSA conducted a jurisdictional assessment of one regional prudential banking framework and the extent of reliance on the home country regulator and/or whether any additional local mitigants should be imposed on the concerned banks operating as branches in the AIFC.

Throughout 2022 AFSA was actively engaged in providing contributions to working groups established with the National Bank of Kazakhstan (NBK) and Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market (ARDFM). ARDFM on the development of national amendments concerning the status of AIFC Authorised Firms with respect to the services they propose, or wish to provide, to potential clients located in the Republic of Kazakhstan. The adoption of the "AIFC Rules on Currency Regulation and Provision of Information on Currency Transactions in the AIFC" in 2021 is a positive first step in this engagement. These efforts will continue to be discussed during 2023 with both the NBK and ARDFM in terms of mutual implementation arrangements as well as further proposed development of the above currency rules.

Among the supervision developments, in 2022 AFSA introduced amendments to its supervision manual for the preparation of returns for firms authorised to carry out regulated activities related to banking business and Islamic Finance. These were introduced to meet AFSA’s supervisory goals and to collect more comprehensive and granular data alongside conducting respective workshops for these types of Authorised Firms.

Financial Conduct Supervision

During 2022, the Financial Conduct Division (FCD) made significant progress in its mission to provide oversight and supervision of investment business firms, including broker-dealers and investment funds. With the constant implementation of innovative tools and enhancement of our expertise and knowledge of the financial industry, the division has been able to build a solid foundation for further development and strengthened the regulatory framework.

Members of the FCD act as Relationship Managers for all Investment Business Firms. Meanwhile, members of the FCD team act as Support Managers for Banking and Insurance Firms, while the Prudential Division acts as the Relationship Managers for these same firms, with the exception of six Representative Offices of Authorised Firms (“AFs”) (which remain exclusively under the FCD’s oversight). The following table summarises the total number of AFs under FCD’s supervision for period from 2020 to 2022:

Year-end figures

AUTHORISED FIRMS	2020	2021	2022
Banking	4	6	7
Investment Business	10	26	44
Insurance Business	2	2	4
Representative Office	6	6	6
Leasing/Credit Business	1	2	3
Providing Money Services	0	1	2
Islamic Finance	0	1	1
Total	23	44	66

The following table summarises conduct supervision activities during 2022:

Activity	Number Conducted
<i>Variation of Licence</i>	1
<i>Suspension of Licence for a period of 12 months</i>	1

<i>Withdrawal of Licence at a firm's request</i>	1
<i>Approval of Approved Individuals</i>	42
<i>Reviews of Designated Individuals</i>	19
<i>Issue of written consent for establishment of a fund</i>	14
<i>Reviews of amendments to funds documentation</i>	10

Regulatory Returns

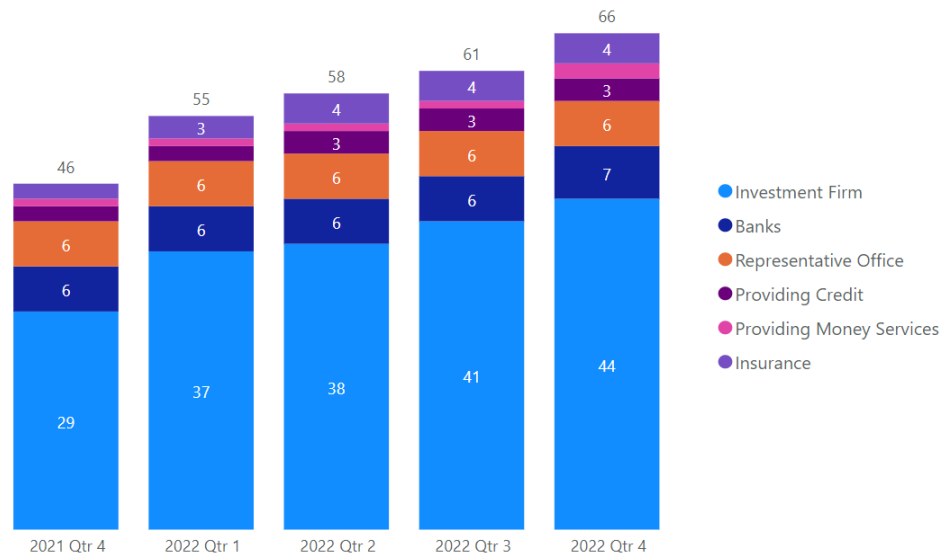
Conduct supervision tools also include a regulatory reporting framework to improve both the efficiency and effectiveness of monitoring of regulated entities and off-site monitoring of the activities of Authorised Firms (“AFs”) in the AIFC.

Investment business in the AIFC saw a rapid increase during 2022:

- The amount of assets under management, including assets of Investment Funds, increased from USD 115m in Q4 2021 to USD 585m in Q4 2022 (see annex 23).
- The number of brokerage clients increased rapidly from 30,020 clients to 86,375 clients with a corresponding increase in client assets held by AFs from USD 151m to USD 1,252m (see annex 24).
- The value of investments under ‘investment advice’ has seen an almost 40-fold increase over the last 12 months, from USD5m to USD 200m (see annex 25).
- The Net Asset Value (NAV) of Investment Funds increased from USD 8m in Q4 2021 to USD 144m in Q4 2022. This was accompanied by growth in the number of Investment Funds from 6 to 20 over 2022 (see annex 26).
- Employee headcount working in Authorised Firms increased from 797 in Q4 2021 to 1,168 in Q4 2022 (see annex 27).

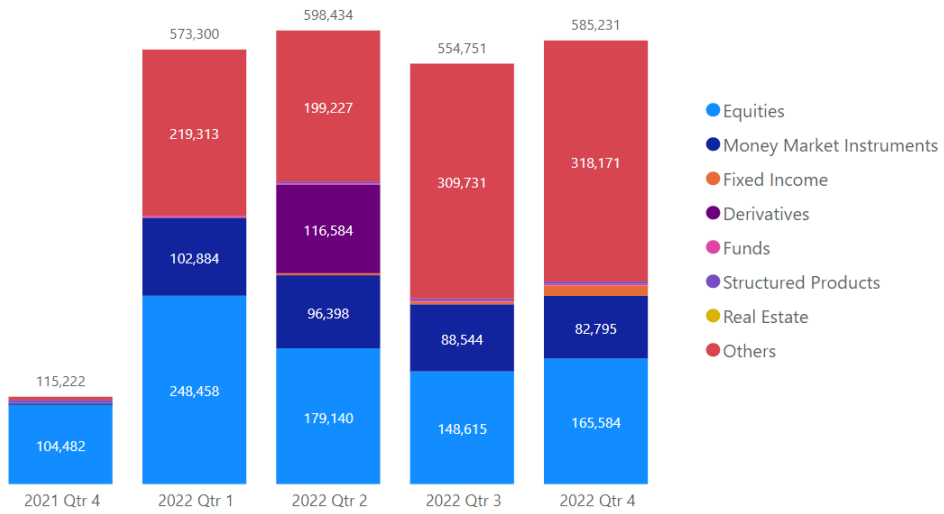
Annex 22

FCD/ Authorised Firms as of Dec 31, 2022



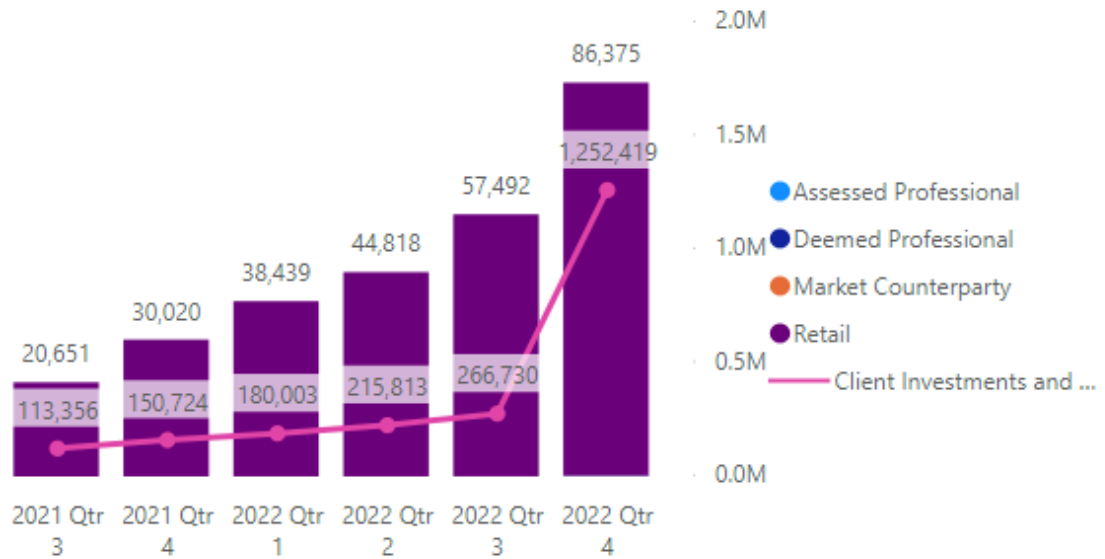
Annex 23

Investment firms' Assets under Management, thousands of USD



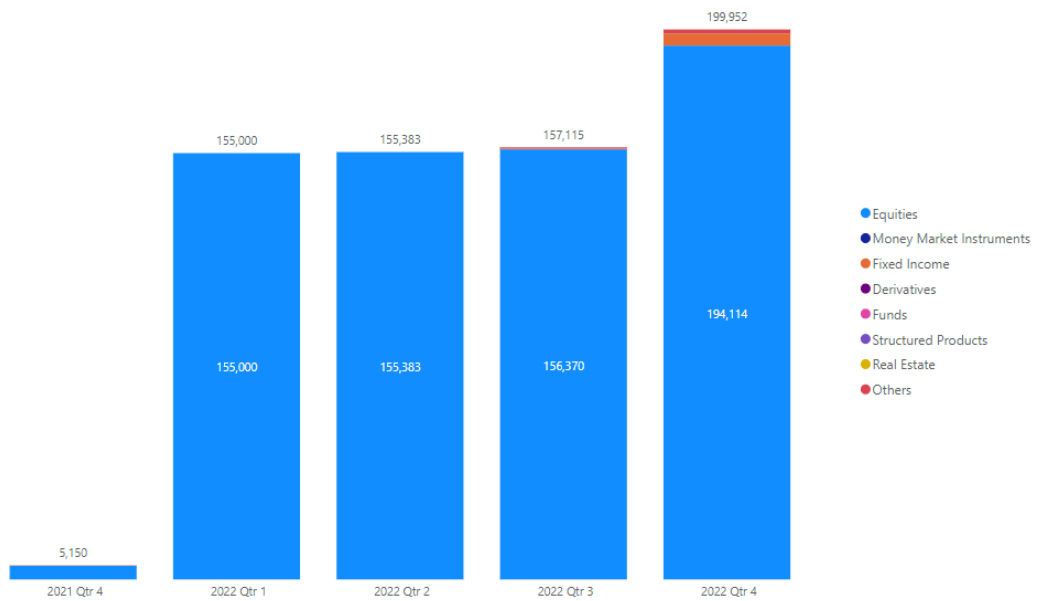
Annex 24

Brokerage Clients and Investments, thousands of USD



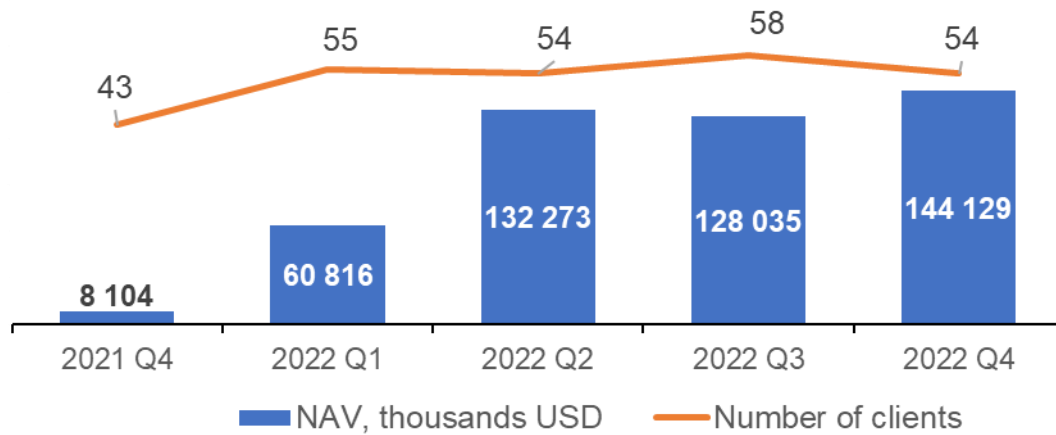
Annex 25

Investments under Investment Advice by products, thousands of USD



Annex 26

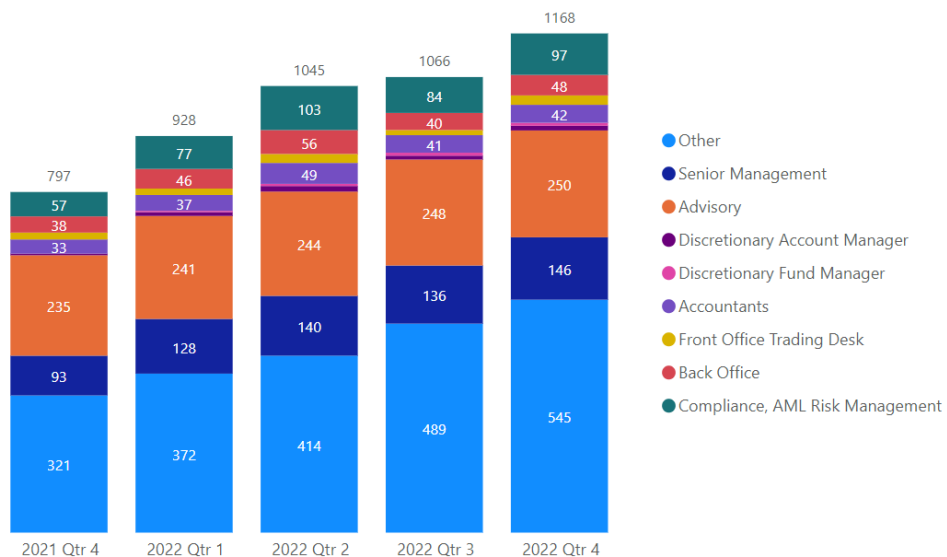
NAV of Investment Funds, thousands of USD



The slight dip in Q4 2022 was attributable to a fall in the value at that date of the underlying invested assets, rather than for any other reason (such as clients withdrawing funds).

Annex 27

Headcount of Authorised Firms’ personnel



On-Site Periodic Inspection

The FCD finalised the first on-site periodic (routine) inspection of one of the largest AIFC participants – Freedom Finance Global PLC (“FFG”). The inspection commenced on 13 October 2021 with the fieldwork finishing on 9 December 2021. As a result, AFSA has agreed a settlement with FFG regarding regulatory deficiencies subsequently identified during a supervisory inspection concluded in 2022, and this was publicly announced in January 2023.

FFG acknowledged that it lacked the appropriate systems and controls, and its conduct was in breach of a wide number of rules and core principles set out in

the AIFC acts. FFG further acknowledged inadequacies in multiple areas of its operations.

Following acceptance of AFSA's findings by FFG, and payment of a financial penalty, FFG has cooperated with AFSA and quickly remediated certain areas. It has also agreed to implement a remediation action plan in the other areas raised by AFSA.

Development of Fund Procedures, Guidance and Templates

During the reporting period, the FCD has been actively working on development of internal and external documents which will enhance the development of collective investment schemes in the AIFC, including:

- Procedures on Registration/Notification of Collective Investment Schemes (for internal use within AFSA);
- Guidance on establishment of Collective Investment Schemes (for external use by applicants); and
- Sample templates for Fund Constitution and Fund Offering Materials (for external use by applicant firms.)

The procedures and supporting guidance bring more formality to the process of reviewing applications and issuing decisions related to Collective Investment Schemes, and provide guidance for FCD's current and new employees on Registration/Notification procedures while also reflecting proportionate fees in relation to applications to register Non-Exempt Funds and Exempt Funds (i.e., Retail Funds). The procedures were presented to the AFSA Executive Body on 23 September 2022 and were approved on 4 October 2022, taking into account comments and feedback..

Fund establishment guidance has been developed and reviewed internally by AFSA. Consequently, guidance was presented to the AFSA Legislation committee on 29 November 2022 and was published on both the AFSA and AIFC websites for public consultation.

Templates have been drafted and sent to third party legal advisors for finalisation and distribution to existing and prospective Fund Managers.

Outreach With Stakeholders

The FCD arranged and participated in two panel sessions during AIFC World Investors Week 2022 on "*Investor resilience: understanding pitfalls and red flags of investing*" and "*Must knows of smart investing with Investment Funds*".

Additionally, the FCD conducted training to AIFC Business Connect (“ABC”) in August 2022 on the process of establishing Collective Investment Schemes and Funds in the AIFC to help ABC better communicate such matters to potential fund managers in the AIFC.

On 25 November, the FCD participated in an in-person meeting with a group of journalists from various Kazakhstani news outlets, including Inbusiness.kz, Kapital.kz, Delovoi Kazakhstan, Kursiv.kz, LSM, WeProject, Jibek Joly (Kazakh TV), Informburo, Forbes.kz, Kazinform, Khabar.24, BaigeNews, and the Astana Times. During this meeting, the FCD provided an explanation of how the Collective Investment Schemes (CIS) and asset management framework operates in the AIFC.

On 15 December, the FCD participated in an in-person meeting with two representatives from Nomura Asset Management, specifically the Senior Managing Director and the Chief Business Development Manager. During this meeting, the FCD explained the opportunities available in the AIFC for foreign asset managers and presented high-level statistics on this sector.

Capital Markets Oversight

An important milestone in the development of the AIFC capital market was achieved in the 2022 through the largest IPO in the history of Kazakhstan.

The shares of the National Company “KazMunayGas” JSC, the leading oil and gas company in Kazakhstan, were offered to local and international retail and institutional investors on the Astana International Exchange (AIX) with a prospectus being prepared in accordance with the AIFC Market Rules. AFSA actively participated in the preparation for the IPO and monitored the entire process to support this landmark project.

2022 was also marked by multiple enhancements to the market and recognition frameworks in the AIFC and by a series of events aimed at improving the level of financial literacy in the capital markets. This work will continue in 2023 as the financial marketplace continues to evolve and innovate, while financial products and financial services are becoming increasingly complex and diverse.

Supervision of Authorised Market Institutions (AMIs)

During 2022, AFSA supervised market activities of three Authorised Market Institutions in the AIFC: the AIX, the Astana International Exchange Central Securities Depository Ltd (AIX CSD) and a newly authorised crowdfunding platform that falls under AFSA’s AMI Rules.

AFSA continued to oversee the AIX market in terms of listing, trading, clearing and market surveillance matters, and in close co-operation with AIX and AIX CSD through optimised reports and notifications. For 2022, the AIX official list includes 129 issues of securities of 85 different issuers, and its trading members total 30 firms, 23 of which are Recognised Non-AIFC Members and 7 of which are Authorised Firms established within the AIFC.

AFSA reviewed multiple business initiatives put forward by AIX and AIX CSD through the approval of the AIX Business Rules and AIX CSD Business Rules that enabled the introduction of new products and segments on AIX (such as commercial papers, ESG-labelled bonds, and repurchase agreement trading).

During 2022, AFSA also determined four Equivalent Regulated Exchanges (EREs): the Australian Securities Exchange, New York Stock Exchange, Nasdaq Stock Market and Shenzhen Stock Exchange, which will allow the AIX to offer a more simplified listing process for issuers that have their securities traded on these EREs.

Supervisory inspections of Authorised Market Institutions commenced in 2021 and the implementation of any associated recommendations will further improve the efficiency of these infrastructure institutions in enabling the maintenance of fair, efficient, transparent and orderly markets.

AFSA also began supervising its first fully authorised crowdfunding platform in the AIFC and, upon application, agreed to issue a class modification allowing sole proprietors to be clients of Authorised Crowdfunding Platforms in order to widen the financing options for SMEs and start-ups as a many SMEs in the country operate in the form of sole proprietorships.

Recognised Non-AIFC Members (RNAMs)

As at the end of 2022 the total number of Recognised Non-AIFC Members (RNAMs) was 25 and includes firms that are licensed as brokerage firms based in Kazakhstan, United Kingdom, China, Czech Republic, Russia, Hong Kong and Cyprus.

Following AFSA's Notice issued on 17 February 2021 allowing RNAMs admitted as trading members of the AIX to file annual reports and certain ongoing notifications to the AIX only, AFSA introduced modifications to the AIFC Recognition Rules in 2022 making this approach to RNAMs a permanent arrangement between the AIX and AFSA. These modifications have been effectively functioning to discharge the supervisory function of AFSA in relation to RNAMs based on a consolidated supervision report from the AIX and will

allow RNAMs to benefit from a streamlined submission of annual reports and ongoing notifications to minimise duplicative reporting issues

Regulatory Support in Times of the Coronavirus Pandemic and January 2022 Events

During 2022, AFSA received multiple requests from Reporting Entities to postpone the disclosure of their annual reports since Reporting Entities and their auditors still faced unprecedented challenges in preparing audited financial information as a result of the ongoing coronavirus pandemic in 2020-2021 and the brief State of Emergency in Kazakhstan during January 2022.

Taking this into account as well as to avoid the potential risk of unequal treatment of Reporting Entities following the UK FCA's pandemic-related measures to which they were also subject, AFSA decided to grant a class modification to such Reporting Entities to disclose their annual reports or audited annual financial statements within one month deadline extension.

Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT)

The Anti-Money Laundering Division of the AFSA, established since October 2021, had four key objectives assigned for 2022:

1. Bring about AIFC-level AML supervision.
2. Ensure effective implementation of the AIFC AML framework and its ongoing improvement.
3. Establish support and cooperation mechanisms for the AFSA's Supervision and Authorisation divisions.
4. Strengthen interagency cooperation and the international dimension of the AIFC AML framework.

Throughout 2022, the AMLD had the following performance highlights:



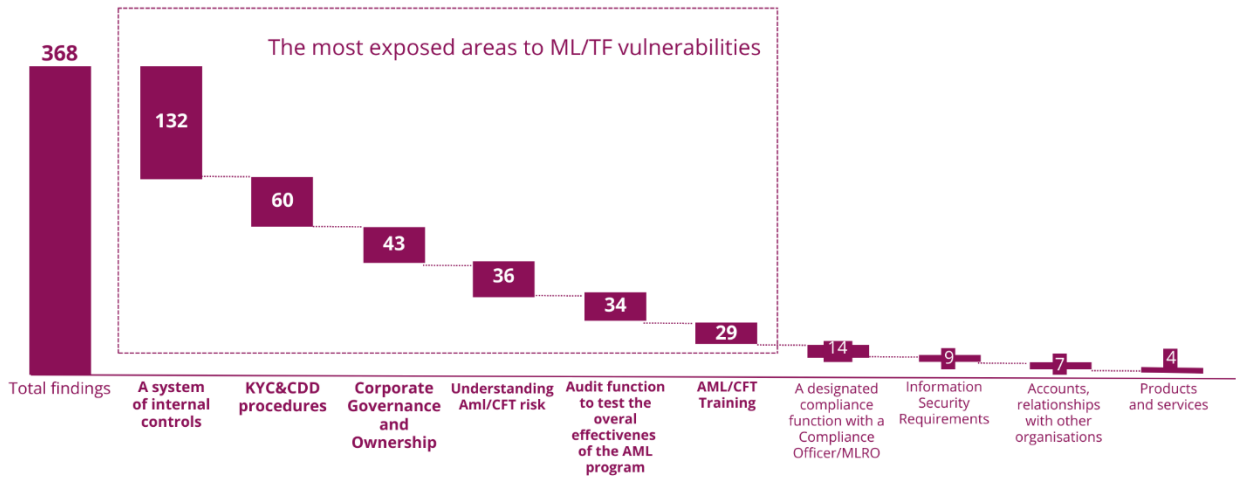
The context of the above performance highlights is disclosed further in this report's section on AMLD.

Objective 1: Bring about AIFC-level AML supervision

Impact: AMLD conducted an AML/CFT thematic review of 14 FinTech Lab firms residing in ASFA's regulatory sandbox with a view to assess the level of their resistance to money laundering and terrorist financing risks.



As a result, the inspected firms demonstrated a sufficient understanding of the risks involved whilst applying relevant controls to address money laundering threats and vulnerabilities. AFSA re-iterated that the firms should have regard to the design effectiveness of their internal processes

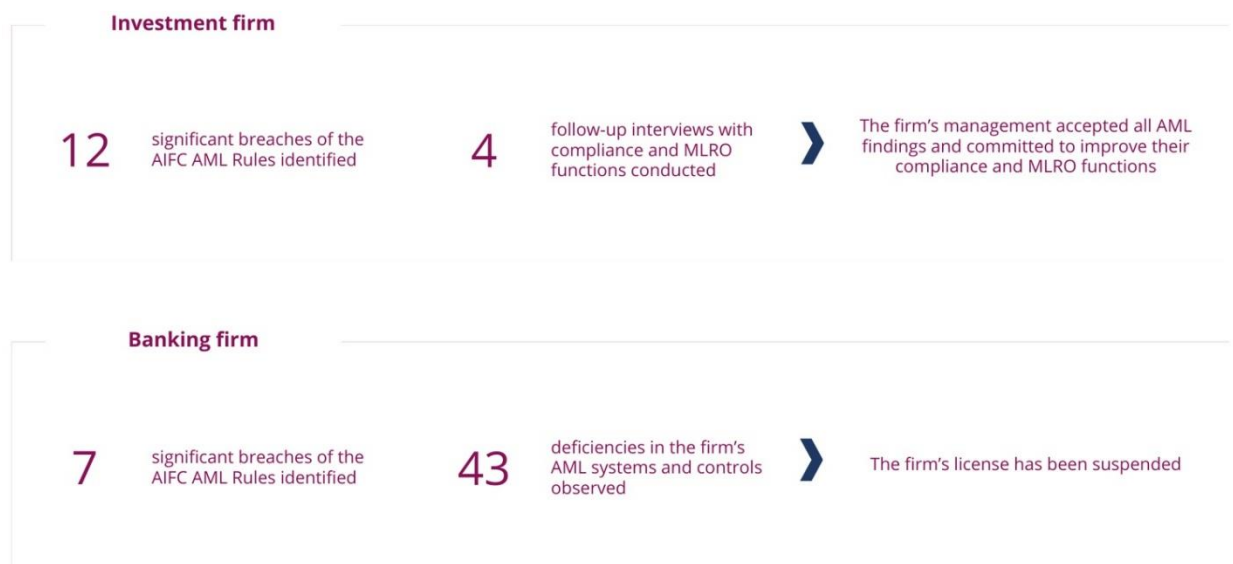


and procedures to avoid deficiencies, such as overlooking a process step or lacking sufficient clarity or details.

In addition, for the purpose of the thematic review, AMLD developed and applied a special-purpose AML Questionnaire with 11 sections and 135 questions, and a special-purpose AML Risk Model.

During 2022, the AMLD also conducted a desk-based AML/CFT thematic review of 40 AIFC Non-Profit Incorporated Organisations and 3 Foundations.

Aside from these thematic reviews, AMLD provided its support to two on-site inspections of investment and banking firms.

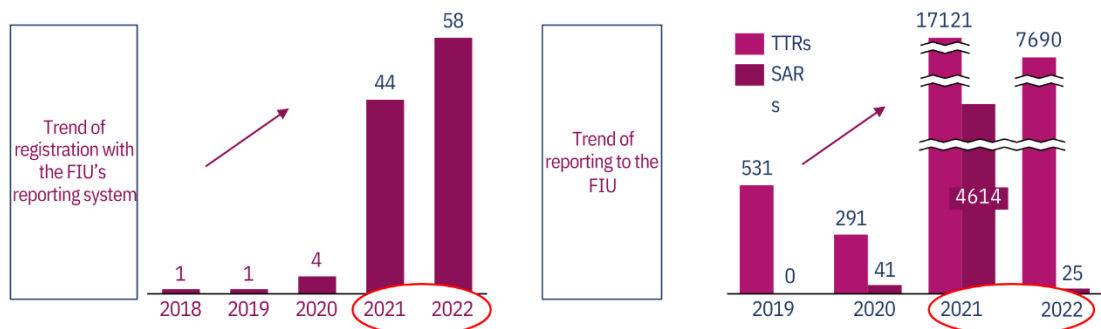


Objective 2: Ensure effective implementation of the AIFC AML framework and its ongoing improvement

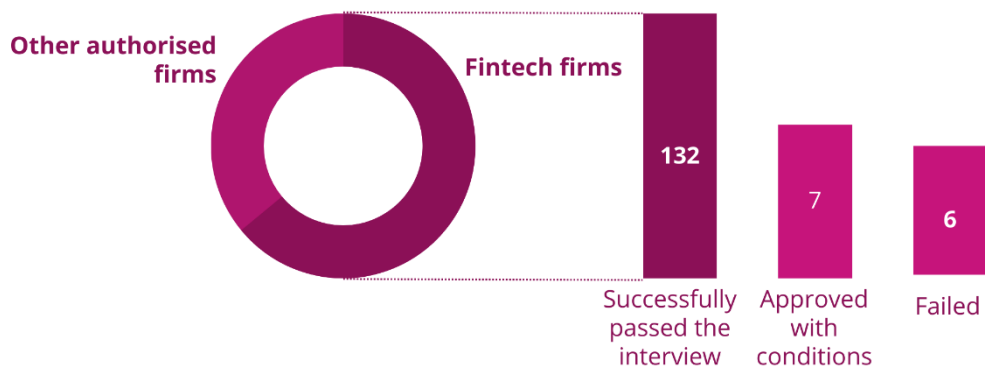
Impact: As part of ongoing law-making activity, the AMLD facilitated inclusion of AFSA’s AML oversight powers in the National AML/CFT Law which, in turn, reiterated or cemented AFSA’s position as the AIFC’s supervisory body for AML/CFT matters. Article 14 of the National AML/CFT Law now states that AFSA has powers to exercise control and ensure compliance of AIFC obliged entities throughout AIFC AML regulation.

Additionally, the AMLD facilitated inclusion of nine indicators of virtual currency-related suspicious transactions and activities in the National AML/CFT regulation. As a result, the National Rules on AML Internal Controls were updated to include new indicators of suspicious activity that should be reported to Financial Monitoring Agency of the Republic of Kazakhstan (the FIU).

In addition, to improve AIFC Relevant Persons’ overall involvement in the national AML/CFT perimeter, the AMLD initiated and ensured amendments to the AIFC AML Rules obliging AIFC Relevant Persons to register in the Financial Intelligence Unit (FIU) reporting system before the commencement of their business activities. As a result, the amendment in the AIFC AML Rules made it possible to increase the engagement of AIFC reporting entities in the National AML system to 100% and was well noted by the EAG/FATF assessors in their ongoing jurisdictional assessment of Kazakhstan.



In 2022, the AMLD put into practice competency-based interviews with MLRO candidates to assess their skills and knowledge, as a support or advisory function (upon request) to the Authorisation and Supervision Divisions



As a result, the competency-based interviews have significantly facilitated understanding of the AIFC AML/CFT regime by AIFC Participants, and AFSA has improved the robustness and quality of selection of MLROs by AIFC Participants.

To further facilitate AIFC Relevant Persons' understanding and perception of the AIFC AML/CFT regime, the AMLD developed and implemented a 'Practical Guidance to AIFC AML/CFT Framework'. The Guidance comprised of 12 chapters and six annexes of practical guidelines, such as: risk indicators for assessing ML/TF risks; indicators of suspicious transactions and activities; other examples and further guidance; indicators of concealed beneficial ownership; principal functions expected from a MLRO; and self-assessment guidance.

Objective 3: Establish support and cooperation mechanisms for AFSA supervision and authorisation

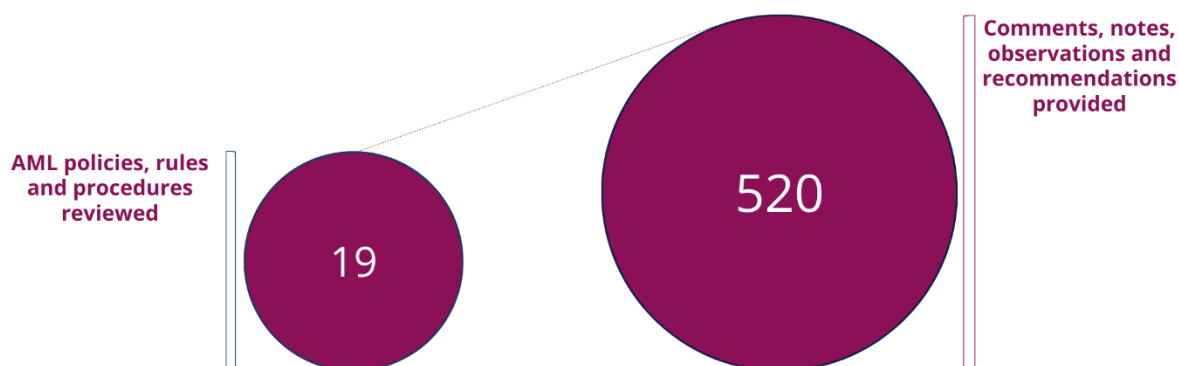
Throughout 2022, the AMLD hosted or participated in 16 seminars and webinars on AML-specific subjects for AIFC Participants (as well as for AFSA's employees). These were delivered either by AMLD itself or in conjunction with international experts.

Enhanced Due Diligence measures (EDD):

Throughout 2022, the AMLD addressed 20 ad-hoc requests from the AFSA supervision and onboarding functions in connection with adverse media, PEPs and any potential for secondary sanctions exposure. The AMLD also conducted 20 background checks of AIFC Non-Profit Incorporated Organisations (NPIOs) as part of this EDD.

In addition, the AMLD established channels of prompt exchange of information between the AFSA and the Kazakhstan FIU. The AMLD held regular meetings with the FIU on ongoing AML supervision and oversight matters throughout 2022.

As part of the support to the supervision divisions of the AFSA, the AMLD assisted the responsible divisions of the AFSA with the review of firms' AML/CFT policies and procedures to assess the AML/CFT systems and controls architecture.

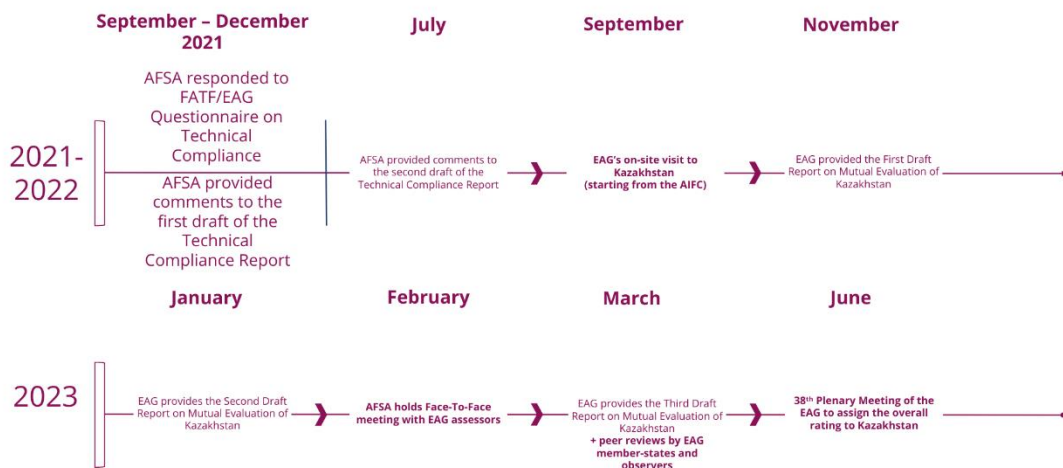


This review process involved communicating the findings and any deficiencies to the AFSA case officers and, to the extent practicable, meeting with the respective firms concerned to directly provide them with further clarifications.

Objective 4: Strengthen interagency cooperation and the international dimension of the AIFC AML framework

FATE/EAG:

The FATF/EAG Mutual Evaluation of Kazakhstan has been underway since 2021 and is due to be completed by June 2023. The mutual evaluation assesses the national AML/CFT regime for technical compliance with, and the effectiveness of the implementation of the FATF 40 Recommendations.



The AMLD has been the focal point of the AFSA responsible for the assessment of the AIFC jurisdiction.

FATF/EAG Draft Mutual Evaluation Report on Kazakhstan

53 findings addressed throughout the Report **>** **More than 300** pages worth of paperwork used to address the EAG comments in response to the findings **>** **9** months of intensive preparations to EAG's on-site

Additionally, the AMLD ensures effective operational co-operation and co-ordination, and timely sharing of relevant information, with the FIU throughout 2022.

Other significant points to note:

AML employees, as well as a growing number of authorisation and supervision staff, have been gaining certifications during 2022 with ACAMS as Certified Anti-Money Laundering Specialists.

Enforcement

AFSA continued to expand its enforcement role throughout 2022. To reinforce our commitment to speaking up and ethics training, two new policies were approved by the Board of Directors: the AFSA SpeakUP and Investigation of Misconduct Policy and a new AFSA Anti-Bribery and Corruption Policy. The Enforcement Division will manage both policies and undertake any training and investigations related to the two new policies. A streamlined procedure for dealing with the investigation of non-authorized companies has also been finalised and approved.

In 2022 AFSA dealt with nine case referrals, five of which have been finalised and four remain under investigation. AFSA issued four cease-and-desist letters to companies offering authorised services without being authorised and subsequently issued two private warnings. KBI Partners Limited, a firm that breached Section 24 of our Financial Services Regulations by offering authorised activities (brokerage activities) without being authorised, was issued a financial penalty of USD 7,000. In addition, action was taken to close down one website that was offering authorised services.

AFSA continues its efforts to ensure transparency, fairness and consistency in the enforcement process and ensures that Centre participants are aware of AFSA's approach to enforcement investigations. AFSA Enforcement Policy is a public document, regularly updated, and is available on the website.

Efforts to liaise with the regulators have intensified, and AFSA brought one case to their attention and the attention of law enforcement agencies. A Memorandum of Understanding has been signed with the Kazakhstan Anti-Corruption agency, to further progress and formalise relations between the body and AFSA and underline our commitment to maintaining the integrity of companies registered in the AIFC.

In 2022, AFSA appointed Michael Howard, Head of Enforcement, to continue as the Ethics Ambassador. He hosted several workshops to reinforce the AIFC Code of Ethics with AFSA staff. His appointment will continue in 2023.

POLICY AND LEGAL FRAMEWORK

Policy Development

Considering the market enablement needs and items with reputational risk implications within the AFSA Regulatory Framework, in 2022, AFSA's policy and legislative development efforts were mainly driven by the following priorities:

- Increase of international recognition for the AIFC;
- Domestic cross-jurisdictional issues and development of the AIFC;
- Market enablement, further enhancement, and best practice alignment projects.

Aligned with the AIFC Strategy significant enhancements were introduced by improving the harmony of the regulatory framework with the requirements of such international standard-setting bodies as the OECD and FATF.

Furthermore, pursuing the AFSA-wide objective of "Proportionate fees to support self-reliance", further amendments following the amendments in 2021 were introduced into the AIFC Fees Framework. These proposals ensured that AFSA can carry out its mandate effectively and independently. The proposed changes included: (1) revised supervision fees for the Market Activities of Operating an Exchange and Operating a Clearing House, (2) supervision fees for Recognised Non-AIFC Members and Recognised Non-AIFC Market Institutions and, (3) clearer approach to application fees payable to AFSA in respect of waivers, modifications, and other reliefs. Registration and post-registration fees for Foundation and Non-Profit Incorporated Organisation were also increased to ensure registration of *proper* Foundations and Non-Profit Incorporated Organisations in the AIFC, and consequently reduce oversight while preventing reputational damage.

To continue the tradition of using Town Halls to facilitate open communication and transparency between AFSA and stakeholders the second Regulatory Town Hall meeting was conducted online on 7 June 2022. AIFC Participants were presented the upcoming regulatory changes in the Recognition and Market Frameworks, Banking Business Firms regulation and provided their feedback on the application of the AIFC Rules on Currency Regulation and Provision of Information on Currency Transactions in the AIFC.

Legislative Initiatives

Projects with International Recognition for AIFC

Obtaining ISDA Recognition of the AIFC Netting Regime for international promotion

To promote the uptake of the netting regime by financial institutions and facilitate a natural progression of the AIFC derivatives sector, AFSA has been working on obtaining ISDA recognition for the AIFC's existing netting regime.

As a result, on 28 July 2022, ISDA published an Informal Country Update to all its global members provided by the ISDA Panel law firm (Dentons Kazakhstan) on the enforceability of close-out netting under the Acting Law of the AIFC.

The publication of the update marks a significant milestone in AFSA's work with ISDA and marks the completion of the first step towards the full recognition of the AIFC as a 'netting-friendly jurisdiction'.

The publication of the update is also an important contribution to Kazakhstan's financial market infrastructure as it will provide insights for globally active firms that want to carry out their financial transactions in the local market.

AFSA continues its interaction with ISDA and is currently implementing the 2nd stage of this project by developing a bank resolution framework addressing the international Financial Stability Board's Principles of Efficient Resolution Regimes (FSB Key Attribute 4) to meet ISDA netting and collateral recognition requirements.

Enhancements to the AIFC AML/CFT Framework per FATF Recommendations

Amendments introduced into the AIFC AML Rules in 2021 have been positively assessed by the FATF assessors and have eliminated several issues that could have been raised during the 2022-2023 assessment period.

In 2022, AFSA continued its work to achieve greater adherence to the FATF Recommendations and proposed further amendments to several AIFC Acts and the Constitutional Statute On the AIFC. The amendments, inter alia, clearly defined AFSA's status and supervisory powers to monitor compliance of AIFC participants with the AML/CFT requirements, including conducting inspections, taking appropriate enforcement actions and imposing sanctions.

Apart from enhancing the AIFC AML/CFT legislation, AFSA proposed amendments to the Kazakhstani AML Law by expressly stating AFSA's AML/CFT regulatory powers over AIFC participants in this regard.

OECD FHTP Review of Kazakhstan's Tax Regimes

The AIFC jurisdiction was placed on the “under review” list by OECD with a deadline for action by December 2021. AFSA in collaboration with OECD and Ministry of Finance of the Republic of Kazakhstan, duly adopted the Rules on the Substantial Presence of the AIFC Participants Applying Tax Exemptions for the Payment of Corporate Income Tax, Value Added Tax (the Rules).

As a result of the adoption of these Rules and submission of the Self Review Questionnaire, the AIFC tax regime was recognised as “not harmful” by the OECD Forum on Harmful Tax Practices in April 2022. The OECD – Financial Harmful Tax Practices Review was formally published on 27 July 2022.

According to the Rules, AIFC Participants enjoying tax benefits for the payment of corporate income tax and value added tax must confirm their presence at the AIFC. This is corroborated by implementing requirements in relation to core income-generating activities in the AIFC, and by ensuring that the expenses incurred and the number of full-time employees involved are commensurate with the volume of activities.

Adoption of the Rules is an important step towards ensuring that the AIFC is compliant with global transparency standards for tax purposes and that the AIFC jurisdiction is not used for harmful tax practices.

Domestic Cross Jurisdictional Issues and Development of the AIFC

Recognition of the AIFC's Role in the Concept on Development of the Financial Market of Kazakhstan until 2030

As a result of the AIFC Away Day held in the beginning of the 3rd quarter of 2022 with participation of the National Bank of Kazakhstan (NBK) and Agency for Regulation and Development of the Financial Markets of the Republic of Kazakhstan (ARDFM) and other initiatives aimed at cooperation with domestic regulators, AFSA made its contribution into the “Concept of the Development of Financial Sector until 2030” signed by the President of Kazakhstan by engaging in the following initiatives:

- Expanding the list of financial services provided by AIFC Participants to residents and access to the national infrastructure of financial regulators;
- Development of proposals for the regulation and development of crypto-exchanges based on the ongoing pilot project in the AIFC;
- Development of insurance, reinsurance and captive insurance in the AIFC;
- Establishment of credit rating agencies within the AIFC;

- Development of new financing instruments (crowdfunding, Multilateral and Organised Trading Facilities (MTF/OTF), venture financing);
- Raising the capacity of the AIFC as a regulatory sandbox for testing innovative ideas in the field of financial technologies;
- Improvement of Kazakhstan`s position in the MSCI and FTSE;
- Bringing the current regulation of the financial market in line with the needs of the development of digital technologies;
- Implementation of measures to increase the participation of foreign banks in financing the economy;
- Inclusion of Kazakhstani government securities in international global indices;
- Proposing additional measures for the development of Islamic banking;
- Conducting IPOs of quasi-public sector companies;
- Introduction of appropriate conditions for the creation of local rating agencies (including the AIFC), and development of the optimal regime for their regulation and supervision;
- Ensuring a single pool of liquidity based on the integration of Kazakhstan Stock Exchange (KASE) and AIX;
- Creation of a consolidated clearing infrastructure;
- Recognition of the AIFC by ISDA.

Enhancements to the AIFC Currency Regulation Framework

In 2022, AFSA initiated the second round of negotiations on the Currency Regulation Framework with NBK regarding the access of AIFC Participants to the national infrastructure. As part of this work, AFSA proposed amendments to the NBK acts. As a result, today AIFC Participants enjoy access to correspondent bank accounts in Kazakhstani second-tier banks (STB RK).

Other AFSA proposals are aimed at providing more benefits to AIFC Participants in relation to conducting export-import operations, opening accounts and deposits in tenge, expanding rights of Islamic banks, forming authorised capital in any currency, purchasing and selling foreign currency through AIFC banks, STB RK, or foreign banks, conducting certain type of Regulated Activities in any currency, etc. These amendments are still under discussion and expected to be enacted by the end of 2023.

Amendments to Kazakhstani Legislative Acts on the Development of the Securities Markets, Insurance and Banking Activities

AFSA worked closely with the ARDFM on amending the Kazakhstani legislative acts on development of the securities markets, insurance and banking activity.

The enacted amendments are aimed at providing: (1) an opportunity for insurance (and reinsurance) organisations who are AIFC participants to conclude and execute insurance contracts with residents of Kazakhstan, (2) expansion of voluntary insurance services: insurance of guarantees, insurance of court costs and title insurance etc., (3) the right of AIFC insurance (and reinsurance) firms to accept insurance risks from insurance companies licensed by the ARDFM, (4) recognising the status of securities issued in the AIFC in the State Register of Equity Securities, (5) legal ground for information exchange between the ARDFM and the AIFC, (6) the possibility for AIFC participants that meet the requirements established by the regulatory legal acts of ARDFM to be members of KASE.

This is another significant milestone that recognises the position of the AIFC and AFSA within Kazakhstani legislation.

Market Enablement, further Enhancement, and Best Practice Alignment Projects

Enhancements to the AIFC Recognition Framework for RNAMs to Eliminate double Reporting and Introduce RNAM Status Withdrawal Form

The enhancements to the Recognition Framework for Recognised Non-AIFC Members (RNAMs) were introduced based on the temporarily granted modification effective until 2 July 2022. The granted modification primarily aimed at relieving RNAMs from double reporting by discharging the direct supervisory function of AFSA in relation to RNAMs. As a result, the amended AIFC Recognition Rules allow submission of reports and notifications by RNAMs, which are trading members of the Authorised Market Institution, to the Authorised Market Institution rather than to AFSA. The amendments also envisage the possibility of revoking RNAM status by AFSA upon the application by the RNAM.

Enhancing of the AIFC Banking Business Framework and Adoption of the Captive Finance Regime

As a result of the enhancement of the AIFC Banking Business Prudential Rules (BBR) undertaken in 2021, provision of credit from own funds was no longer considered as a basis for disapplication of the BBR. Providing credit within the same group was also no longer considered a Regulated Activity. Consequently, the entire BBR was applied to credit providers in the same way it is applied to Banks.

In 2022, the analysis of best practice jurisdictions was continued to identify whether credit providers should be given any exemptions or differing prudential requirements.

The amendments were enacted in December 2022, they include several exemptions for credit providers and the introduction of the commercial captive finance regime, thereby aligning the treatment of credit providers in the AIFC to international standards.

Continuing Initiatives to be implemented in 2023

Enhancements to the AIFC Asset Management Framework

During 2022 to increase the attractiveness of the AIFC regime for asset and fund managers AFSA closely worked with AIFC Participants to obtain their feedback following the practical application of the current AIFC Asset Management Framework. Based on the comments received, and further improvements developed internally within AFSA, several enhancements to the current framework were proposed, which will result in:

- extending the fund structures available by including Limited Partnerships where the Fund Manager is the General Partner and the Unitholders of the Fund are Limited Partners;
- allowing Real Estate Investment Trusts to invest in property under development providing the total contract value does not exceed 10% of the net asset value of the Fund property;
- clarifying the recognition process for a Foreign Fund Manager;
- removing Self-Managed Funds (SMF) from the CIS due to flawed concept behind the SMF and insignificant interest from public;
- introducing an Umbrella Fund, Fund of Funds, Master and Feeder Funds as types of Specialist Funds in the CIS;
- introducing the Protected Cell Company in the CIS as a special type of vehicle for clarification purposes with regards to its usage for the business of a Fund.

In general, these enhancements will provide flexibility and the possibility of creating structures to appeal to the needs and demands of investors based worldwide.

The amendments are expected to be enacted in April 2023.

Development of the AIFC Commodity Exchange Framework

As Kazakhstan has an export-oriented economy, one of the initiatives of the government is to create a single commodities exchange compliant with the best international standards and consolidate the national commodities market. The AIFC is regarded as an attractive venue for this purpose. The proposed regime will provide for a derivatives market, which is not yet developed in the country.

Also, noting the obligations undertaken by Kazakhstan on reducing carbon emissions and the growing international carbon market, it is proposed to launch carbon credit trading in the AIFC. This would potentially be interesting for industrial companies that may face a shortage of the credits, persons willing to compensate for their carbon footprints, corporations with corporate sustainability targets, and other actors aiming to trade credits to make a profit. Thus, the proposed commodities market will be focused on commodity derivatives, electricity and carbon trading.

In 2022 AFSA started developing the concept of the regulatory regime for Commodity Exchanges. Developments are proposed in the following key areas:

- Access to trading facilities;
- Eligible instruments;
- Fair and orderly trading and transparency of operations;
- Market abuse;
- Clearing and settlement risks; and
- Definitions in the Glossary to cover the terms used in the proposed framework.

The legislative amendments to the AIFC Commodity Exchange Framework are planned to be enacted in June 2023.

Enhancements to the Digital Asset Trading Facility Framework

The unique and varied features of digital assets can pose significant financial risks to consumers, investors, and businesses if appropriate protections are not in place. In the absence of sufficient oversight and standards, firms providing digital asset services may provide inadequate protections for sensitive financial data, custodial and other arrangements relating to customer assets and funds, or disclosures of risks associated with investment. In this regard, AFSA would like to ensure that the relevant safeguards are in place in the AIFC and promote the responsible development of digital assets to protect consumers, investors, and businesses; maintain privacy, and shield against arbitrary or unlawful surveillance, which can contribute to human rights abuses.

In developing a clear legal and regulatory framework, AFSA focuses on the opportunities, challenges and risks that are presented by using Digital Assets in the AIFC. To better understand them, AFSA has spent some time to understand market participants' concerns in order to develop a framework that will, on the one hand, protect investors and, on the other hand, help market participants to innovate and expand their business.

The Enhanced Digital Asset Trading Facility Framework is expected to be presented in September 2023.

Settling with an Authorised Firm

One of the significant cases in which the Legal Office actively participated last year was the case involving Freedom Finance Global PLC regarding regulatory deficiencies identified during a supervisory inspection.

Given the seriousness and scope of the concerns, this matter was initially considered for a full investigation referral. Subsequently, however, given the important position of the firm to the financial system of the AIFC and the limited enforcement resources of AFSA, it was unanimously decided by the Enforcement Committee that the Regulatory Office should seek to resolve the matter under the AFSA's supervisory powers by reciprocating the firm's suggestions of holding settlement discussions to seek resolution before any formal enforcement action is considered against the firm. The Legal Office was heavily involved in drafting documents required for settlement as this was a precedent setting case, and it was important to send the right signal to other market participants.

This was the first case where AFSA agreed to settle with one of its regulated entities and tested its supervisory powers in this respect.

INTERNAL AUDIT AND RISK MANAGEMENT

AFSA business processes are subject to an annual audit programme, which provides reasonable assurance to both the AFSA management and Board of Directors that effective and efficient processes are in place to identify and manage risks and to ensure compliance with approved processes.

Assurance activities are undertaken by AFSA's Internal Auditor. Specific areas are identified for audit each year using AFSA's risk management process and discussions with the AFSA management. The proposed audit plan is approved by the Audit and Risk Committee of the AFSA Board of Directors. The audit plan is subject to regular review with the aim of improving AFSA's business processes.

In addition to assurance activities, the AFSA Internal Auditor regularly provides advisory services to the AFSA divisions.

Risk Management

Within AFSA a formal risk management process has been established to identify and effectively manage risks, to which AFSA's activities are exposed to. This process as well as roles and responsibilities are defined within the Risk Management Policy approved by the AFSA Board of Directors.

The AFSA Risk Manager facilitates the ongoing enhancement of risk management processes and is responsible for maintaining the AFSA Risk Register. The AFSA Risk Register contains the various risks which may occur and impact on the achievement of AFSA's strategic goals.

AFSA regularly conducts risk assessment with the aim of identifying and implementing measures to reduce the likelihood and potential impact of identified risks. Results of the risk assessment as well as other risk management related items are reported to, and discussed by, AFSA Risk Committee meetings chaired by Chief Regulatory Officer.

The risk management cycle closes with a quarterly Risk Management Report review by the Audit and Risk Committee of the AFSA Board of Directors.

Due to the nature of AFSA activities, the following risks are of primary importance for us (the list is not exhaustive):

- Strategic risks;
- Financial crime risks;
- Financial risks;
- Conduct risks;
- Operational risks.

ENCOURAGING INNOVATION

Now in its fifth year, AFSA's FinTech Lab continues to support the introduction of innovation to the financial market and facilitate firms in testing and developing innovative financial products and services under a special regulatory regime with tailor-made regulatory requirements applicable for each individual firm. During 2022, FinTech Lab received a total of 91 pre-applications, of which 30 received eligibility confirmation. The total number of full applications received during this period was 24, and only 5 of those obtained FinTech Lab licenses. 2022 heralded the first time when a FinTech Lab participant graduated from the regulatory sandbox and received a full license, while 8 licenses were withdrawn. As a result, by the end of 2022, the total number of licensed companies in the Fintech Lab was 18.

One of the breakthrough achievements of the year was the launch of a pilot project on the interaction of AIFC-registered crypto exchanges and Kazakhstan's second-tier banks. The FinTech Lab developed the rules for the pilot, one of the main aims of which is to demonstrate whether amendments need to be made to national legislation and to the acts of the AIFC to allow general public to use cryptoexchanges on a wider scale. The project is a joint product from the working group consisting of AFSA, the Ministry of Digital Development and Aerospace Industry, National Bank of Kazakhstan, Financial Intelligence Unit and Agency on Regulation and Development of Financial Markets. At the end of 2022, four AFSA FinTech Lab participants: Biteeu Eurasia Ltd, Ataix Eurasia Ltd., BN KZ Technologies Ltd. and Eurasia Blockchain Fintech Group Limited and five second-tier banks of Kazakhstan: Freedom Bank, Halyk bank, Eurasian Bank, Altyn Bank and Nurbank were approved by the working group to participate in the pilot project. In December 2022 members of the pilot project's working group agreed to extend the project until the adoption of the AIFC Rules that will determine the rules and mechanisms for the cooperation of the cryptoexchanges with second-tier banks of Kazakhstan. Meanwhile, preliminary feedback received from the project has already been included in the proposals of Policy Paper on Enhancements to Digital Assets Trading Facility Framework, that will to be published in 2023.

Due to the increasing number of Fintech Lab Participants, who are preparing and who have already commenced the businesses with clients, the Fintech Lab started revising its supervisory procedures and implemented additional supervisory procedures, such as risk-assessment forms for different types of fintech activity, types of financial instruments, guidance and others. The Fintech Lab adopted some of the relevant supervision practices of Financial Conduct, Capital Market and Prudential Divisions for the purposes of strengthening the supervision procedures over FinTech Lab Participants.

AFSA's Fintech Office has developed two items of detailed guidance: one in relation to the general use of Digital Assets while conducting regulated or market activities within the FinTech Lab and another specifically for Securities Token Offerings. This was conducted to facilitate better compliance of FinTech Lab Participants with AFSA's regulatory requirements in relation to digital assets and tokenised securities within the FinTech Lab.

INTERNATIONAL AFFAIRS

Throughout 2022, AFSA engaged in international co-operation efforts that led to the favourable positioning of AIFC's jurisdiction, and positioning of AFSA, as a reputable, reliable, and trusted financial services regulator under multilateral and bilateral co-operation mechanisms. AFSA's international relations were pragmatic and results-oriented, resulting in the following achievements:

- (1) raising the international profile of the AIFC and achieving international recognition by becoming an active member of key global standard-setting organisations;
- (2) aligning AIFC's regulatory framework with the best international standards and market integrity through international assessments and peer-reviews;
- (3) facilitating supervised and transparent cross-border business operations through international supervisory and enforcement co-operation, achieved by accession to global agreements and formalising co-operation with peer regulators; and
- (4) enhancing regional regulatory co-operation in Central Asia and the Central and Eastern Europe region.

Multilateral Co-operation

2022 marked growing engagement between AFSA and international organisations with a view to: (1) gaining independent validation of AIFC legislation through international assessments and peer reviews, confirming alignment with global regulatory standards; and (2) participating in international standard-setting activities, contributing to the development of global regulatory frameworks.

Facilitation of International Standards in AIFC and Subsequent Recognition: The adherence to international standards is crucial for promoting transparency, fairness, and efficiency in the financial markets of AIFC, and as such, is a fundamental aspect of its regulatory regime.

- **Recognition of the AIFC tax regime as non-harmful:** Throughout 2022 AFSA continued working with the OECD and the Ministry of Finance of Kazakhstan to introduce substantial presence requirements for AIFC Participants aimed at preventing harmful tax practices in the jurisdiction of the AIFC. This joint co-operation led to the OECD's Forum on Harmful Tax Practices adopting the decision to recognise the AIFC tax regime as non-harmful in July 2022. Practical implication of this

development will prevent tax evasion and abuse of harmful tax practices by AIFC participants. AIFC Rules on Substantial Presence of AIFC Participants require businesses to confirm their presence in the AIFC by conducting their core income-generating activities in the AIFC and ensuring that the amount of expenses and full-time employees are commensurate with the scope of their activities.

- **Assessment against IAIS Insurance Core Principles 9-10:** The International Association of Insurance Supervisors (IAIS) conducted a comprehensive assessment of the AIFC regulatory framework against the Insurance Core Principles 9 (supervisory reporting) and 10 (corrective measures and enforcement). The final report of IAIS acknowledged AFSA’s compliance with the ICP 9 and 10 as “Observed”.
- **Assessment against International Organization of Securities Commissions (IOSCO) Principles 1-5:** By the end of 2022 the IOSCO Standards Implementation Review Group (ISIM) completed its assessment of AFSA’s compliance with IOSCO Principles 1-5, which cover the responsibilities and powers of the regulator. The report confirms the high-level implementation of IOSCO standards in the AIFC jurisdiction and highlights several best practices applied in the AIFC. The implementation of these five Principles is critical as they provide core elements of an essential regulatory framework for securities regulations and establish the desirable attributes of a regulator.
- **Mutual assessment against the Financial Action Task Force (FATF) standards:** As part of the mutual assessment of Kazakhstan and the AIFC against FATF standards on 14 September 2022 the assessment team of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) made an onsite visit to AIFC. EAG assessors held interviews with AFSA and AIFC obliged entities to assess the AIFC’s compliance with international anti-money laundering (AML) and counter financing of terrorism (CFT) standards. During the meeting, AFSA responded to more than 50 questions from EAG assessors. Tentative outcomes of the assessment indicate the AIFC’s high level of technical compliance with international AML/CFT standards.
- **AIFC made first step towards recognition as a “netting-friendly jurisdiction”:** The International Swaps and Derivatives Association (ISDA) has published an Informal Country Update on the enforceability of close-out netting under the Acting Law of the AIFC issued by international law firm, Dentons. The publication of the Informal Country Update marks a significant milestone in the AFSA’s work with ISDA that

commenced in 2021 and marks the completion of the first step towards the full recognition of the AIFC as a ‘netting-friendly jurisdiction’.

Multilateral Agencies (MAs): AFSA continued interactions with the MAs in pursuit of cooperative synergies on enhancement of the regulatory regime and business climate in the AIFC.

AFSA continuously interacted with the International Monetary Fund (IMF) during the year on the margins of the article IV consultations, discussions related to cross-jurisdictional issues between regulators of the AIFC and mainland Kazakhstan and potential participation of AFSA in the Financial Sector Assessment Program (FSAP), to be held in 2023. Specifically, the meetings raised awareness of the IMF regarding the context of currency regulation rules, how they were developed and how financial stability risks were mitigated as a result of joint work of all regulators of Kazakhstan.

AFSA’s co-operation with the European Bank for Reconstruction and Development (EBRD) continued across several forums dedicated to discussion of ways of enhancing capital markets in Central Asia. For instance, EBRD supported AFSA’s events by active participation in the panel session “Development of financial services in Central Asia” at the AIFC Regulatory Landscape Forum on 29 June 2022 and the High-Level Meeting on Regulatory Co-Operation in Central Asia on 24-25 November 2022 (for further insights see below section “International Initiatives and Regional Co-Operation”).

As part of technical assistance from the Asian Development Bank (ADB) co-operation with ADB continued on development of commodities trading framework in the AIFC.

Contribution to Global Standard-Setting Activities: AFSA continued its contribution to global standard setting activities of international organisations. Specifically, working under various committees and working groups, AFSA contributes to international activities and participates in research initiatives, including:

1. sharing its expertise and participation in various projects through membership of 15 committees and working groups of international organisations;
2. contributions to 9 research initiatives and surveys of standard setting bodies throughout 2022, which normally serves as the first step to generating new standards and assessing best practices; and
3. active participation in various international fora, which facilitated

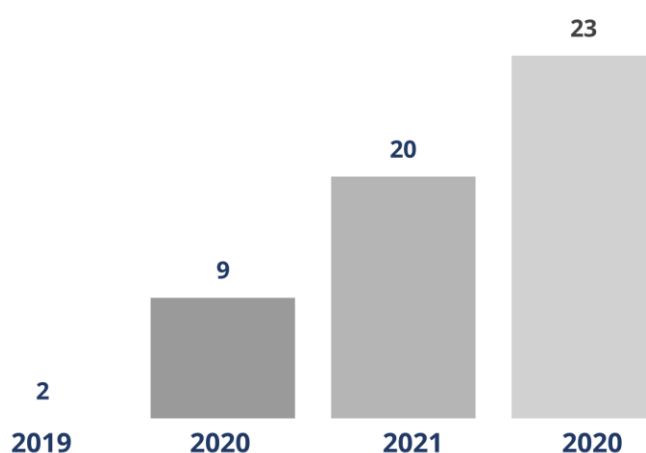
consultations, exchange of experiences and discussions globally among regulators (in total 98 events).

Bilateral Co-operation

Cross-Border Regulatory Co-operation and Exchange of Information: In 2022 AFSA began routinely exchanging information and the volume of information exchange saw a 10% increase compared to 2021 (See Figure 1 below). This exchange of information included 23 instances of collaboration with regulators from various jurisdictions across the globe. The purpose of these exchanges was to support AFSA's supervisory functions and promote the proper functioning of financial markets. This regulatory cooperation involved activities such as fit and proper examinations, unsolicited assistance, and jurisdictional assessments, which were instrumental in facilitating effective supervision by AFSA.

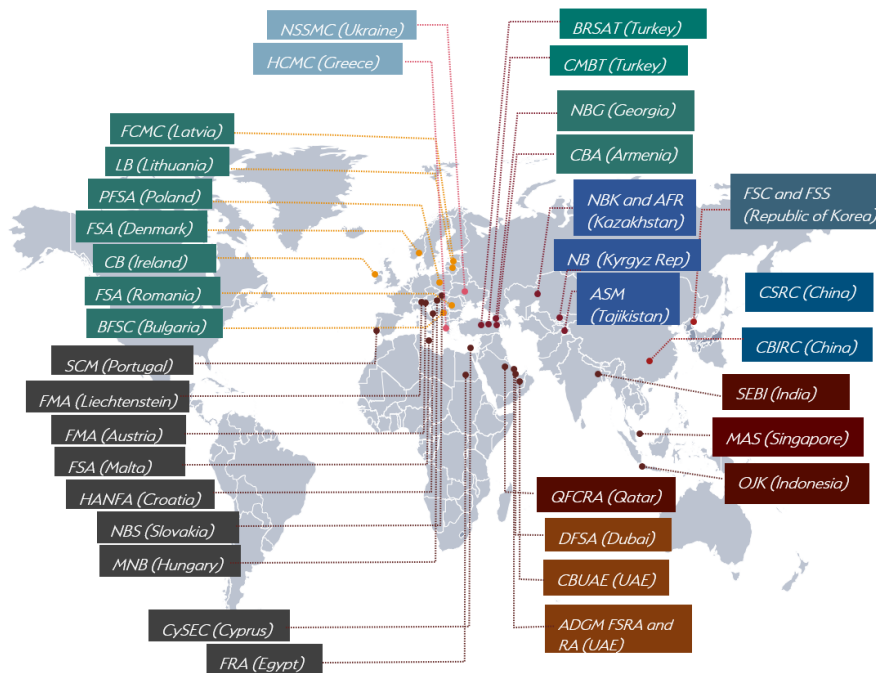
Figure 1: Statistics of regulatory co-operation 2019-2022

AFSA regulatory co-operation 2019-2022



Formalisation of Regulatory Co-operation: AFSA continued strengthening bilateral relations with peer regulators from Europe and Asia to enhance its ability to exchange information with regulators on supervisory issues. In 2022, AFSA entered into Memoranda of Understanding with the Agency of Securities Market Development and Specialised Registrar of the Ministry of Finance of the Republic of Tajikistan bringing the total number of agreements and memoranda concluded by AFSA to 44 (see Figure 2 below). Negotiations finalised, or continued, with regulators from Azerbaijan (CBA), Cayman Islands (CIMA), Germany (BAFIN), Italy (CONSOB), Mongolia (FRC), Oman (CMA), Russia (CBR), Uzbekistan (CBU, MoF), and Qatar (QCB) on formalisation of co-operation with a view to establishing a proper framework for supervision of cross-border transactions.

Figure 2: Map of regulators with whom AFSA has established co-operation



Exchange of Experience with Peer Regulators: As part of non-supervisory co-operation AFSA continued engaging with peer regulators across the world with a view to sharing experience (Bulgaria, DFSA-UAE, Indonesia, Hungary, Kyrgyz Republic, Luxembourg, Mongolia, Tajikistan, Turkiye, Turkmenistan, Uzbekistan, QFCRA)), enhancing cross-border co-operation (Georgia, Hungary, Luxembourg, QFCRA - Qatar).

International Initiatives and Regional Co-operation

World Investor Week 2022: World Investor Week (WIW) is an initiative by IOSCO that aims to promote the importance of investor education and protection on a global scale. WIW 2022 was hosted by AFSA from 3 to 7 October 2022 in a hybrid format, achieving a range of positive outcomes. The event featured 30 sessions with over 100 speakers and aimed to raise awareness about investor education, protection, resilience, sustainable finance, Islamic finance, fraud prevention, and crypto assets. The event attracted 5,700 participants from 17 cities in Kazakhstan and 20 other countries. Furthermore, the key messages of IOSCO were disseminated to over 51,000 people during the event, which included several thematic forums such as ESG Investments, New Financial Instruments, Digital Assets Investments, Islamic Finance, and Financial Literacy.

Regional Round Table of Central Banks Governors: On 30 June 2022, the Regional Round Table of Central Banks Governors held its kick-off meeting in

collaboration with the AIFC Authority and J.P. Morgan. The meeting was attended by representatives from central banks in Armenia, Azerbaijan, Georgia, Kazakhstan, and Mongolia. The kick-off meeting participants discussed various issues including rising global and regional consumer prices, monetary tightening in advanced economies affecting emerging markets, new disruptive technologies in financial services, and the impact of sanctions on Russia and restrictions on capital flows in the region. They also highlighted the effects of hot conflicts in the region on labour mobility, trade routes, energy prices, exchange rates, calling for better regional coordination to address these challenges.

The Regulatory Landscape Forum was held on 28 June 2022, as part of the Astana Finance Days. The forum brought together over 500 participants and more than 20 speakers from government agencies, international organisations, regulators, private sector and, scientific communities. The forum was comprised of four panel sessions, which covered topics such as the pilot project on the interaction of banks in Kazakhstan and crypto exchanges registered with the AIFC, the growth of digital assets, anti-money laundering challenges, and the development of financial services in Central Asia.

A High-Level Meeting on Regulatory Co-operation in Central Asia took place on 24-25 November 2022. Initiated in 2021 the high-level meeting serves as an annual forum for financial regulators of the AIFC, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. The primary goal of the meeting in 2022 was to promote cross-border co-operation among regulatory authorities in Central Asian countries. The meeting covered various topics, including global trends in financial markets, perspectives of Central Asian capital markets, Islamic finance, connectivity in financial markets, and regional financial infrastructure and complementarity of financial systems in Central Asia. The event facilitated ideas of enhancing collaboration among Central Asia's regulators and fostering a supportive mindset for joint regional initiatives. The main outcome of the event was the adoption of the Joint Declaration of the Regulators of Central Asia that sets out high-level intentions to cooperate on the following: (1) the creation of a platform capturing information on capital markets of Central Asia; (2) the creation of a regional credit rating agency; (3) the exchange of information on credit and insurance history; and (3) the creation of a platform for mutual notification of emerging threats.

Public Outreach

Public outreach is aimed at generally informing the public about the regulatory environment of AIFC and facilitating further decision making in AIFC.

Visits to AFSA: During the reporting period, AFSA received 59 external delegations. This indicates the ongoing external market interest in the AIFC. The majority of visitors were private sector entities from Australia, Belarus, China, Egypt, India, Kazakhstan, Kyrgyzstan, Lithuania, Romania, Russia, Spain, UAE, United States, and Uzbekistan. Public authorities included those from Andorra, Central Asia, China, Georgia, Kazakhstan, Latvia, Luxembourg, Malaysia, Mongolia, Russia, Singapore, USA, and Vietnam, as well as international organizations such as the UN, SCO, IsDB, and EIB.

Outreach Events: AFSA participated in AIFC outreach events aimed at explaining the regulatory regime of the AIFC for financial and business communities in the Czech Republic, Germany, Malaysia and the United States. AFSA participated in four speaking engagements at international forums, such as GFIN's Annual General Meeting, the Budapest Eurasia Forum, Malaysia Islamic FinTech Leaders, and Fintech Without Borders.

PUBLIC RELATIONS AND COMMUNICATIONS

Throughout 2022 public relations and communications channels have supported AFSA's strategic goals in several ways by:

1. Ensuring consumer protection;
2. Building relations with partners for better visibility and promotion of AFSA among international business communities; and
3. Strengthening existing and opening new media markets.

Ensuring Consumer Protection

In 2022 the Public Relations and Communications Division (PRC) placed significant emphasis on consumer protection through regular dissemination of regulatory updates. Ten regulatory updates were distributed by the specialised Selzy mailing software to brief participants about the ongoing amendments to the various regulatory frameworks. Invitations to webinars and workshops were duly disseminated to ensure high attendance at awareness-raising events and to inform the participants of the latest AFSA news and therefore protect consumer rights. A regulatory townhall in July 2022 engaged around 100 participants, which was a tremendous increase on all the previous townhalls and was the result of better and more regular communications with, and

outreach to, the participants through mailing reminders (with a minimum three reminders per event) as well as social media posts.

Monthly newsletters with all the important updates from AFSA reach 1,800 participants through the Selzy dissemination software. Each dissemination is followed up by calls and emails from participants to be included on the mailing list to receive the newsletters.

40 infographics cards explaining the most frequently asked questions and answers on the topics of registration, authorisation and supervision were disseminated across all three social media accounts. The most frequently asked questions were based on real-life scenarios that usually cause a challenge to participants and consumers, namely (1) the order of steps to take to get registered or authorised; and (2) the difference between the types of companies that one can establish etc. On average each card was viewed 1,000 times by unique visitors. The cards were subsequently disseminated among foreign embassies to be used for promoting investment to Kazakhstan.

Events such as Astana Finance Days and World Investor Week also served to educate consumers, help make investor behaviour safer and equip them with knowledge to help them make adequate and informed financial decisions and choices.

Astana Finance Days (AFD)2022 saw several important topics discussed, including the launch of the pilot project on interaction of AIFC-registered crypto exchanges and Kazakhstan's second-tier banks, integration of Central Asia's markets to be a more attractive combined market for foreign investors, anti-money laundering and financing of terrorism as applied to digital assets and others. AFD had a strong focus on regulatory cooperation among Central Asian countries. On average every social media post concerning AFD has been viewed by approximately 3,000 people, which is evidence of high target audience interest.

World Investor Week (WIW), AFSA's flagship annual event, was highly focused on investor protection, as usual. PRC fully organised the Cryptoliteracy panel session in which NFTBazaar – everything about crypto in KZ, Forklog and CoinDesk journalists were speakers. The panel session raised important issues of adequate consumer protection, especially in the area concerning digital assets, lack of sufficient information about digital assets in the Kazakh language and hence the proliferation of fraud in the Kazakh Internet segment etc.

PRC also helped moderate the FinFluencers panel session at WIW that generated a lot of interest with the public as it raised the issue of accountability and responsibility for financial advice and consultation by making it clear that

bloggers and influencers are not authorised to provide financial advice and therefore the responsibility for the outcomes of investment choices based on such advice might be made in poor judgement. The fact that several media outlets re-published this news demonstrates the educational value of the forum.

Overall, WIW 2022 showed an improvement on 2021 outcomes in terms of communications: it ensured over 90 social media posts (announcements and several quote-posts per panel session) and 328 mentions in the media (compared with 151 mentions in 2021).

Over 20% of the 31 press releases distributed in 2022 were about alerting consumers about the firms that had violated AFSA's regulatory rules. These include three suspensions (for GB Finance Ltd., GB Insurance Ltd., and Sanity Capital Ltd). The press releases also highlighted that Extrum Limited, KBI Partners Limited and S-Capital Limited received warnings, while HitBeat Music received two warnings. A warning concerning the HitBeat Music Representative Office has been communicated across 11 leading media in Kazakhstan and resulted in a retaliatory interview response from HitBeat Music in Zona.kz. Such reactions by a firm usually act as evidence of how impactful the media campaign has been in communicating its message to a wide audience of consumers, thereby protecting them from potential harm.

AFSA's website has been migrated to a new platform and made more consumer friendly. This work has been led by the AIFC PR and Communications and IT departments, with support from the related AIFC bodies. The website has been made visually more attractive, more intuitive in navigation and more convenient for use.

Since participant firms are one of the main products of AFSA, their voice determines how consumers perceive AFSA and how willing they are in trusting AFSA's advice and recommendations. Proactive outreach to AIFC participants such as banks, investment firms and fintech companies has begun a new direction of work with AIFC participants. 19 participants have spoken to AFSA to express their reflections and opinions about the work of their regulator, with each quote-card post collecting on average around 1,000 impressions, meaning that an audience of 19,000 read the posts and familiarised themselves with the positive sides of AFSA's operations. Amongst the most notable participants were the CEO of China Construction Bank Corporation Astana Branch Mr Songhua Wang, the CEO of Bitfinex Securities Ltd Mr JL van der Velde, the founder of Biteeu Eurasia Ltd., Mr Shukhrat Ibragimov and others.

As a result of more participant engagement, their behaviour has also started to change. Participants now proactively come forward and contact AFSA to collaborate on press releases and other media publications. When Advanced Payment Solutions received their licence from AFSA to act as a digital investments agent, the firm's communications team asked for inputs from AFSA to issue a press release that mentioned the regulator in it. Subsequently, the press release was issued by a global outlet, Fintech Finance News.

Promoting AFSA more Visibly Internationally Through Partnership

Partners that are able to strengthen and expand the dissemination of AFSA's key messages are crucial in the work of the PRC Division. One of the impactful ways to engage partners in communications work has been to partner with the Ministry of Foreign Affairs of Kazakhstan (MFA RoK) and together with the Embassies of Kazakhstan abroad. Since it is the task and key performance indicator of many of Kazakhstan's Ambassadors to increase foreign investments, the Public Relations and Communications Division has used several channels to transmit information about AFSA to the Embassies. In June 2022 PRC held a workshop for the press-attaches' of Kazakhstan's embassies abroad. It was agreed between PRC and the Committee of Foreign Information of Kazakhstan's Ministry of Foreign Affairs to disseminate the key messages and news of AIFC through the Ministry's channels.

Such channels include Telegram and WhatsApp groups involving a total of around 120 subscribers that ensure connections with the relevant press-attaches. Since June 2022, AFSA regularly provides the necessary data to the Embassies.

The general impact of this work is that focal points from relevant embassies use AFSA's presentations and other news updates in their respective meetings with business communities abroad and create chains of connections between AFSA and businesses abroad. The most active Kazakhstan Embassies interacting with AFSA are the UK, Germany, Hungary, Spain, Turkey, UAE, Malaysia, Egypt, Oman. Each of their social media accounts' follower base ranges between 1000 to 6000 users.

Examples of successful collaborations with the embassies abroad was an article in Hungary's flagship media Magyar Nemzet when AFSA CEO attended the Annual Budapest Eurasian Forum. Support with the Kazakhstan Embassy to Hungary was important to ensure that the interview took place.

Similarly, the PRC has made progress with the way it interacts with partners when the Ministry of Finance of Kazakhstan published news of the OECD's recognition of AIFC's tax regime as compliant with world standards practically

simultaneously with AFSA and carried the same key messages that AFSA promoted.

Strengthening Existing, and Opening New, Media Markets

Since the media are the main transmitters of information and trend-setters for public behaviour and public's awareness of AFSA, in 2022 existing media relations were strengthened. The AFSA Public Relations and Communications Department continued establishing itself as a reliable and trustworthy source of information for both Kazakhstan-based and international media. Large and important projects, such as the introduction of supervision fees, cases of license suspension and others required specific communications approach, preparation and anti-crisis communications. For example, the news on supervision fees was potentially a communications risk and one of the participants did provide negative public comments about it in Telegram. However, advance anti-crisis work and tailor-made questions and answers prepared in advance helped to avert the risk of wider discontent among the media and ultimately the consumers.

Anti-crisis communications included daily monitoring of the media environment to identify potential communications risks, to utilise potential opportunities to highlight AFSA's visibility or to inform management-level decisions. This has helped AFSA to develop the best scenarios for communications activities.

With the pilot project being one of AFSA's main products in 2022, close relations were built with global leading crypto media, such as CoinDesk (9.5 mln website visits and 3.6 mln subscribers on social media). Regular interaction has been set up with one of world's top five and Russia's #1 crypto-media Forklog, whose journalists spoke at the World Investor Week's dedicated panel session on crypto literacy. This subsequently resulted in an extensive interview with AFSA's FinTech Division's Director in Forklog.

Damcoin, Blockchain24 and FinTech Finance News are also amongst the FinTech media that regularly reflect AFSA's updates.

With a readership worth 400,000 Russia's Plus World Magazine has become a reliable partner of AFSA. It has published columns by AFSA staff on such important topics as Multilateral and Organised Trading Facilities (MTF/OTF); OECD's recognition of Kazakhstan's and AIFC's tax regime as compliant with global standards of tax transparency; and a column about the regulation of digital assets at AIFC.

Le Monde (circulation of 324,000 per issue) published a large piece on the AIFC and included a quote about AFSA's strict regulation regarding the aspect of Anti-Money Laundering and Financing of Terrorism. This interview was part of a large meeting between a number of global media such as Le Monde (France), El Mundo (Spain), La Vanguardia (Spain), Berliner Zeitung (Germany), Wirtschaftswoche (Germany), Ostexperte (Germany), Die Presse (Germany), Les Echos (Belgium), when the Director of the Financial Conduct Division Yerkegali Yedenbayev, presented AFSA's achievements to them.

One of the important principles of PR and Communications work is informing and educating the media to better equip them for disseminating an organisation's key messages. A media workshop was conducted for the leading local, and some international media, which included Kazakhstanskaya Pravda, Delovoi Kazakhstan, Atameken Business Media, Qazaq Radiosi, Sputnik Kazakhstan, China Global Television Network, RTVI, and Jibek Joly TV. As a result of this workshop, the participating media improved their knowledge of AFSA and its role in the financial markets of Kazakhstan, publishing more frequent and better-quality materials.

One of the major events of 2022, in terms of media relations, was the arrival of Binance in the AIFC. Interaction with Binance's communications team resulted in a global blog on the Binance website and social media posts. This was an example of promoting AFSA through a "big-name" participant and leveraging the participant's contacts to increase AFSA's visibility. Over 200 media, including CoinDesk, Cointelegraph and other popular and widely read media published the news.

It must be noted that in a lot of publications, although the media mentioned AFSA as the jurisdiction that provided the In-Principle Approval, a lot of emphasis was placed on the jurisdiction of Kazakhstan as a country, which supports the argument that AFSA's visibility impact will be strengthened if it pursues greater partnership with the Government.

AFSA's PRC made considerable efforts to promote the organisation through participants' success stories in the media. Will Aston, Founder and Managing Partner at Ozara Services, was prominently featured in Central Asia's popular media WeProject, with overall social media coverage of over 200,000 subscribers. WeProject also ran a story about Sufyan bin Uzair, founder at Parakozm. Ltd, which provides IT courses in the Kazakh language. Financial pyramids and ways to educate and inform oneself of their dangers, was highlighted in the interview by QuantDART's Compliance Officer Zhansaya Oryngazina in her YouTube interview to Baige News. Founder of Blackfort

Capital Gleb Straib was featured in both print media (WeProject) and on television (Jibek Joly channel).

One 2022's highlights was the completion of a joint media project with KPMG's Central Asia office who had decided to headquarter in the AIFC and chose to write a piece on this. As a result, KPMG's Head of Tax and Legal for the Caspian region, Inna Alkhimova, wrote a column with extensive support from the PRC. The PRC provided support with the overall content, news angle, background facts and figures, quotes from participants, support with conducting a participant survey and the subsequent publishing of the column.

Apart from the traditional print and electronic media, AFSA achieved an important milestone in delivering its key messages through social media. AFSA's LinkedIn page subscriber numbers have more than doubled since the beginning of 2022 and the top five follower demographics consistently includes London (UK), Greater Istanbul (Turkey), New York City Metropolitan Area (US), Washington DC-Baltimore Area (US), and Doha Metropolitan Area (Qatar). An additional two social media accounts were set up, on Instagram and Twitter. Although still small, Twitter's follower base includes such strategically significant persons and organisations as the Embassy of Kazakhstan to Spain and to Finland, a New Zealand MP for the Green Party, the Securities Commission of the Bahamas, Bitfinex Securities and others.

Overall, there were 3,903 mentions of AFSA in the media in 2022, among them 2,259 neutral, 1561 positive, and 83 negative. Most of negative comments were related not to AFSA directly, but to regulatory actions made by AFSA, such as a firm's suspension of licence or the arrival of Binance, which some saw as a risk of growing influence from Russia. Generally, since AFSA occupies a unique niche of financial regulation, and given that its communications work involves transmitting very complex concepts to ordinary people, it is a very good result.

The PRC made significant efforts to explore new media markets and promote AFSA among companies that might potentially set up in the AIFC.

Analysis was carried out for media popular among Islamic banks and Islamic financial institutions in the Middle East, South-East Asia and North Africa. 30 media institutions were identified, and proactive emails were sent to them to establish contact.

Similarly, media markets of India, Pakistan and Turkey have been explored. Cumulatively over 80 contacts have been identified to reach out to for communications activities.

This method has helped the PRC to secure contacts and partnership with CoinDesk, Fintech Finance News, and Forklog.

It is important to note that apart from reaching out to these media, the PRC actively informs and educates them on the way AFSA works, the matters it deals and doesn't deal with as well as provides adequate and timely support with any information that the media need to publish stories.

As practice demonstrates, for every 50 contacts made, around one to three viable contacts are established.

As a result of this work, PRC's media mailing list has been expanded and now includes over 120 contacts.

Establishing meaningful media contacts at an international level normally requires large human and/or financial resources.

Whilst media do express an interest in working with AFSA on a pro bono basis, substantial results may be achieved if and when adequate resources are allocated.

KEY OPERATIONS INITIATIVES

CyberSecurity

During the first quarter of 2022, the ISO 27001 Gap Analysis project was initiated. The ISO 27001 Gap Analysis Report was performed by an independent external auditor Indelible Data Limited against the best practices defined in the ISO 27001:2013 information security management standard ("ISO 27001"), the de facto international standard for information security.

The report was compiled based on interviews of AFSA employees during January and February 2022.

The objectives of the report were to (1) perform an independent external gap analysis to assess the degree of (non) compliance of AFSA's information security with ISO 27001 standard requirements; and (2) propose recommendations for improvement of AFSA's information security in line with the best practices listed in the ISO 27001 standard.

Based on the report, a draft plan of recommendations on implementation of cyber essentials was prepared. The main result of the recommendations of the report is the development of several cybersecurity documents by the AIFC Administration CyberSecurity Department. Based on the draft plan, draft cybersecurity documents have been prepared by AFSA's IT department, which included the Information Security Policy and Objectives, Acceptable Use of Assets Policy, Personal Devices Policy (also known as the BYOD/Mobile Device

Policy), a policy on the use of cryptographic control and the Disaster Recovery Plan. Approval of these documents planned for 2023.

In the annual course of cybersecurity awareness update, AFSA employees completed 3 mandatory cybersecurity trainings during August. As a result, several employees reported cases on e-mail fishing and fraud attacks impersonating the CEO via social networks. All cases have been investigated, no negative consequences have been realised and employees were informed and warned regarding such cases.

IT Operations

In May 2022, updated changes to the Service Legal Agreement (SLA) between the AIFC Administration and AFSA were approved. The current SLA includes 95% of areas pertaining to IT, procurement, and office requests.

As part of the work on updating the IT equipment of employees, during 2022 there were 2 procurements of IT equipment: 12 and 25 laptops accordingly. Gradual replacement of all old IT equipment is planned during 2023. Work was also carried out to check the health of all IT equipment. Based on this, 61 batteries, 4 keyboards and 3 chargers were replaced.

As part of increasing IT and cybersecurity awareness among AFSA employees more than 20 guidebooks have been sent («How to book a conference room in Outlook», «How to add a sender to the trusted sender list», «How to send an outgoing letter to Government Bodies in Directum», etc.).

Digitalisation

The work on integration of the Directum system (the internal document management system) with the electronic document management system for government bodies, ESEDO, has been completed. This allowed AFSA employees to work in single document management system and send letters to government bodies regardless of whether they have a license. This integration did not require financial investment and allowed AFSA to save license costs.

As part of the project on the exchange of information between the AIFC and the National Bank of the Republic of Kazakhstan on foreign exchange operations (Digital Currency project), business and system requirements as well as mock-up pages of the system were developed.

Business and system requirements for the billing system have been developed. The billing system is designed to make payments, issuing acts and invoices to applicants, as well as requirements for integrating this system with E-

Residence and Business Process Management easier. As a platform for billing, we have chosen the 1C ERP system as it already includes all accounting processes and could be easily integrated with BPM. The development of billing block in 1C will be finished in 2023.

During the second quarter work was completed on: authentication and authorisation of applicants; enrolling AFSA employees in e-Residence; CRM using EDS of the National Certification Centre and Digital ID by Aitu passport (a unique tool that provides services for user's identification by two factors - biometrics and a phone number). Signing of registration documents by residents using their Digital ID by Aitu Passport has been completed in the test environment. The development of the functionality for signing documents by non-residents is planned to be executed in the first quarter of 2023.

Requirements for an Invoice generator/calculator have been developed. Invoice generator/calculator allows users to calculate the fees to be paid by AIFC participants and generate an invoice for payment. Currently, the invoice generator is under testing in e-Residence.

A Power BI tool for processing, aggregating, analysing and presenting supervisory reporting data submitted by AIFC participants that are under supervision of Prudential Division has been developed. Additionally, a Risk Matrix for companies that are under the supervision of Prudential Division has been developed in Power BI.

As part of the supervision of companies related to crypto transactions, an analysis was carried out to select a supplier for the blockchain analytics tool. Based on the analysis, the Confirm solution was chosen.

Blockchain analysis tools provide regulators with the ability to monitor and investigate suspicious cryptoasset activity, to look into specific crypto addresses, transactions, and entities, and link them to real-world actors across thousands of assets.

Human resources

The Human resources (HR) division's role is to support AFSA in pursuing the following goals:

- **Recruitment and Selection** for identifying and recruiting the best talent for the front and back office.
- **Training and Development** to improve staff skills and knowledge.
- **Performance Management** to obtain feedback on areas that need improvement.

- **Employee Relations** to handle employee relations issues, ensure that all policies and procedures are followed and that employees are treated fairly and with respect.
- **Compensation and Benefits** to manage the compensation and benefits packages, ensuring they are competitive and meet the needs of employees.

HR ensures that AFSA staff are well-equipped to provide excellent customer service and represent the company in a positive light.

Financial Operations

The Finance Division's primary task is to support AFSA's overall activities and strategy as related to financing and budget related issues. These include:

- **Expense accounting** – as an organisation receiving financing from the Republican budget, AFSA seeks to ensure that every 100 tenge is spent in a meaningful way contributing to the goals of the AIFC in general and AFSA in particular.
- **Supervision of fee revenues** - implementing supervision fees for the first time within AIFC in conjunction with regulatory office. New fees ensure greater independency of AFSA as a regulator, a criterion of significant importance for an IOSCO member.
- **Assistance in improving AFSA policies** on an implementation level, based on feedback from AIFC participants and non-participants.
- **Supporting all AFSA employees and activities** by ensuring timely financing.
- **Timely document turnover** is a part of AFSA's service to AIFC participants and is processed by the Finance Division.
- **Timely and accurate tax declaration and payment** is an important part of AFSA's obligation.

CONCLUSIONS AND THE WAY FORWARD

We will be moving forward to a few different directions in the next few years. Firstly, we are going to focus on further creation of flexible and convenient business environment for AIFC participants. Secondly, we are also planning to enhance the monitoring over non-financial firms. For the five years of AFSA's operations, the total number of AIFC participants has reached over 1700 firms in the register. As the number of firms continues to grow, more focus would need to be made on monitoring to ensure firms' compliance with the requirements of the AIFC corporate regime. Lastly, we always devote a lot of

time to make our service convenient, simple and fast, so we will continue focusing on digitisation to become a 'paperless division.'

Looking ahead to 2023, we will await the final outcome of the FATF review undertaken by the Eurasian Group on Combating Money Laundering and Financing of Terrorism, which is a FATF-affiliated body. We will also be gearing-up efforts in support of the AIFC Authority in reaching out more proactively to the international financial services community on the commercial opportunities and regulatory benefits to be had by such firms using the AIFC as their hubs from which to do business in Kazakhstan and the wider region.

AFSA's FinTech Division will further encourage innovation by providing an adequate and safe environment for firms to test out their novel ideas and concepts, while balancing it with the necessary safeguards to protect consumers. The pilot project, now extended into 2023, will govern what the regulatory landscape will look like for the interaction of crypto exchanges and Kazakhstan's commercial banks as its results will inform the national and AIFC policy concerning the development of crypto industry.

Over the last five years during supervision and discussions with the market, the AFSA has identified a series of regulatory approaches that need updating. Based on this, a Policy Paper governing issues of crypto exchanges was approved by AFSA's Legislative Committee in November 2022. This document will form the basis for amendments to AIFC's existing regulatory environment for crypto exchanges to be adopted in the second quarter of 2023.

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