

ANNUAL REPORT 2020



AFSA

Astana
Financial
Services
Authority

DISCLAIMER

This Annual Report contains general information about the Astana Financial Services Authority (AFSA) and is intended for informational purposes only. AFSA shall not be responsible for any liability arising from the use of the information herein.

This Annual Report contains forward-looking statements concerning AFSA activities. All statements (other than statements of historical fact) are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on the AFSA Board of Directors and the AFSA Executive Body's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among other things, statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. Several factors could affect the future operations of AFSA and could cause those results to differ materially from those expressed in the forward-looking statements included in this Annual Report.

All forward-looking statements contained in this Annual Report are expressly qualified in their entirety by the cautionary statements contained or referred to herein. Readers should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of this Annual Report. Neither the AFSA nor any of its officers, agents or employees undertake any obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this Annual Report.

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ABOUT AFSA

The Astana Financial Services Authority (AFSA) is the independent regulator of the Astana International Financial Centre (AIFC), established under Constitutional Statute to regulate financial services and related activities in the AIFC.

The AIFC was established as a result of the initiative of the former President of Kazakhstan, Nursultan Nazarbayev, and operates as per the Constitutional Statute relating to the Astana International Financial Centre, dated December 2015. The AIFC aims to attract inward investment to the Kazakh economy through the establishment of an attractive and business-friendly environment for financial services and capital markets, including securities, insurance, banking and Islamic finance.

This report presents the outcomes of AFSA's operations as the regulatory authority of the AIFC from 1 January 2020 to 31 December 2020.

Who we are

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 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 non-financial 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 renowned 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.

Objectives

In performing its functions and exercising its powers, AFSA pursues the following Regulatory Objectives:

- (a) The regulation, control and supervision of financial activities in the AIFC by Centre Participants to ensure the maintenance of a safe and robust financial system within the AIFC.
- (b) Ensuring that financial markets in the AIFC are fair, efficient, transparent and orderly.
- (c) Creating fair, transparent and non-discriminatory conditions for Centre Participants.
- (d) Fostering and maintaining confidence in the AIFC's financial system and regulatory regime.
- (e) Fostering and maintaining the financial stability of the AIFC's financial services industry and capital markets, including the reduction of systemic risks.
- (f) Preventing, detecting and controlling actions that may cause damage to the reputation of the AIFC or to the financial activities carried out in the AIFC by taking appropriate measures, including by imposing sanctions.
- (g) Protecting the interests of investors and users of financial services.
- (h) Implementing a regulatory regime for financial services in the AIFC that meets international standards.
- (i) Fostering the development of financial technologies in the AIFC.
- (j) Occasionally pursuing such other objectives as may be specified by AIFC's Regulations

Vision, Mission and Principles

Mission: Create and maintain a regulatory environment for fair and transparent financial markets.

Vision: To become a leading financial services regulator in Eurasia.

Values:

- Professionalism
- Transparency
- Integrity
- Accountability
- High ethical and corporate governance standards
- Impartiality, independence and objectivity in decision-making

EXECUTIVE SUMMARY

The activities of AFSA in 2020 were guided by the overarching goals of its midterm strategy for 2019-2020, which are consistent with the strategic development directions of the AIFC. AFSA's efforts have resulted in further enhancement of its regulatory frameworks, provision of support to the business community during the pandemic, growth of the AIFC participants' community and expanding AFSA's presence in the international arena.

Policy development

Throughout 2020 AFSA's efforts were focused on further development of the regulatory environment, with a view to facilitating business and innovation, compliance with latest developments and global standards as well as adoption of policy measures to mitigate negative consequences of the pandemic.

First, to ensure the AIFC offers a broad range of financial services, AFSA introduced five new financial services, including multilateral, organised, private trading and financing platforms. As of 31 December 2020, the AIFC financial services framework included 27 financial services, 8 market activities and 5 ancillary services.

Secondly, AFSA focused on various legislative initiatives on enhancing the following regulatory frameworks: (1) Waivers and Modifications Framework; (2) Authorised Market Institutions Rules; (3) Insurance and Reinsurance Prudential Rules; (4) Banking Business Prudential Rules; (5) Islamic Banking Business Rules; and (6) Representative Offices Framework. AFSA also developed the AIFC Special Rules and 6 Regulatory Materials. These legislative initiatives are part of AFSA's commitment to developing its regulatory regime according to the latest global developments and standards.

Registration of AIFC Participants

Entrance to the AIFC became simpler and easier as the registration process is now completely digitalised, allowing a decrease in the duration of procedures from 3-5 days on average to just 1 day. The number of registered AIFC Participants reached 658 by the end of 2020, representing an 81% increase compared to the 2019 population. Year-end outcomes indicate an ongoing trend of new firms choosing the AIFC as their jurisdiction. Overall, 294 new legal entities were registered during 2020, which is 11% higher than the previous period (264 firms in 2019). The majority of registered participants are domiciled in Kazakhstan (385 participants or 59%). The next five countries representing the largest population of firms are China (43 participants or 7%), Russia (39 participants or 5,9%), EU (41 participants or 6,2%), UK (26 participants or 4%), USA (18 participants or 2,7%).

Authorisations and Recognition

Throughout 2020 an increase in the number of applications for regulated activities (financial services) was seen compared to 2019. This speaks favourably of the AIFC's growing attractiveness for financial services firms from around the world. The number

of authorised firms increased 85% compared to 2019 (from 13 to 24), although a slight decline in ancillary service provider applications was observed, which might be indicative of market saturation for ancillary services.

The growing number of applications for the performance of financial services in the AIFC has been supported and facilitated by improved authorisation processes at AFSA as a result of further simplified procedures, extensive public outreach and explanatory work and the issuance of various guidelines to assist firms throughout the authorisation process and guide them through the regulatory requirements. This has allowed many new financial firms to enter AIFC, including the first full-fledged AIFC bank, first regional bank, first full-fledged broker, and first investment fund.

Supervision and Enforcement

AFSA ensures market integrity, financial stability and sustainable functioning of financial markets in the AIFC through its integrated system of supervision. Despite the COVID-19 pandemic, which has changed the way AFSA has supervised firms (including performing virtual or online inspections), AFSA's supervision system has remained effective due to its comprehensive and holistic nature.

Throughout 2020, the number of AIFC Participants subject to prudential supervision has increased considerably, from 10 firms in 2019 to 17 firms by the end of the year (comprised of 4 banks, 11 investment companies and 2 insurance companies). 130 firms and 77 key individuals were under conduct supervision.

Regulatory support measures were introduced by AFSA to support the business community of the AIFC during these challenging times. The regulatory support measures included: (1) COVID-19 regulatory relief measures, focusing on operational resilience as well as on reporting and financial measures; (2) a reduction of base capital requirements; and (3) a reduction of liquidity requirements for investment firms.

Combating money-laundering and terrorist-financing risks (AML/CFT) has been a strong focus area for AFSA during the reporting period. As such, AFSA developed the AML/CFT supervisory framework and conducted off-site thematic reviews. Preparations for the planned 2021 mutual evaluation of Kazakhstan project, which will review AFSA against the Financial Action Task Force (FATF) recommendations, have also commenced.

AFSA continued its supervision of Authorised Market Institutions and Recognised Non-AIFC Members (RNAMs), the Astana International Exchange (AIX) and AIX Central Securities Depository (AIX CSD). This capital markets oversight function of AFSA facilitated and/or enabled several important initiatives, such as the first Green Bond issuance, the first Sukuk Bond issuance, and approval of the Regional Equity Market Segment (REMS) of the AIX to simplify the onboarding of small and medium-sized issuers which, by their nature, introduce their own particular risk profiles.

Throughout the year AFSA also continued preventing, detecting, and restraining conduct which may cause damage to the reputation and integrity of the AIFC through its enforcement processes.

Promoting FinTech Innovations in the AIFC and Beyond

Encouraging innovative financial services in the AIFC remained an important part of AFSA's mandate. This was delivered through the FinTech Lab programme, development of the AIFC FinTech ecosystem and development of the national FinTech ecosystem.

AFSA continued offering an environment for firms to test their innovative financial services as the FinTech Lab programme expanded further. In 2020, AFSA received 63 applications. Digitalisation of the application process to the FinTech Lab sped up the authorisation process. Over the past year, 12 new firms have been accepted into the FinTech Lab to conduct activities in the provision of money services, digital assets, crowdfunding, banking, investments business and factoring.

New initiatives were embraced with a view to developing the AIFC FinTech ecosystem, through frameworks on digital assets, mobile/digital banking, AIFC E-money and Payment Services, and E-commerce.

The development of a national FinTech ecosystem was another priority during the year. AFSA pursued initiatives including: (1) passporting of fintech licences in the Eurasian and South-East Asian regions; (2) establishing a National Sandbox regime for cross-sectoral testing; and (3) collaboration with the Eurasian Economic Commission (EEC).

Effective Authority

Digitalisation. The pandemic has accelerated the role of digitalisation as conventional modes of operation were challenged. AFSA implemented a series of digital solutions to improve the efficiency of business processes in various areas, including (1) registration; (2) FinTech Lab authorisation; (3) recognition; and (4) internal business processes. These efforts provided increased efficiency of AFSA's operations despite the impacts of COVID-19 on market dynamics in the AIFC.

International co-operation. Continuing its efforts on international recognition of AIFC's financial services regulatory framework and on enabling cross-border business opportunities, AFSA became a signatory to two multilateral agreements on global regulatory co-operation: (1) the International Organisation of Securities Commission (IOSCO) Enhanced Multilateral Memorandum of Understanding, and (2) the International Association of Insurance Supervisors (IAIS) Multilateral Memorandum of Understanding.

AFSA maintained its significant contributions to global standard-setting activities. The main avenues for AFSA's involvement were (1) through its membership of 14 committees and working groups of international organisations (AFSA joined 2 governing committees and 3 working groups in 2020 alone); (2) its contribution to

research and survey initiatives globally; and (3) attendance at international forums discussing and expanding the global regulatory agenda.

Relations with peer regulators were strengthened as AFSA formalised its co-operation and signed 6 bilateral agreements and memoranda, making the total number of bilateral arrangements 25.

Co-operation with international development finance institutions continued throughout 2020. Specifically, AFSA gained technical assistance from the Asian Development Bank (ADB) as part of its preparations for the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) Mutual Evaluation of Kazakhstan. AFSA also started co-operating with both the EBRD and ADB on prospective technical assistance projects.

Commitment to international standards remained another key priority throughout 2020. Accession to several multilateral agreements reflects AFSA's adherence to best international standards on cross-border regulatory co-operation and enhanced international recognition of the financial services regulatory framework. For the purpose of aligning the regulatory framework with global best standards, AFSA focused on the following initiatives: (1) conducting a self-assessment against IOSCO and IAIS principles to identify areas for potential improvement; (2) enhancing the AIFC Islamic Banking Business Rules to incorporate the latest IFSB standards; and (3) applying the OECD standards on Automatic Exchange of Information and on countering harmful tax practices.

Public communications. Notwithstanding COVID-19 restrictions throughout the year, AFSA made enormous efforts in reaching out to its stakeholders, holding virtually 37 public events. Public outreach events covered topics ranging from registration and authorisation in the AIFC to regulation and supervision, consumer protection, anti-money laundering, enforcement, FinTech, and regulatory relief measures. 2020 World Investor Week (WIW) in the AIFC was the largest single outreach event covering 3,000 participants from 23 cities across Kazakhstan. In organising these events, AFSA partnered with organisations such as KPMG, the Agency for Regulation and Development of the Financial Markets of the Republic of Kazakhstan, the Association of Financiers of Kazakhstan, Refinitiv and the AIFC Academy of Law.

CHIEF EXECUTIVE OFFICER'S STATEMENT

2020 has been a challenging year for AFSA. On top of the consequences of the COVID-19 pandemic, the whole AFSA and AIFC family have been deeply saddened by the passing of Lady Barbara Judge, the first Chairman of the Board of Directors of AFSA, who served in this capacity from January 2018 to October 2020. Her energetic leadership and profound devotion to the success of AFSA will serve as inspiration for all of us at AFSA for years to come.



Mukhtar Bubeyev,
Chief Executive Officer

As the COVID-19 pandemic erupted, we prioritised the safety and wellbeing of our people by transferring to remote working, activating a virtual office and undertaking support measures for staff. Driven by our mission and vision, common values and strong team spirit, the whole AFSA team has performed professionally and applied immense efforts to overcome pandemic-related challenges while delivering our regulatory objectives. I express my appreciation to all employees of AFSA for their hard and devoted work during 2020.

The difficulties we had to deal with during the past year have only strengthened the aspiration of our people to succeed. AFSA continued enhancements to the regulatory environment of

the AIFC through many legislative initiatives, such as the captive insurance regime, regional equity market segment, Islamic banking business, new waivers policy, regulatory relief and support measures. These efforts supported previously underdeveloped areas of financial services and enabled new business opportunities thereby increasing market confidence in the AIFC's financial system.

Many new firms chose the AIFC as their jurisdiction, as AFSA digitalised the registration process to decrease the duration of the registration process to one day, simplified authorisation procedures for certain types of activities, digitalised recognition process and authorisation of FinTech firms. These measures, in conjunction with enhancements of the regulatory framework, resulted in almost doubled growth of AIFC Participants from 363 in 2019 to 658 in 2020. We will continue introducing new financial services and further improving the regulatory framework to offer the best conditions and environment for doing business.

2020 has been a year of tangible growth and the commencement of financial sector operations as financial firms in the AIFC started to perform a full range of financial services. The twofold growth of financial sector firms' assets is a testament to the above statement (from USD 200 million to 425 million).

The financial markets of the AIFC have also seen an expansion of the regulated population. By the end of the year, the regulated community of the AIFC totalled 174

firms, an almost 30% increase compared to the previous year. AIFC's financial community consisted of 2 market institutions, 24 authorised firms, 119 ancillary services providers, 2 recognised market institutions and 27 recognised members. Our achievements in regulation of financial technology led to positive outcomes such as the FinTech Lab accepting 12 new firms in 2020, bringing the total number of firms to 34.

The positive dynamics of the financial markets demonstrates that our policy development efforts have laid the necessary favourable conditions for carrying out financial services and related business. Building on this success, financial services that can be performed in the AIFC were complemented by 5 new activities (bank accounts, payment systems, multilateral trading facility, organised trading facility, and private financing platforms). The strengthened regulatory framework of AFSA allowed the AIFC to offer in total 35 types of financial services and 5 ancillary services.

The growth in the number of AIFC Participants is evidence of the AIFC's continuing attractiveness to international businesses. 294 new legal entities were registered in 2020 alone. Firms registered in the AIFC represent 50 countries and there is active interest from the international and local financial communities. Many new financial firms entered the AIFC, including new banks, brokers, and investment funds. Non-financial business registered in the AIFC is mostly engaged in conducting and providing services in the IT, agricultural, manufacturing, data processing and hosting, and subsidiary management sectors. Additionally, some perform as non-profit incorporated organisations or acting as holding companies.

To support our financial community, AFSA adopted a comprehensive package of regulatory support for AIFC Participants. Such measures were commensurate with the market dynamics and included: (1) COVID-19 Regulatory relief measures; (2) optimisation of base capital requirements and (3) optimisation of liquidity requirements for investment firms.

AFSA continued progressing in many areas of international standards of financial regulation. Self-assessments have been conducted against the IOSCO principles and certain IAIS principles. Following extensive peer-review of the AIFC financial services framework, AFSA became a signatory to several multilateral agreements in capital markets and insurance supervision.

Consumer protection has remained a key priority for AFSA pursuant to its regulatory objectives. AFSA implemented a complaints submission tool on its website and initiated a detailed complaint handling procedure. The 2020 World Investor Week in the AIFC offered current and potential consumers many opportunities to learn about their rights as consumers and raise levels of financial literacy. A series of virtual events involved over more than 3,000 participants from 23 cities in Kazakhstan.

Countering money-laundering and terrorist-financing has gained a strong focus in the past year. AFSA implemented amendments to Anti-Money Laundering (AML) rules and procedures and regularly conducted public events for AIFC Participants on AML matters.

I wish to thank Dr Kairat Kelimbetov, Governor of the AIFC, for his continued support and leadership. The principle of “one AIFC family” set out by the Governor, the mutual support and joint work of all AIFC-family organisations towards attaining the strategic objectives of the AIFC has contributed to achieving AFSA’s goals in the past year.

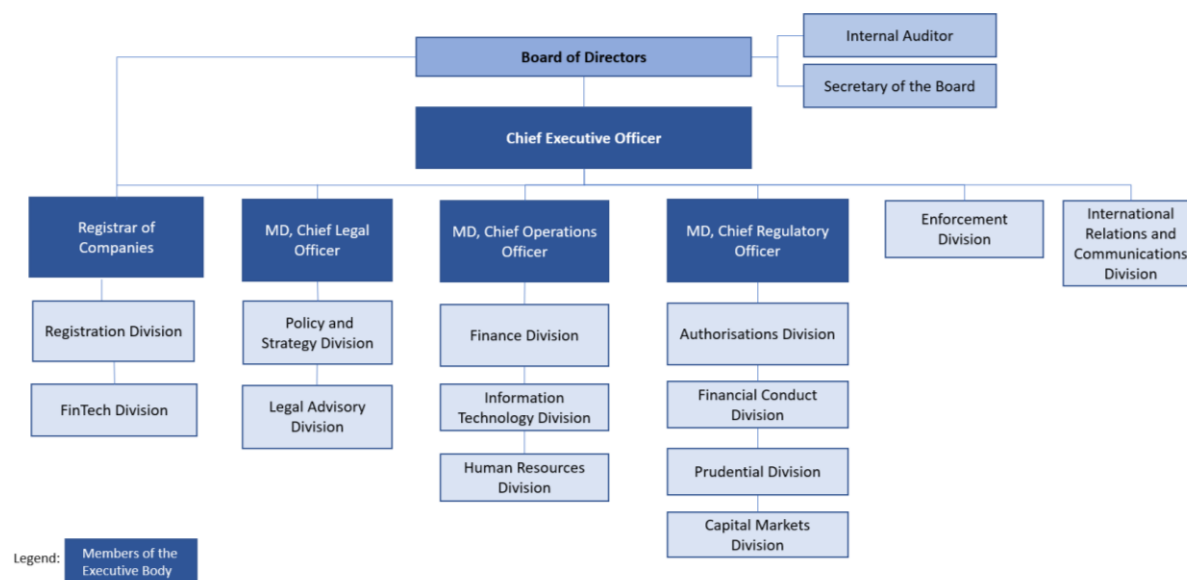
I would like to express my appreciation to the Board of Directors for guiding our strategic directions and to the Executive Body members for their dedication and efficient management of their assigned areas of responsibilities.

It is an honour and privilege to serve as a Chief Executive Officer of AFSA. I, and the whole AFSA team, look forward to new achievements and delivering our vision of becoming a globally respected regulator of financial services in Eurasia.

PART 1: OVERVIEW

1. GOVERNANCE

ORGANISATIONAL STRUCTURE



BOARD OF DIRECTORS

AFSA operates a two-tier system of corporate governance. Under the existing two-tier system, the Board and the Executive Body exist side by side.

The Board is the governing body of the AFSA 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 day-to-day operations of AFSA. The Board identifies 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 by the Executive Body of the day-to-day business of AFSA;

- 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 (CEO) and other members of the Executive Body after consultations with the Governor;
- 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 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, executive and non-executive (independent) members¹. As of December 2020, there are 8 members of the Board. The Board comprises 7 independent Non-Executive Directors: Mrs Angela Knight, Mr Akash Deep, Mr Daniel Heller, Mr Gregory Tanzer, Dr Iain Saville, Mr Marc Holtzman and Mr Masood Ahmed and one Executive Director, Mr Mukhtar Bubeyev.

As of December 2020², each director's roles and date of appointment as a member of the Board is shown below:

Name	Positions held	Date of appointment / re-appointment
1. Angela Knight (Deputy Chairman)	<ul style="list-style-type: none"> • Deputy Chairman of the Board • Chairman of the Audit and Risk Committee of the Board 	23 May 2020 (2 nd term)

¹ Independent Non-Executive Directors are free from any business or other relationships which could materially interfere with or appear to affect the exercise of their judgement and have not been previously involved in the management of the AFSA or AIFC. The term of (re)appointment of a Board member or the Chairman is three (3) years and the maximum number of terms of (re)appointment is three (3) except for in exceptional circumstances when a Board member may be (re)appointed more than three (3) times. The Non-Executive Directors do not have service / employment contracts with AFSA but instead, have letters of appointment.

² Ms Zere Seidimbek was a member of the Board and a member of the Audit and Risk Committee of the Board, for the period 3 January 2018 – 30 September 2020.

Name	Positions held	Date of appointment / re-appointment
	<ul style="list-style-type: none"> Member of the Nomination and Remuneration Committee of the Board 	
2. Akash Deep	<ul style="list-style-type: none"> Member of the Audit and Risk Committee of the Board 	22 May 2020 (2 nd term)
3. Daniel Heller	<ul style="list-style-type: none"> Member of the Legislative Committee of the Board 	1 February 2019
4. 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)
5. Iain Saville	<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 Member of the Legislative Committee of the Board 	20 May 2020 (2 nd term)
6. Marc Holtzman*	<i>Mr Holtzman will become Chairman of the AFSA Board of Directors effective from 1 January 2021.</i>	17 November 2018 – as a member 1 January 2021 – as a Chairman
7. Masood Ahmed	<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 Chairman of the Nomination and Remuneration Committee of the Board starting from 1 October 2020 	28 May 2020 (2 nd term)
8. Mukhtar Bubeyev	<ul style="list-style-type: none"> Chief Executive Officer 	1 October 2020
9. Marat Aitenov**	<ul style="list-style-type: none"> N/A <i>Mr Aitenov will become a member of the AFSA Board of Directors effective from 1 January 2021</i>	1 January 2021

As of November 2020, 7 out of 8 members of the Board are independent non-executive directors (Mrs Angela Knight, Mr Akash Deep, Mr Daniel Heller, Mr Gregory Tanzer, Dr Iain Saville, Mr Marc Holtzman and Mr Masood Ahmed).

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 Mrs Angela Knight and comprises four other members: Mr Akash Deep, Mr Gregory Tanzer, Dr Iain Saville and Mr Masood Ahmed.

The role of the Audit and Risk Committee 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 Audit and Risk Committee 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 other two members: Mrs Angela Knight and Dr Iain Saville.

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 comprises two other members: Dr Iain Saville and Mr Daniel Heller.

The Legislative Committee 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 2020 through examining Executive Body Reports in February, July, October 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 2020 and amendments to the implementation plan of the AFSA Corporate Risk Management System Development Strategy for 2019-2020;
- Approved KPMG Audit LLP as external auditor of AFSA for a 3-year period from 2020 to 2022 and internal auditor of AFSA;
- Considered the financial statements for the year ended 31 December 2019 and the six months ended 30 June 2020;
- The AIFC Code of Ethics was endorsed by the Board and Mr Michael Howard was appointed as the AFSA Ethics Ambassador;
- The regulatory framework was strengthened by the Board's approval or pre-approval of the following:
 - Enhancing the AIFC Market and Market Institutions Framework
 - Enhancing the AIFC Legal Entities Framework
 - Enhancing the AIFC Banking Business/Islamic Banking Business Framework
 - Enhancing the AIFC Insurance/Islamic Insurance Framework
 - Reviewing the AIFC Financial Services Framework Regulations and AIFC General Rules
 - Reviewing the Anti-Money Laundering, Counter-Terrorist Financing and Sanctions Rules
 - Reviewing the AIFC Representative Office Rules.
- Additionally, the Board approved the following regulatory materials:
 - Class Modifications and Waivers (base capital and liquidity);
 - Guidance on consultancy services;
 - Guidance on captive insurance regime;
 - Harmonisation of legislation on digital assets in the AIFC and Republic of Kazakhstan;
 - Revision of Fees.

Member Profiles



Mrs Angela Knight CBE

Independent non-executive member of the Board

Deputy Chairman of the Board

Chairman of the Audit and Risk Committee

Mrs Angela Knight is a Senior independent non-Executive Director at TPICAP plc, an Independent non-Executive Director at Taylor Wimpey Plc, an Independent non-Executive Director at Arbuthnot Latham Ltd and Independent non-Executive Director at Provident Financial PLC and Chair of Group Risk Committee and an Independent non-Executive Director at Encore Capital Group Inc.

She has served on a number of 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 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. 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 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 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 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. His 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 Marc Holtzman

Independent non-executive member 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, the world's leading provider of analytics-driven technology-enabled services and FAT Brands, a global franchisor of leading restaurant brands.



Dr Iain Saville CBE

Independent non-executive member of the Board

Dr Saville is an independent non-executive director and chairs the risk committee of European Central Counterparty N.V. He had a varied career for 20 years in the Bank of England. Dr Saville served as an independent Advisor and Director to the European Central Bank for 5 years on the design and delivery of the EU's securities settlement system, TARGET2. Previously, he was the founder and CEO of CREST (UK-based central securities depository) and an Executive Director of Computershare.



Mr Mukhtar Bubeyev

Executive member of the Board

Mukhtar Bubeyev was appointed as the Chief Executive Officer of AFSA from 1 October 2020 by the decision of the AFSA Board of Directors.

Mr Bubeyev is a qualified professional in banking supervision and the financial services sector. Previously, he headed banking supervision at the Financial Markets Supervision Agency of Kazakhstan and National Bank of Kazakhstan. He also served as a board member of Kazakhstan's central bank responsible for monetary policy. Mukhtar joined AFSA as Chief Policy Officer in January 2017.

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 AIFC Management Council and/or resolutions of the AIFC Governor and/or decisions of the AFSA Board.

The members of the Executive Body are appointed and dismissed by the Board after consultations with the Governor. 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, for adoption by the Board within its competence: strategies, policies, internal documents and the rules and regulations of AFSA;
- Implement the strategy approved by the Board and decisions of the Board;
- Develop and deliver the strategic objectives identified by the Board;
- Prepare the draft financial statements and business plans and the annual budget and annual reports of AFSA, submitting them to the Board for approval;
- Form committees of the Executive Body to consider specific issues if necessary;
- Oversee the establishment of effective risk management and control systems;
- Exercise any other powers and functions, as set by decisions of the Council or the Governor or the Board.

Overview of key decisions

Executive Body members, including the CEO, meet regularly as often as it is necessary and at least once per month to discharge their duties effectively.

The Executive Body reviewed and pre-approved all regulations and rules, as well as regulatory material before submission for approval to the AFSA Board of Directors.

During 2020, the Executive Body members met to discuss and approve (or pre-approve) various issues, including, inter alia:

- Charter of the Executive Body of AFSA;
- Delegation Matrix on regulatory matters of AFSA;
- AFSA Internal Documents Classification Standards;
- Guidance applicable to the Rules of Internal Control to counteract the legalisation (laundering) of proceeds from crime and the financing of terrorism for financial monitoring entities of the AIFC;
- Guidance to counteract the legalisation (laundering) of proceeds from crime and the financing of terrorism, applicable to Customer Due Diligence in cases

when the AIFC Participants (the Relevant Persons) establish non-face to face business relations with customers;

- The List of financial services and ancillary services provided by AIFC participants, subject to financial monitoring;
- Simplification of the Application Form for certain Regulated Activities and development of Guidance for Firms' policies and procedures.

Executive Body Committees

The Executive Body may form committees to consider specific issues. During 2020, three such committees operated in AFSA:

Authorisation, Waivers and Modifications Committee

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:

(a) for a licence or recognition to carry on any regulated activity provided for in or under the AIFC Financial Services Framework Regulations (Framework Regulations), and/or

(b) to modify or waive any provision of Rules issued under the Framework Regulations, by providing reasoned advice, guidance and recommendations in respect of the same.

Committee on Authorisation of FinTech Regulatory Sandbox Applications

The objective of the Committee is to assist the Chief FinTech Officer of AFSA in exercising responsibility and power to consider and render decisions and directions in respect of applications for a Sandbox Permission to deploy and test Fintech Innovations in the FinTech Lab.

Enforcement Committee

The objective of the Committee is to assist the Executive Body of AFSA in exercising its responsibility. The Committee has the power to consider and render decisions and directions in respect of specific issues related to enforcement investigation.

Member Profiles



Mr Mukhtar Bubeyev

Chief Executive Officer

Mukhtar Bubeyev was appointed as the Chief Executive Officer of AFSA on 1 October 2020 by decision of the Board of Directors of the AFSA.

Mr Bubeyev is a qualified professional in banking supervision and the financial services sector. Previously he headed banking supervision at the Financial Markets Supervision Agency of Kazakhstan and National Bank of Kazakhstan. He also served as a board member of Kazakhstan's central bank responsible for monetary policy. Mukhtar joined AFSA as Chief Policy Officer in January 2017.



Ms Aizhan Zhantayeva

Chief Operations Officer

Ms Aizhan Zhantayeva joined AFSA in March 2018 as Managing Director and Chief Operations Officer.

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. She worked as Adviser to CEO in the AIFC Authority and director of Human Resources at both the National Bank of Kazakhstan and ATF Bank.



Mr Gareth Ling

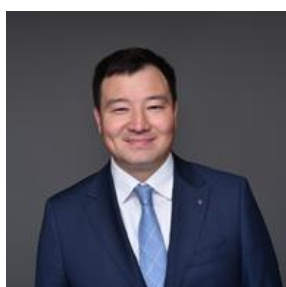
Chief Regulatory Officer

Mr Ling is an experienced compliance professional, most recently based in Dubai in the Dubai International Finance Centre (DIFC) with Société Générale as Regional Head of Compliance & Financial Crime for the Middle East, covering its Corporate & Investment Banking, Global Markets, Trade Finance and Private Banking businesses. Prior to this, he was MENA Head of Private Banking Compliance with Barclays Bank in the DIFC, which followed a period in Qatar (in the QFC) as Barclays's Country Head of Compliance & AML.

Prior to the above, Mr Ling was a regulator for many years with extensive senior management experience in the areas of

supervision, authorisation, regime design and implementation, and risk assessment – substantially gained with the (former) UK Financial Services Authority (FSA) [now the FCA/PRA] and its predecessor organisations, and then in the Middle East with the Dubai Financial Services Authority (DFSA) as Director of Authorisation and the Qatar Financial Centre Regulatory Authority as Associate Director, Supervision.

After ten years in the private sector, Mr Ling now returns to the regulatory world with AFSA. From 7 December 2020 Mr Ling was appointed Chief Regulatory Officer of AFSA.



Mr Nurkhat Kushimov

Registrar

Acting Chief Legal Officer

Mr Kushimov joined AFSA as the Registrar of Companies in May 2019. From 10 March 2020, he was appointed as the Acting Chief Legal Officer of AFSA. Mr Kushimov oversees the activities of two divisions: Office of the Registrar of Companies and Legal Advisory Division.

Mr Kushimov has 13 years of legal work experience in government, at different departments of the Ministry of Interior and Ministry of Justice. Before joining AFSA, he was the Head of Issuers Regulation and Head of the Legal Department of AIX.

Mr Kushimov as the Acting Chief Legal Officer is responsible for management reporting to the CEO, the AFSA Executive Body, the AFSA Board of Directors and the AIFC Governor in respect of matters being handled by the Legal Advisory Division.

2. STRATEGIC DIRECTIONS

The past year has been the second year of implementation of AFSA's Strategy for 2019-2020. Despite the implications of the COVID-19 pandemic, AFSA has not lost sight of the many priorities it had previously committed to. This section of the Report provides the main highlights of the five key strands of the Strategy:

(1) Regulation

In accordance with the Strategy, AFSA is committed to adopting and implementing a regulatory regime that complies with international standards and global best practices. In 2020, AFSA completed the following:

- Enhancement of the capital markets framework by introducing the Regional Equity Market Segment, reviewing base capital requirements for investment principals and agents, improving the regulatory framework for sponsors and advisers; and revising the compliance requirements for issuers.
- Enhancement of both the conventional and Islamic banking frameworks, by introducing quantitative requirements for liquidity risk management and disclosure requirements and enhancing group risk management and consolidated supervision rules. Additionally, the Leverage Ratio, Supervisory Review and Evaluation Process, and Internal Capital Adequacy Assessment Process have been introduced.
- Further development of the insurance framework, by introducing different types of captive insurers in alignment with international standards and reviewing captive insurance managers' requirements.
- Enhancement of the waivers and modifications framework aimed at aligning AIFC policy with the best international practice.
- Harmonisation of AIFC and national regulations on digital assets.
- Enhancement of the representative office frameworks by introducing simplified compliance and reporting requirements.

As the COVID-19 pandemic escalated, AFSA took immediate steps to defer some non-time-critical work to help AIFC Participants to focus on their business priorities in these challenging times. Besides COVID-19 related measures, AFSA provided other regulatory support measures, including:

- Decreasing base capital requirements for certain Authorised Firms until 1 November 2023;
- Decreasing liquidity requirements for investment firms acting in AIFC.

(2) Prudential supervision

Our regulatory regime involves both setting standards and holding firms to those standards through our supervision. In 2020, AFSA's supervisory function further strengthened its toolset by establishing the Supervisory Review and Evaluation Process and implementing Early Warning Systems. While onsite supervisory work was not possible in 2020, we continued to monitor firms remotely, including through information-sharing arrangements. The work on automation of returns and analytics started and will be continued in 2021.

(3) Business conduct

AFSA continued using all regulatory tools to quickly and effectively identify and discourage misconduct. Reports of misconduct and complaints, including those related to the COVID-19 pandemic were received and acted upon, paying particular attention to reports of scams and misleading conduct, including in advertising and unlicensed behaviour.

In 2020, the complaints handling system was established and thematic reviews on AML topics were conducted. Further work on AML issues will continue in light of the upcoming FATF evaluation of Kazakhstan in 2021.

AFSA reviewed several enforcement matters and continued to focus on enforcement activities against the most egregious misconduct, as well as time-critical investigations.

(4) National and international co-operation

AFSA believes that supervisory co-operation is essential for effectively managing cross-border risks and activities. Therefore, AFSA has worked closely with the Kazakhstani authorities, the National Bank of the Republic of Kazakhstan (NBK) and the Agency for Regulation and Development of the Financial Markets of the Republic of Kazakhstan (ARDFM), to develop an appropriate supervisory co-operation framework. The three regulatory authorities agreed to strengthen co-operation on supervision of financial markets, maintenance of financial stability, and the protection of financial services consumers. The agreement provides a comprehensive framework for co-operation and exchange of information in areas such as authorisation, ongoing supervision, insolvency procedures, financial recovery, anti-money laundering, unfair practices in the financial market, and violations of the laws.

AFSA's international co-operation credentials have reached new heights as AFSA became a signatory to the IOSCO Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Co-operation and the Exchange of Information (EMMoU). AFSA is the first regulator in the region of Central and Eastern Europe, Central Asia and Caucasasia to become a signatory to the EMMoU. Becoming a signatory to the Multilateral Memorandum of Understanding (MMoU) of the International Association of Insurance Supervisors (IAIS) boosted AFSA's capabilities for cross-border co-operation in the global insurance market. AFSA is committed to continuing its work on enhancing global best practice and fostering greater cross-border co-operation and assistance among regulators.

(5) Effective authority

The experiences of AFSA collected through the COVID-19 pandemic provide valuable insight into how and where organisational capacity can be further improved and expanded. In 2020, AFSA launched fully digital registration, FinTech authorisation and recognition processes. Authorisation and supervision processes are to be digitalised in 2021. Further enhancements were made with respect to machine-readable legislation and AFSA has successfully integrated its registration system with the national Business Identification Number database, which enabled online registration of new AIFC participants in just 1 business day.

In terms of business facilitation, AFSA developed simplified application forms for the registration and authorisation of AIFC participants. Outreach sessions were conducted and regular meetings and workshops on registration, authorisation, regulatory framework, prudential and conduct supervision were arranged. AFSA

organised a virtual World Investor Week 2020 with a coverage of over 3,000 participants from 23 cities in Kazakhstan.

Global Financial Centres Index (GFCI)

AFSA's Regulatory Objectives are aligned with the AIFC's aim of breaking into the top 30 financial centres globally by 2025, according to the GFCI ratings. In September 2020, the AIFC was placed in 74th position in the GFCI (compared to 51st position last year).

Overall, the average rating of centres in the index dropped over 41 points (6.25%) from last year, which may indicate a more general lack of confidence in finance during a time of continuing uncertainty around international trade, the impact of the COVID-19 pandemic on individual economies, and geopolitical and local unrest. It is important to note that in the regional table of Eastern Europe and Central Asia, Nur-Sultan is ranked in 6th position compared with 11th in the region last year.

Centre	GFCI 28 Rank ▲	GFCI 28 Rating	Rank(+/-)	Rating(+/-)
Warsaw	57	618	▼-7	▼-47
Moscow	62	600	▲9	▼-44
Istanbul	64	595	▲15	▼-41
Prague	66	593	▼-20	▼-78
Cyprus	71	588	▼-4	▼-60
Nur-Sultan (formerly Astana)	74	585	▼-2	▼-58
Vilnius	76	578	▼-10	▼-71
Bratislava	87	552	NaN	NaN
Tallinn	88	551	▼-36	▼-112
Athens	92	547	▲4	▼-67
Sofia	95	540	▼-33	▼-113
Riga	97	538	▼-27	▼-107
Baku	98	537	▼-41	▼-121
Almaty	99	536	▼-44	▼-124
Budapest	101	531	▼-17	▼-97
St Petersburg	104	523	▼-7	▼-90

PART 2: KEY PERFORMANCE AREAS

3. REGULATORY FRAMEWORK

POLICY DEVELOPMENT

In 2020, AFSA's efforts were focused on refining the existing regulatory framework and enhancing its market applicability, while ensuring alignment with international standards and the AIFC strategy. Using analysis of market observations over the past years, understanding participants' challenges as well as global and regional developments in the financial services industry the AIFC regulatory framework has been designed to be more competitive, inclusive and responsive. AFSA has been able to achieve these enhancements while preserving the durability and sustainability of its legal framework.

AFSA built on the progress made in previous years by enhancing existing frameworks for stimulating more business growth in the AIFC. Significant enhancements were introduced to a number of the frameworks covering market infrastructure, conventional and Islamic banking, and insurance. In addition, the waivers and modifications framework was enhanced allowing three types of applications for waivers and modifications and enabling changes in the regulatory regime without amending rules. Apart from these, several projects started in 2020, with ongoing implementation in 2021, to develop new frameworks for legal entities intellectual property rights, venture capital financing, digital banking, e-money, and payment services as well as electronic commerce. AFSA continued co-operating with the National Bank of Kazakhstan on development of the currency framework.

Overall, the AIFC regulatory framework includes 27 types of regulated activities, 8 types of market activities, and 5 types of ancillary services as follows:

Regulated Activities

1. Dealing in Investments as Principal	11. Arranging Deals in Investments	22. Effecting Contract of Insurance
2. Dealing in Investments as Agent	12. Managing a Restricted Profit-Sharing Investment Account	23. Carrying on Contracts of Insurance
3. Managing Investments	13. Islamic Banking Business	24. Takaful Business
4. Managing a Collective Investment Scheme	14. Providing Islamic Financing	25. Insurance Management
5. Providing Custody	15. Insurance Intermediation	26. Opening and Operating Bank Accounts
6. Arranging Custody	16. Representative Office	27. Operation of a Payment System
7. Providing Trust Services	17. Accepting Deposits	
8. Providing Fund Administration	18. Providing Credit	
9. Acting as the Trustee of a Fund	19. Advising on a Credit Facility	
10. Advising on Investments	20. Arranging a Credit Facility	
	21. Providing Money Services	

Market Activities

1. Operating an Exchange
2. Operating a Clearing House
3. Operating a Private E-currency Trading Facility
4. Operating a Loan Crowdfunding Platform
5. Operating an Investment Crowdfunding Platform
6. Operating a Multilateral Trading Facility
7. Operating an Organised Trading Facility
8. Operating a Private Financing Platform

Ancillary services

1. Providing Legal Services
2. Providing Audit Services
3. Providing Accountancy Services
4. Providing Consulting Services
5. Providing Credit Rating Services

In 2020, legislative amendments allowed AFSA to respond to the economic situation caused by the global pandemic and put in place several measures, such as easing the prudential requirements for existing and new participants. Specifically, the base capital requirements for banks, credit providers, insurance companies, and investment firms were reduced, and liquidity requirements were also decreased or waived for certain firms. Regional and international benchmark analysis was conducted in order to maintain the balance between attracting new business, providing relief measures and prioritising customer safety. These measures will be in effect for three years.

The Regulatory Map below depicts what financial services are currently covered and those which are to be covered in the near future*:

Shares	CAPITAL MARKET	Derivatives	Trusts	ASSET MANAGEMENT	Private Equity Funds		General Insurance Contracts	INSURANCE	Captive Insurance (3rd parties)
Debentures			Foundations		Venture Capital Funds		Long-Term Insurance		
Warrants			Self-managed Funds		Real Estate Investment Trusts		Captive Insurance (only for the Group to which it belongs)		
Certificates			Listed Funds		Islamic Investment Fund		Reinsurance		
Structured Products		Commodity Exchange	Overseas Listed Funds		Foreign Fund manager				
Units									
Investments Exchange									
Clearing House									
Deposits	PRIVATE BANKING	Long-Term Insurance	Unrestricted PSIA	ISLAMIC FINANCE	Family Takaful		Private E-currency Trading Facility	FINTECH	E-money and Payment Services
Bank Accounts		Investments	Restricted PSIA		Islamic Captive		Loan Crowdfunding Platform		Mobile (Digital) Banking
Credits		Investment Consulting	Providing Islamic Financing		Investments in shariah manner		Investment Crowdfunding Platform		Venture Capital
Credit Facilities		Custody Services	General Takaful						Electronic commerce
Money Services									

* yellow shading indicates financial services that are not yet regulated by AFSA.

Legislative initiatives of 2020

In 2020, AFSA continued improving the existing regulatory framework, further tailoring the legal and regulatory environment towards providing a conducive and safe environment for financial services and professional service providers. The table below summarises this legislative development work.

Development of:	Enhancement of:
<ol style="list-style-type: none"> 1. AIFC Special Rules (Declaring Provisions of AIFC Regulations and Rules to be Subject to FSFR Section 9) <p>Regulatory Materials:</p> <ol style="list-style-type: none"> 2. Guidance on Providing Consultancy Services 3. Notice on the Provision of Ancillary Services and Financial Services within the Same Legal Entity 4. Joint Order of the AIFC on financial services provided by participants of the AIFC, the income from which is exempt from payment of corporate income tax and value-added tax 5. AIFC Framework on harmonisation of titles used for the cryptocurrencies regulated in the AIFC and national legislation of Kazakhstan 6. Class Modifications and Waivers for Reduction of prudential requirements for Authorised Firms in the AIFC 7. Guidance on Captive Insurance Regime in the AIFC 	<ol style="list-style-type: none"> 1. AIFC Waivers and Modifications Framework 2. AIFC Authorised Market Institutions Rules 3. AIFC Insurance and Reinsurance Prudential Rules 4. AIFC Banking Business Prudential Rules 5. AIFC Islamic Banking Business Rules 6. AIFC Representative Offices Framework

AIFC Special Rules. In order to provide timely and efficient responses to business needs of AIFC Participants, while preserving its dedication to the highest international standards, AIFC Special Rules have been created (Declaring Provisions of AIFC Regulations and Rules to be Subject to Section 9 of the AIFC Financial Services Framework Regulations (FSFR). AFSA has enhanced its approach to granting waivers, modifications and other types of relief by granting AFSA's Board of Directors the power to enact not only Rules pursuant to FSFR but also Rules and Regulations related to functions of AFSA and enacted by the AFSA Board of Directors. The amended Section 9 of FSFR gives AFSA the power to waive and modify the application to a Person of certain "relevant provisions" in and under the FSFR. Special Rules were adopted as stand-alone Rules and have helped AFSA become more proactive and agile.

AIFC Waivers and Modifications Framework. AFSA developed its Policy on Waivers, Modifications and Other Reliefs, which outlines the types of and process for making applications and AFSA's general approach to applications for waivers, modifications and no-action letters. This was aimed at streamlining the waiver and modifications process and aligning the AIFC policy with the best international practice.

Guidance on Providing Consultancy Services. Providing consulting services is one of the ancillary services offered in the AIFC. The newly created guidance clarifies that the consultancy services authorised in the AIFC shall be limited to provision of certain consultancy services in relation to financial markets. The guidance highlights that a person or a company wishing to provide consulting services must apply to AFSA for a licence. The list of regulated consulting services is also outlined by the guidance.

Notice on licence scope limitations. The purpose of the Notice on Provision of Ancillary Services and Financial Services within the Same Legal Entity was to inform the market

that AIFC Participants authorised to provide ancillary services cannot also be authorised to carry out regulated activities within the same legal entity. Such firms must establish another entity and apply to AFSA for a licence to carry out regulated activities. However, an AIFC Participant authorised to carry out regulated activities can provide consultancy services based on its existing licence. This clarification was provided to make a distinction between the interchangeability of the licences, as different types of activities receive different levels of regulation and supervision.

Tax Order. The Ministry of Finance and the Ministry of National Economy of Kazakhstan, together with the AIFC, issued a Joint Order on financial services provided by participants of the AIFC, the income from which is exempt from payment of corporate income tax and value-added tax. This order includes the explicit list of financial services providers who are exempt from paying the above-mentioned taxes. The Order complements the tax relief policy in the AIFC, under which participants get uniquely favourable opportunities to conduct business in the AIFC.

Harmonisation of Cryptocurrency Titles. To further support the development of cryptocurrencies in the country, AFSA has developed draft amendments to the AIFC Acts to harmonise the titles used for cryptocurrencies regulated in the AIFC and Kazakhstan. As a result, the amendments to the cryptocurrency frameworks in the AIFC and Kazakhstan ensure alignment of titles and use of two separate regulations on digital assets – (1) under AIFC acts and (2) under the national law of Kazakhstan on Informatisation. Having the terms harmonised and aligned will enhance the regulatory environment so that the financial technologies can further develop to unlock new benefits for the economy.

Reduction of prudential requirements. Through class modifications and waivers, AFSA reduced base capital and liquidity requirements for certain types of Authorised Firms in the AIFC. They included regulated activities of Banks and Credit Providers, Islamic Banks and Islamic Financing Companies, Firms Advising on Investments, Arranging Deals in Investments, and Providing Trust Services that do not hold Client Money as well as Insurance Intermediaries, Insurers and Takaful Operators. The waiver of the liquidity requirement was issued for firms not dealing with client money such as Authorised Firms Arranging Custody, Providing Fund Administration, Advising on Investments and Arranging Deals in Investment. Reduction of prudential requirements aims to provide relief measures due to the financial crisis caused by the global pandemic and attract new market participants, thereby diversifying the financial services market in AIFC.

AIFC Insurance and Reinsurance Prudential Rules. AFSA introduced amendments to the AIFC Insurance Framework with the objectives of making the AIFC jurisdiction suitable for different types of captive insurers, stimulating the development of captive insurance as a risk management instrument and aligning captive insurance classification with international standards.

Guidance on Captive Insurance Regime in the AIFC. In order to facilitate the existing and potential captive insurers and insurance managers in the AIFC, Guidance on

Captive Insurance Regime in the AIFC was developed. The guidance is informational and educational in character and is designed to help to facilitate decision-making and educate the market on this relatively new type of insurance. The Guidance incorporates an overview of the captive insurance regime in the AIFC and details AFSA's expectations of captive insurance managers.

Enhancement of AIFC Authorised Market Institutions Rules. In the first phase of the enhancement, AFSA worked with AIX to identify gaps in the existing legislative framework to enhance conditions for market institutions in the AIFC. As a result, amendments were introduced to the AIFC Authorised Market Institutions Rules, (1) decreasing base capital requirements for investment principals and agents; (2) improving the regulatory framework for sponsors and advisers; and (3) easing the compliance framework for issuers. The most significant change was the introduction of the Regional Equity Market Segment (REMS), which is aimed at making investments more accessible for smaller market participants, diversifying the investment market and opening opportunities for small and medium companies to raise capital through the exchange.

In the second phase of the enhancement, the amendments to the AIFC Market Institutions Rules were aimed at eliminating gaps in the AIFC regulatory framework in relation to outsourcing arrangements, service of process requirements, Direct Electronic Access Rules, and reporting and notification. These amendments are aimed at further incorporation of market conditions into the regulatory framework and responding to the development patterns of the market.

Enhancing the AIFC Banking Business / Islamic Banking Business Frameworks. With the objective of addressing the enhancement of prudential regulations for Islamic banks to increase the equivalency with those of conventional banks and ensure compliance with global standards (Islamic Financial Services Board (IFSB), Basel) and best international practice, AFSA amended the banking and Islamic banking framework. This included (1) the introduction of quantitative requirements for liquidity risk management, (2) enhancement of group risk management and consolidated supervision rules, (3) implementation of a Leverage Ratio, (4) implementation of Supervisory Review and Evaluation Process (SREP), and (5) Internal Capital Adequacy Assessment Process (ICAAP) and introduction of disclosure requirements. In addition, a number of changes were made to enhance the rules from both legal and Shariah terminology perspectives.

AIFC Representative Offices Framework. As a result of the amendments made to the AIFC regulatory framework for Representative Offices, they now have become a more enhanced instrument to test the jurisdictional environment of the AIFC. Simplified compliance and reporting requirements, as well as the opportunity to lead a Representative Office while not being a resident, increases the attractiveness of doing business in the AIFC.

COMMITMENT TO INTERNATIONAL STANDARDS

AFSA strives to develop the regulatory environment in line with global standards and best practices. In 2020, AFSA's priority was to align the regulatory framework with international standards through its accession to several multilateral agreements, integration of global standards into the regulatory regime and contribution to global standard-setting activities by actively serving on various committees and working groups.

International Organisation of Securities Commissions (IOSCO)

IOSCO has been a global standard-setting body in securities regulation ever since its creation in 1983. Its role in implementing and promoting adherence to internationally recognised and consistent standards of regulation and supervision of capital markets has been recognised globally. IOSCO's Objectives and Principles of Securities Regulation serve as standards for securities regulation and have been endorsed by both the G20 and the Financial Stability Board (FSB). These standards constitute the respective components for securities regulation under the Financial Sector Assessment Programme of the IMF and World Bank.

AFSA joined IOSCO as an Associate Member on 20 April 2018 and has been co-operating with IOSCO as part of its long-term commitment to the Organisation's mission. In order to ensure further alignment of the AIFC regulatory framework with IOSCO standards and principles, AFSA focused on the following initiatives throughout 2020:

- IOSCO EMMoU: In November 2020 AFSA became a signatory to Appendix A2 (ACF powers) of the IOSCO Enhanced Multilateral Memorandum of Understanding concerning Consultation and Co-operation and the Exchange of Information, which allows AFSA to perform cross-border enforcement co-operation in asset freezes to protect consumers, obtain compelled testimony and exchange audit papers. AFSA is the first regulator in the region of Central and Eastern Europe, Central Asia and Caucasus to become a signatory to the EMMoU. Accession to the IOSCO EMMoU reflects the AIFC's compliance with international standards on cross-border enforcement co-operation between capital market regulators and protection of confidential information.
- IOSCO's Objectives and Principles of Securities Regulation: In 2020, AFSA conducted a self-assessment against IOSCO's objectives and principles of securities regulation, which are endorsed by the G20 and the Financial Stability Board (FSB) and assessed under the Financial Sector Assessment Programme (FSAP) of the IMF and World Bank. Further steps in 2021 will include addressing deficiencies of the regulatory framework identified during the self-assessment.
- Contribution to standard-setting: In 2020, AFSA joined the Committee on Issuer Accounting, Disclosure and Auditing (C1), which is one of the standard-setting committees of IOSCO. C1 is one of the eight IOSCO policy and standard-setting committees, aimed at developing accounting and auditing standards, and

enhancing the quality and transparency of information that investors receive from listed companies. Overall AFSA is currently a member of five IOSCO committees and working groups.

- Research Activities: AFSA contributed to 10 IOSCO surveys and research initiatives to facilitate the adoption of new and enhanced standards.

International Association of Insurance Supervisors (IAIS)

In 2018, AFSA became a member of IAIS, a global standard-setting organisation on supervision of the insurance sector. Aligning the AIFC regulatory framework with the IAIS Insurance Core Principles (ICPs) corresponds with AFSA's strategic objectives. ICPs are the global benchmark for insurance supervision and are assessed under the Financial Sector Assessment Program (FSAP) of the IMF and World Bank. To ensure compliance with the IAIS standards and principles, AFSA will conduct a self-assessment against all of the ICPs in 2021.

To further develop the regulatory framework in accordance with IAIS standards, AFSA focused on the following priorities in 2020:

- IAIS MMoU: In October 2020, AFSA became a member of the IAIS Multilateral Memorandum of Understanding (IAS MMoU). Joining the IAIS MMoU reflects AFSA's adherence to confidential cross-border information exchange between insurance supervisors.
- Insurance Core Principle 19: AFSA participated in the IAIS Peer Review Process (PRP) for ICP 19, which focuses on conduct of business. The assessment conducted by the IAIS concluded that AFSA has fully observed ICP 19 during the assessment period.
- Contribution to standard-setting: AFSA joined one of the IAIS governing committees, the Implementation and Assessment Committee (IAC). IAC has various responsibilities, including assessment of observance of IAIS standards, promotion of information exchange and supervisory co-operation, and supervisory capacity building. AFSA also became a member of two IAIS working groups: The Signatories Working Group and Financial Inclusion Forum.
- Research Activities: AFSA contributed to 4 IAIS surveys to facilitate the adoption of new and enhanced standards.

Islamic Financial Services Board (IFSB)

The IFSB develops and sets global standards for the management, regulation and supervision of Islamic banking, capital markets and insurance. IFSB is mandated to promote and strengthen the robustness and stability of the Islamic financial services industry through global prudential standards and guiding principles for the industry.

The development of regulations and rules in accordance with IFSB standards creates a strong regulatory framework in the field of supervision of Islamic financial institutions.

As the development of Islamic finance is one of the strategic pillars of the AIFC, the effective oversight and regulation of the Islamic finance market is one of the main priorities of AFSA. To integrate IFSB standards into the regulatory framework, AFSA pursued the following priorities in 2020:

- Enhancing the AIFC Islamic Banking Business Rules. AFSA amended the AIFC Islamic Banking Business Rules to ensure compliance with the IFSB-15 and other IFSB standards related to prudential regulations for Islamic banking business.
- Contribution to standard-setting: staff of AFSA served as members in four working groups of the IFSB and contributed to the shaping and adoption of regulatory standards (Working Group on the Recovery and Resolution Plan of Institutions Offering Islamic Financial Services; Working Group on the Core Principles for Islamic Finance Regulation (Takaful Segment); Working Group on the Disclosure to Promote Transparency and Market Discipline for Takaful/Retakaful Undertaking; Working Group on the Revised Capital Adequacy Standard for IIFS).
- Research activities: AFSA contributed to 2 IFSB surveys to facilitate the adoption of new and enhanced standards.

Organisation for Economic Co-operation and Development (OECD)

AFSA strives to build a regulatory framework for financial services that is compliant with the highest standards of transparency and information exchange for tax purposes. AFSA works closely with OECD to develop the regulatory framework consistent with international standards. Throughout 2020 AFSA focused on adopting the following standards:

- Automatic Exchange of Information (AEOI). AEOI standards were fully integrated as of 2019 pending final enacting procedures during 2020. AFSA has been negotiating access to the information submission system with the Ministry of Finance which will be completed in 2021.
- Prevention of harmful tax practices: AFSA continued the integration of regulatory provisions to prevent harmful tax practices in the AIFC. AIFC rules on substantial activities' requirements have been developed jointly with the OECD in 2020 and are in the process of internal discussions. The next step will be to obtain approval from the Committee on State Revenues of the Ministry of Finance of Kazakhstan and reconciliation with the OECD.

Eurasian Group on combating money laundering and financing of terrorism (EAG)

The EAG is a FATF-style regional group for the countries of the Eurasian region created to combat money laundering, reducing the threat of international terrorism and ensuring the security of the financial systems of states and their further integration into the international infrastructure for combating money laundering and terrorism financing (AML/CFT). EAG efforts are assisting member-states in implementing the 40

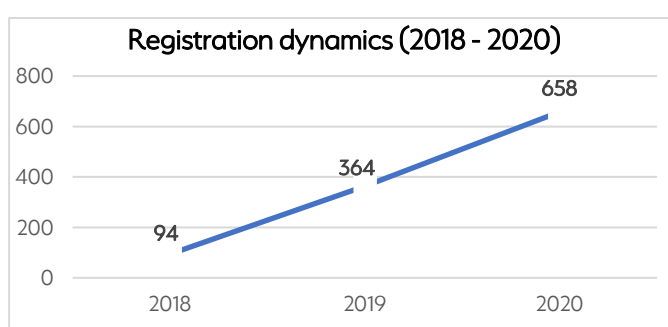
FATF Anti-Money Laundering Recommendations, the 9 Special FATF Recommendations on combating terrorist financing and conducting joint activities aimed towards combating money laundering and terrorist financing.

AFSA has engaged in preparatory work for the EAG's Mutual Evaluation of Kazakhstan, including the AIFC, to be held during 2021-2022. Technical assistance received from the ADB has greatly enabled the preparatory work for the EAG mutual evaluation process.

4. REGISTRATION

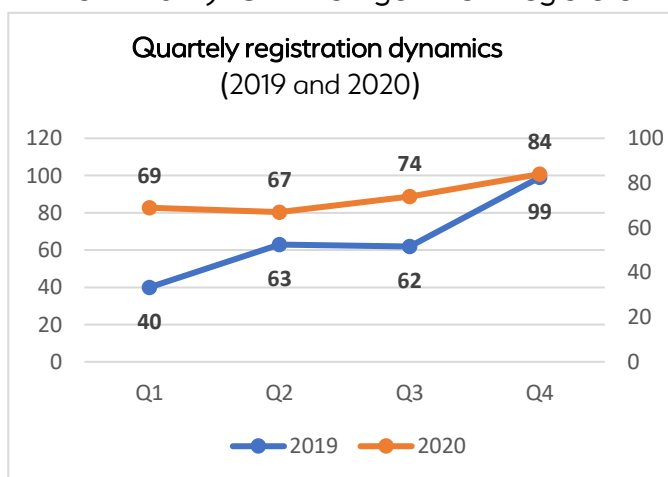
Registration dynamics

The number of registered firms reached 658 by the end of 2020, representing an 81% increase compared to the 2019 population of AIFC Participants. Year-end outcomes indicate an ongoing trend of new firms choosing the AIFC as their jurisdiction.



Overall, 294 new AIFC Participants were registered during 2020, which is 11% higher than during the previous period (264 firms in 2019). On average AFSA registered 7 firms per week by the end of 2020.

The 2019 trend in registration dynamics that saw a rapid increase in registrations during the fourth quarter, continued in 2020. The increase can also be explained by the fact that market confidence returned by the end of the year. The largest impact of the pandemic was seen during the first half of 2020 when registrations dipped slightly.



Year-End Figures

Type of activities	Number of firms			
	2017*	2018	2019	2020
Authorised activities	4	54	98	57
<i>Financial Activities</i>	-	9	12	14
<i>Ancillary Services</i>	-	24	59	35
<i>Recognised Non-AIFC members and Non-AIFC Market Institutions</i>	-	15	14	3
<i>FinTech Lab</i>	3	5	13	6
<i>Authorised Market Institutions</i>	1	1	-	-
Non-financial activities	2	40	166	236
Total	6	94	264	294

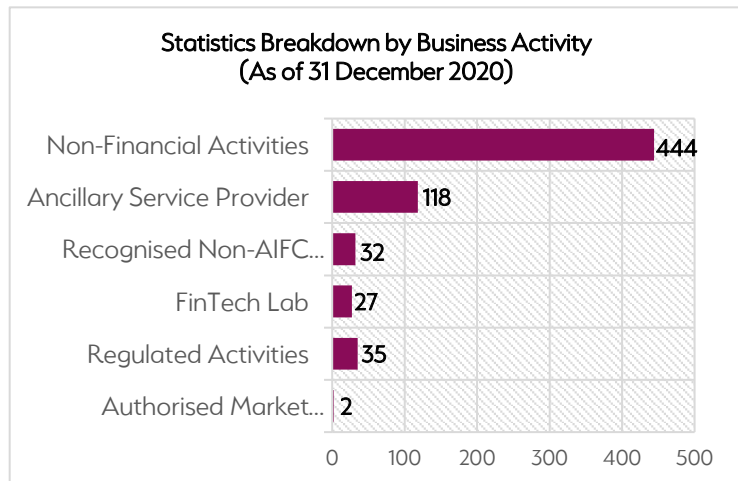
*for the period of the last three months of 2017 since the inception of AFSA

Breakdown by business activity

A breakdown of the data by business activity indicates that non-financial activities have been dominant in 2020, comprising 67% of all activities, while regulated activities (financial, market, and ancillary services) comprised 33%.

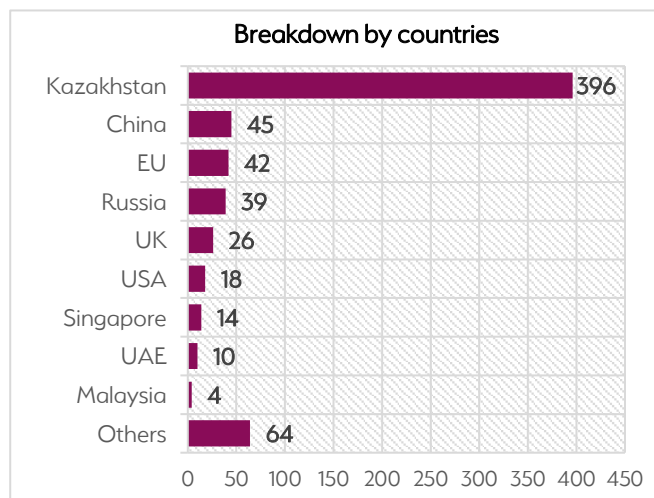
Most of the non-financial companies are mainly engaged in conducting and providing IT services, agricultural,

manufacturing, data processing and hosting, subsidiary management, performing as a non-profit incorporated organisation or acting as a holding company.



Geographical coverage

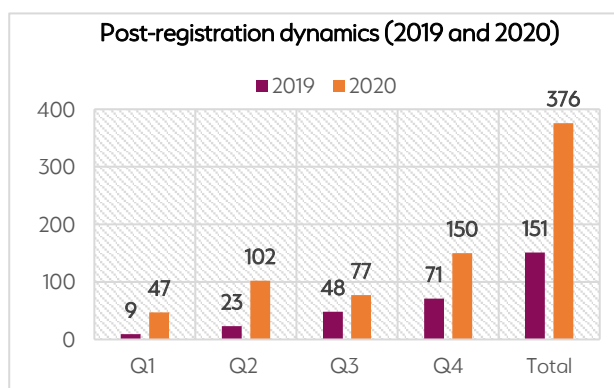
262 firms (40% of the total number) registered and recognised in the AIFC involve foreign investors, representing 49 countries, including Antigua and Barbuda, Australia, Austria, Bosnia and Herzegovina, Bahrain, Belize, China (incl. Hong Kong), Cyprus, Czech Republic, Cayman Islands, Egypt, Estonia, Finland, France, Georgia, Hungary, India, Iran, Italy, Latvia, Lithuania, Malaysia, Netherlands, Republic of Yemen, Russian Federation, Singapore, Republic of Korea, Switzerland, Turkey, UAE, Ukraine, UK, USA and other countries.



Post-Registration Service

As the number of registered firms reached 658 by the end of 2020, the volume of post-registration services has also increased significantly. The number of applications for post-registration for 2020 increased twofold compared to the previous year and reached 376 compared to 151 applications in 2019.

Post-registration services include all activities related to change in registered details, such as a change of director, registered address, transfer of shares, amendments to the articles of association (charter or partnership agreement) or providing extracts from the registry of the Registrar of Companies.



5. AUTHORISATIONS AND RECOGNITION

In 2020, there was an increase in the number of applications for regulated activities (financial services) received and approved compared to 2019. This speaks favourably of the AIFC's growing attractiveness for financial services firms from around the world. Conversely, a slight decline in Ancillary Service Provider applications was observed, which might be attributable to the fact that many of the Ancillary Service Providers have already registered with the AIFC during its first two years of operation.

Overall, there continues to be a significant number of applications to AFSA for a range of activities as the AIFC continues to expand in terms of the scope and depth of activities undertaken within it.

Key performance statistics:

1. Year-on-year figures

	2018	2019	2020
Inquiries			
Total number of applications received	55	93	77
Total number of firms authorised			
Authorised Firms	4	12	15
Including:			
Licensed	4	9	11
Approved In-Principle	-	3	4
Ancillary Service Providers	23	59	39
Recognised Non-AIFC members	21	8	5
Recognised Non-AIFC Market Institutions	-	2	-
Approved Individuals	21	26	75

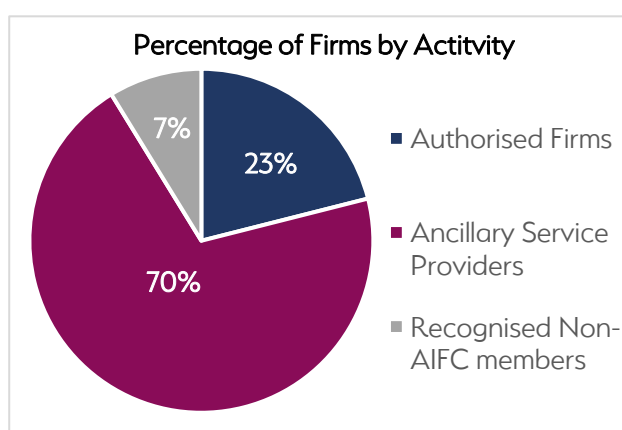
2. Cumulative figures

CUMULATIVE	As at 31 Dec 2018	As at 31 Dec 2019	As at 31 Dec 2020
Authorised Firms Licensed	4	13	24
<i>Authorised Firms Approved in Principle</i>	-	3	4
Authorised Market Institutions Licensed	2	2	2
Ancillary Service Providers Licensed	23	82	119 ³
Recognised Non-AIFC Members	21	27 ⁴	27 ⁵
Recognised Non-AIFC Market Institutions	-	2	2
<i>Approved Individuals</i>	21	47	112 ⁶

Authorised and recognised entities

In 2020, the authorisation process was further streamlined due to significant improvements in the onboarding of AIFC Participants (for more details please see the **Streamlining of authorisation process** section).

Authorised Firms, licensed to perform regulated financial services comprised 23% of the regulated community (24 firms), while ancillary services providers comprised 70% of all regulated firms.



Authorised Firms

Banking Business. Increased interest in banking business in the AIFC was observed in 2020. AFSA authorised one branch of a foreign bank (from Armenia) and provided approval in principle for two start-up banks (from Kazakhstan and China).

Investment Business. Seven firms were authorised to carry out regulated activities in investment business services. These firms will mainly provide advice on opening trading and custody accounts, investing in public and private markets, constructing and running investment portfolios, monitoring and managing risks, asset management, and brokerage activities. These Authorised Firms include an asset manager, a boutique investment advisory firm, a start-up, and a brokerage firm.

Approved Individuals and other key individuals

In 2020, AFSA recommended the approval of 75 key individuals (60 Approved, 15 Approved In-Principle) for the purposes of undertaking Controlled Functions or acting as Principal Auditors. To ensure that the right risk and conduct culture is embedded over the lifetime of a firm, AFSA makes an objective assessment of the people that will

³ In 2020 two ASP licences were withdrawn

⁴ In 2019 two RNAM statuses were revoked

⁵ In 2020 five RNAM statuses were revoked

⁶ In 2020 ten Approved Individual statuses were withdrawn

manage the business to ensure they have the right skills, expertise and experience to do this.

Ancillary Service Providers

In 2020, AFSA authorised 39 Ancillary Service Providers compared to 59 in 2019. These included 17 consulting firms (40 in 2019), 12 legal firms (13 in 2019), 3 Audit firms (1 in 2019) and 7 accountancy firms (3 in 2019). Upon the successful completion of AFSA's fit and proper requirements, the Ancillary Service Providers were authorised to render a wide range of services including Management Consulting, Shariah Consulting, Regulatory Consulting, as well as Legal, Accountancy, and Audit Services.

Recognised Non-AIFC Members

AFSA observed interest from market participants currently regulated outside of the AIFC jurisdiction. In 2020, through AFSA's recognition regime, 5 brokerage companies from the UK, Russia, Cyprus and Kazakhstan were granted Recognised Non-AIFC Member status in order to join the AIX.

Streamlining of the authorisation process

In order to simplify the authorisation process, ease entrance to AIFC and further assist AIFC Participants throughout licensing, the following measures were taken by AFSA:

- 1) Simplified application forms have been introduced for certain types of regulated activities, including investment advice, arranging deals in investments, advising on or arranging credit facilities, insurance intermediation (without Client Money) and insurance management.
- 2) To assist potential applicants in establishing their internal systems, controls, policies and procedures, AFSA issued guidelines to assist AIFC Participants in creating Compliance Manuals and Compliance Monitoring Programmes, Risk Management Policies, Anti-Money Laundering Procedures, Business Continuity Plans and Conflict of Interest Policies that are more closely aligned with AFSA's expectations.
- 3) Guides on the authorisation process and on setting up an investment fund in the AIFC have been published on AFSA's website. Both documents were developed to enhance understanding by applicants of the matters that AFSA takes into consideration when assessing applications for authorisation of firms generally, and more specifically for establishing a Fund Manager and Fund vehicle in the AIFC.
- 4) AFSA issued a set of Frequently Asked Questions on the authorisation process in the AIFC and published it on the AFSA website.
- 5) Digitalising certain authorisation activities through AIFC's Digital Resident portal (for more details please see respective section of "Key Initiatives").
- 6) Throughout the year, AFSA conducted explanatory work on the regulatory regime in the AIFC with various interested parties to raise awareness and understanding of the AIFC and AFSA.

6. SUPERVISION AND ENFORCEMENT

SUPERVISION

PRUDENTIAL SUPERVISION

AFSA's prudential supervision approach aims to ensure that the financial firms it supervises hold sufficient capital for their business and have adequate risk controls in place. As financial services markets in the AIFC have grown in 2020 and more authorised firms have started their operations, AFSA has commenced 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.

Prudentially supervised firms' statistics

Reporting Year	Banks	Investment companies	Insurance companies	Total
2020	4	11	2	17
2019	3	5	2	10

Prudential regulation mainly focuses on the financial stability of a regulated entity by monitoring whether its financial 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 financial system 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.

In 2020, prudential supervision covered 17 regulated higher impact firms such as banks and insurers, a significant increase since the end of 2019 when there were 10 such firms. The number of investment companies increased from 5 to 11 and 1 bank branch was authorised by AFSA in 2020.

The banking sector now consists of 4 banks, including 3 branches and 1 subsidiary bank (which is also a start-up). Two of the banks became operational in 2020 and the other two are in process of being established. The investment sector consists of eleven firms, five of which are active, shortly to be six once its mobilisation has been completed.

The below chart shows an increase in the assets of each AIFC regulated sector in 2020. Mainly, the banking sector has grown significantly over the year with assets more than doubling by the end of 2020.

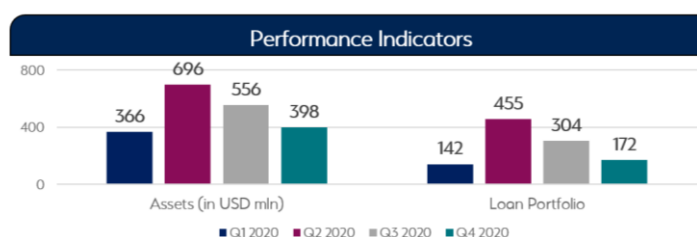
Change in assets by sector (in USD 000s):

Reporting period	Banks	Investment companies	Insurance companies	Total
01.01.2021	398,567	9,263	17,303	425,133
01.01.2020	212,478	16,34	15,836	244,654
% change	88%	-43%	9%	74%

The infographics below provide additional information sector-by-sector on financial market volumes and assets, number of firms, geography of financial services offerings, as well as positive externalities such as the number of jobs created, and taxes paid to Kazakhstan's budget by financial firms.

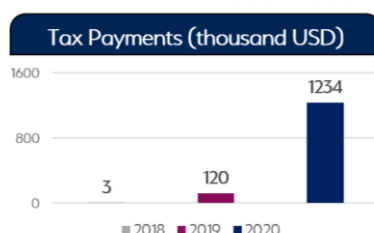
Banking Business

Banking business firms	
Branches	3
Banks	1
Representative offices	2
Total	6



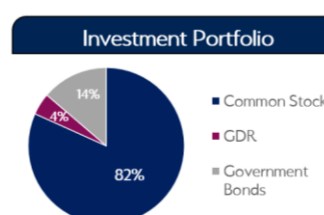
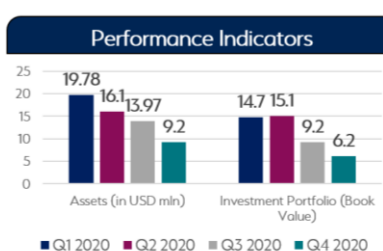
Geography of Loans (mln USD)

	China	\$227
	Kazakhstan	\$48
	Hong Kong	\$25



Investment Business

Investment Firms	
Asset managers	3
Brokers-dealers	4
Investment firms	5
Representative offices	4
Total	16



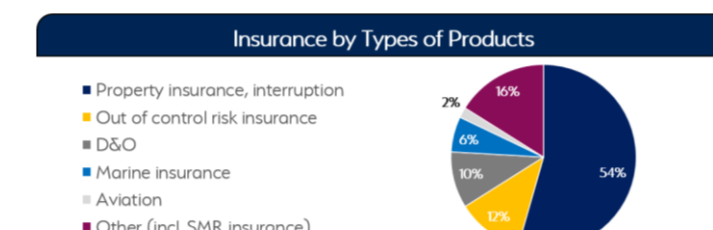
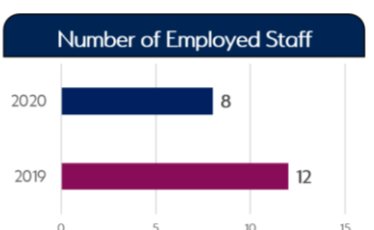
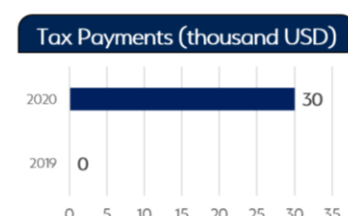
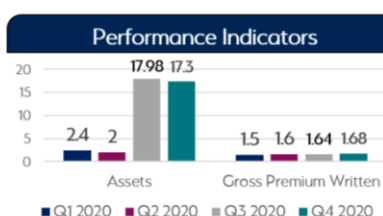
Geography of Investments (thousand USD)

	Kazakhstan	\$5 497
	Cyprus	\$717



Insurance sector

Insurance Firms	
Intermediaries	1
General (captives)	1
Total	2



Off-Site / On-site Supervision

Overall, AFSA had been actively engaged in applying risk-based supervision throughout 2020. As the businesses grew and expanded during the period, communications between them and AFSA intensified accordingly, as they become familiar with doing business in and from the AIFC and under AFSA's rules.

Aside from *ad hoc* daily interactions with firms, AFSA delivered comprehensive guidance focused on maintaining the financial stability of the supervised firms through on-site inspections, albeit via an online format due to the coronavirus pandemic. AFSA's quarterly thematic reviews facilitated the identification of gaps and deficiencies in some areas of regulation and supervision. Conversely, certain supervisory practices made it possible for firms to optimise most of their commercial potential and ensure business opportunities remained in sight.

For instance, the application of waivers and modifications concerning base capital and liquid assets requirements was among several regulatory measures that provided support and flexibility to the regulated community in dealing with the effects of the pandemic during 2020, as further described below.

Supervisory Relief Measures

In response to the COVID-19 crisis, in April 2020, AFSA initiated the following relief measures to reduce the negative impact on AIFC participants:

- postponement of the deadline for submission of Audited Annual Reports for 2019 and Annual and Quarterly Prudential Returns otherwise due at the end of April 2020 and deferral of Annual Conduct Reports and Annual AML Returns for 2019 to a new submission deadline of 30 days after the end of the State of Emergency declared for all Authorised Firms in the AIFC (declared on 10th July 2020); and
- suspension of other deadlines for implementing recommendations given or requirements imposed by Risk Mitigation Programmes (RMPs) that were due to fall during the State of Emergency with a new submission deadline also aligned to 30 days after the end of the State of Emergency.

These supervisory relief measures were also taken up by several Authorised Firms as follows:

- Extensions of reporting deadlines: 9 firms (2 banks, 5 investment firms and 2 insurance companies); and
- Extensions of recommendation deadlines and for addressing items arising from Risk Mitigation Programmes: 5 firms (1 bank, 1 insurance intermediary and 3 investment firms).

Development of supervision systems

During 2020, as part of the supervisory process, AFSA trialled its early warning system, its profiling tool, and its Supervisory Review and Evaluation Process (SREP) to enhance its risk-based oversight practices. This process has led to improved automation and efficiencies of AFSA's supervisory approach.

AFSA has also been engaged throughout 2020 in exploring best practices in implementing supervision technology (SupTech), which provided some promising developments. The most advanced technologies of SupTech were identified and have formed the basis of AFSA's "conceptual plan", which will involve closer proposed co-operation and partnering with SupTech consultants and solution vendors for 2021 and beyond. Integration of prudential reporting within AFSA's customer relationship management (CRM) system is currently undergoing user acceptance testing.

In the current fast-changing business environment, AFSA constantly reviews its approach to conducting supervisory activities. Increased use of remote inspections is one inevitable consequence of the present pandemic, for which AFSA will continue to benchmark itself with the latest and best international practices and recognised international standards.

Throughout 2020, AFSA's regulatory initiatives and improvements have been regularly communicated to its supervised firms, including several workshops on prudential regulation where Authorised Firms and potential participants learned about the essential concepts of AFSA's regulatory framework.

FINANCIAL CONDUCT SUPERVISION

Financial conduct supervision is part of AFSA's integrated system of regulation, whereby AFSA assesses, monitors and mitigates conduct risk across the full range of Authorised Firms in the AIFC.

AFSA supervises all ancillary service providers (ASPs), such as law firms, accountancy firms, registered auditors, credit rating agencies and certain types of consultancy firms. In addition, AFSA supervises compliance with AIFC AML/CTF requirements that apply to ASPs and fall under the definition of a Designated Non-Financial Business or Profession (DNFBP), for businesses such as law firms, accountancy firms, audit firms and company service providers.

AFSA is responsible for authorising any additional activities for existing authorised firms, including the oversight and supervision of requirements imposed at the initial licensing stage and subsequently. This includes ongoing oversight of fitness and propriety in relation to the senior management and designated functions of authorised firms and ASPs.

The following table summarises conduct supervision activities over 2020:

Activity	Number Conducted
<i>Off-site monitoring of Authorised Firms according to Risk-Mitigation Plan</i>	7
<i>Online full risk assessment inspection</i>	1
<i>Off-site monitoring of Conduct Risks</i>	4
<i>Thematic review of AML/CFT Systems and Controls</i>	48
<i>Thematic review of Registered Auditors' compliance with AFSA's AUDIT rules</i>	5
<i>Thematic Review on compliance with Licence conditions</i>	106
<i>Waivers and modifications of AFSA's rules and requirements</i>	3
<i>Licence Variations</i>	8
<i>Approval of Key Individuals</i>	15
<i>Suspension of Licences for a period of 12 months⁷</i>	5
<i>Withdrawal of Licence at a firm's request</i>	2

System of conduct supervision

Supervisory toolkit. AFSA constantly works on enhancing the use of its existing supervisory tools as well as developing new tools. This is important in ensuring that AFSA meets its Regulatory Objectives as specified in the Financial Services Framework Regulations, including:

- (1) protecting the interests of investors and users of financial services;
- (2) ensuring that the AIFC's financial markets are fair, efficient, transparent and orderly; and
- (3) fostering and maintaining confidence in the AIFC's financial system and regulatory regime.

Authorised Persons (firms and individuals) are routinely exposed with the conduct of business



supervision procedures as part of the application of supervisory tools aimed at assessing the various risks to which they are exposed and, in doing so, ensuring that financial services firms operating in the AIFC meet, and continue to meet, the standards of conduct expected of them by AFSA.

⁷ This was generally due to these firms' business plans being put on hold due to the coronavirus pandemic.

Regulatory returns

Conduct supervision tools also include a regulatory reporting framework in order to improve the efficiency and effectiveness of monitoring of regulated entities and off-site monitoring of the activities of authorised firms in the AIFC.

When processing regulatory returns received from Authorised Firms, AFSA also collects data relating to their activities, including information on the value of assets under management, on transactions arranged or dealt with, financial products advised on, the number and type of clients, and the staff of the firms dealing with them. This information assists AFSA in determining the scale of activities carried out in or from the AIFC and assessing whether, or to what extent, authorised firms are implementing their business plans and strategies.

On-site visits

Following completion of the authorisation process, AFSA ordinarily plans to visit the physical premises of such firms to gain an overall understanding of such firms' organisation in practice and whether firms have started their operations. This also includes a review of client on-boarding processes, their current workflows and staffing.

Considering the coronavirus pandemic that has dominated 2020 and the ensuing State of Emergency, on-site supervision plans were postponed. However, AFSA did undertake one full and wide-ranging inspection of an authorised bank branch on an entirely remote basis.

AML/CFT Regime

One of AFSA's key regulatory priorities is combating money-laundering and terrorist-financing risks, along with the Financial Intelligence Unit of the Republic of Kazakhstan.

In this context, the Republic of Kazakhstan will be subject to a Mutual Evaluation assessment by the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) in 2021-2022. As part of this Mutual Evaluation, EAG assessors will focus on whether the AIFC jurisdiction has implemented FATF Recommendations and how successful it is in maintaining a strong AML/CTF system. Preparatory work for this assessment commenced in 2020 and will continue through 2021 and 2022 in conjunction and co-ordination with the other relevant competent authorities in the Republic of Kazakhstan.

AML/CFT Supervision

In 2020, AFSA developed its AML/CTF supervisory framework, which included:

- List of Typologies reports on money laundering and terrorism financing methods;
- List of Predicate Offences relating to money laundering and terrorism financing;
- AML guidance;
- Guidance on non-face to face Customer Due Diligence (CDD); and

- AML training.

AFSA will continue to improve and enhance its AML/CFT framework concerning existing and emerging risks.

AML/CFT Systems and Controls Review

In 2020, AFSA completed the second off-site thematic review of AML policies, controls and procedures involving the following: 2 authorised market institutions; 7 authorised firms; 29 DDNFBPs; and 10 FinTech Lab participants.

The purpose of this thematic review was to identify vulnerabilities as well as to assess the level of compliance with the requirements of the AFSA's AML/CTF Rules. AFSA provided DNFBPs and FinTech Lab Participants with feedback and recommendations to improve their AML policies and noted the well-preparedness and high degree of compliance by other entities within the thematic review sample.

Such recommendations covered the areas of business and customer risks assessments, initial and on-going customer due diligence, training and awareness programmes, and screening against sanctions lists.

Audit Supervision

AFSA developed an auditor oversight regime in 2020. This involved a questionnaire being distributed to 5 registered auditors to analyse the business conducted by registered auditors from the period of commencement of their operations.

AFSA procured an Audit Quality Monitoring (AQM) service in order to enhance the existing audit supervision framework in the AIFC. Following the results of a combined scoring evaluation of proposals to render AQM services, it was decided to appoint the Institute of Chartered Accountants in England and Wales (ICAEW) as the supplier of AQM services to AFSA, and an agreement was signed on 14 December 2020. ICAEW has a team of international specialists that work on regulatory reforms and have assisted many organisations, including regulators, in designing and implementing fully functioning AQM regimes, as well as implementing international standards in accounting and auditing. The ICAEW has provided a fully developed audit methodology and monitoring manual which covers the format of a visit, visit guidance and procedures, and the required documentation, checklists and reports. The manual comes in three parts: (1) Procedures, (2) Working Papers, and (3) Report Templates.

On the basis of this audit methodology and manual, AFSA and the ICAEW carried out a virtual Audit Quality Monitoring to assess whether registered auditors in the AIFC operate in accordance with, *inter alia*, the International Standards on Auditing (ISAs), the International Standard on Quality Control (ISQC1), the Code of Ethics for Professional Accountants (the Code) issued by the International Federation of Accountants (IFAC), and AFSA's Auditor rules (AUD) and AML/CTF rules. Completion of the virtual AQM is planned during 2021.

CAPITAL MARKETS OVERSIGHT

During 2020, AFSA continued its engagement with other capital markets regulators both domestically (within Kazakhstan) and internationally. From the local regional perspective, AFSA has remained focused on developing and deepening working relationships with the National Bank of the Republic of Kazakhstan (NBK) and the Agency for Regulation and Development of the Financial Markets of the Republic of Kazakhstan (AFR).

Supervision of authorised market institutions

AFSA continued working closely with the Astana International Exchange (AIX) in providing assistance for the implementation of its regulatory and compliance functions. The capital markets oversight function of AFSA facilitated and/or enabled the following:

- review of AIX's Regulation & Compliance (R&C) function and communication protocols between AFSA and AIX;
- assessment and approval of the first Green Bond issuance;
- assessment and approval of the first Sukuk Bond issuance; and
- assessment and approval of the Regional Equity Market Segment (REMS) to simplify the onboarding of small and medium-sized issuers which, by their nature, introduce their own additional risk profiles.

AFSA implemented certain internal operational procedures to adjust its supervision of the AIX Group following assessment of the following initiatives:

- AIX implementing a new issuers' disclosure platform for its listed issuers to disclose all company news and their employees' or insiders' transactions using a portal to self-disclose this information in compliance with the relevant regulatory requirements;
- an update of the AIX website to provide an e-mail subscription service to receive market notices;
- migration of AIX's trading platform into cloud-based Amazon Web Services (AWS);
- AIX Central Securities Depository's implementation of new procedures to mitigate late trade settlements and settlement failures;
- AIX launching a new retail trading mobile application, called "TABYS"; and
- AIX publishing a penalty matrix to inform its participants of applicable penalties relating to breaches of its Business Rules.

Market performance

Instruments. AFSA reviews all new issuances that the AIX admits to its Official List. As at 31 December 2020, AIX has listed more than 80 securities, including shares, global depositary receipts, bonds and notes. Since 2018, AIX issuers raised over USD 321 mln of equity capital (USD 104.7 mln in 2020) and USD 8.6 bln of debt capital (USD 3.7 bln in 2020).

Listed instruments	2018	2019	2020	Total
Shares / GDR / Units	2	5	5	12
Bonds	7	20	26	53*
ETN (since 2019)	-	5	6	11
Pre-IPO sector	4	3	1	8
Total	13	33	38	84**

*- including 35 exempt placements (securities that are already admitted on other exchanges or offered to accredited investors)

** - excluding 2 delisted issuances

As evident from the above table, the bond sector continued growing in 2020, which confirms the trends of recent years that issuers searching for higher-yield assets can take advantage of flexible financing conditions and large capital inflows.

Trading facility. Volumes of trades in 2020 reached USD 55.4 mln, a 13% increase against 2019. The majority of trading activity on AIX is composed of equities trading resulting in USD 32.9 mln raised through AIX equity trading activities in 2020 (USD 47.9 mln in 2019).

Instruments	2018		2019		2020	
	number of trades	volume of trades, USD mln	number of trades	volume of trades, USD mln	number of trades	volume of trades, USD mln
Equities / Units	2,436	9.4	5,642	47.9	4,526	32.9
Bonds	-	-	7	1.2	187	22.3
ETN (since 2019)	-	-	7	0.13	173	0.24
Total	2,436	9.4	5,656	49.23	4,886	55.42

AIX created a new technological tool to keep investors informed of their investment goals and facilitate an increased understanding by retail investors of new financial instruments such as Exchange Traded Notes (ETNs) as well as to help simplify their cash management. As more investors and traders use tablets or smartphones for their investment and information platforms, the AIX made efforts to improve its mobile app in 2020. This is expected to attract more mobile users, especially in the ETN sector, with more than 18,000 users downloading this app by the end of 2020.

In relation to the new REMS market, one new issuer listed on AIX raised USD100k through four transactions. AFSA expects that the coronavirus pandemic may have subdued initial interest in REMS.

Supervision of Recognised Non-AIFC Members (RNAMs)

The number of AIFC participants that have been onboarded as trading members of AIX grew slower in 2020 than in 2019. Current trading members totalled 25 firms, 22 of which are RNAMS, and 3 of which are authorised firms within the AIFC. The RNAMS include amongst them firms that are licensed as brokerage based in Kazakhstan, United Kingdom, China, Czech Republic, Russia, Hong Kong and Cyprus.



During 2020 AFSA revoked or withdrew RNAM status for 5 firms either for non-compliance or by voluntary request.

As part of the supervisory procedures over RNAMS, AFSA issued: (1) 32 notices to RNAMS to comply with certain ongoing obligations under AFSA's Recognition Rules; (2) 7 notices issued in relation to RNAMS' status; (3) 5 Notices issued to revoke or withdraw RNAMS' status; and (4) 8 warning letters sent following late submissions of annual reports to AFSA.

Regulatory support in times of COVID-19

In April 2020 and then in July 2020 AFSA announced an extension of deadlines for the issuance of annual reports and annual audited financial statements by reporting entities and RNAMS whose financial year ended on 31 December 2019.

The new relief measures were introduced with AFSA's acknowledgement of the impacts of the coronavirus pandemic and the challenges faced by reporting entities and RNAMS in the preparation, review and audit of their annual reports and financial statements.

Notwithstanding the extension of the above deadlines, reporting entities and RNAMS were reminded that compliance with continuing disclosure obligations remained unchanged, including the obligation to make immediate announcements of a material nature to ensure that shareholders and investors continue to receive appropriate information in a timely manner.

AIX CSD supervised activities

In 2020, Thomas Murray, the global post-trade risk and custody specialists, assigned the AIX Central Securities Depository (**AIX CSD**) an overall risk assessment of 'A', which denotes a 'Low Risk'. AIX CSD accounts for 22 domestic and 10 non-domestic participants including the following global custodians: PJSC Rosbank (Russia), Euroclear Bank SA/NV (Belgium), Central Securities Depository JSC (Kazakhstan) and National Settlement Depository (Russia); as well as the following settlement banks: JSC Bank CenterCredit (Kazakhstan), JSC Citi Bank (Kazakhstan) and PJSC Rosbank (Russia).

During 2020, Raiffeisen Bank (a subsidiary of Raiffeisen Bank International AG, Austria) also became a Participant of the AIX CSD thereby further facilitating international institutional investors in holding their assets through the bank with the AIX CSD. In addition, the AIX CSD established a foreign nominee account with the Russian National Settlement Depository.

AIX CSD clearing and settlement data:

Type	Number of trades cleared
Equities	4,612
Bonds	363
ETF/ETN	219
OTC (over-the-counter)	639

The OTC numbers reflect transfers and conversions made by clearing participants in 2020.

AIX CSD value of trades settled (in mln):

Value of trades settled	USD	KZT	RUB	Total, USD
Equities	103.05	12 385.49	-	132.49
Bonds	34.31	200.00	480.00	41.23
ETF/ETN	0.42	-	-	0.42
OTC*	0.51	1 647 604.95	-	4 427.46

** These numbers include internal and external transactions and conversions to or from shares or GDRs*

ENFORCEMENT

In 2020, AFSA received its first five enforcement cases, where three cases were referred to supervision for action, one case was investigated, and one continues to be under investigation. Three other miscellaneous matters were under enforcement investigations.

AFSA strives to ensure transparency, fairness and consistency in the enforcement process and to ensure that centre participants are aware of the AFSA approach to enforcement investigations and the role of the Enforcement Committee of AFSA. During 2020, four external workshops were held on the role of enforcement to help achieve this.

A Client Complaint Handling Policy was implemented by AFSA in 2020 and there have been no referrals for enforcement during the year. AFSA held a meeting with the Committee on Financial Monitoring of the Ministry of Finance of the RK (CFM) in order to discuss issues related to the mechanism for facilitating the exchange of information in respect of criminal and administrative investigation and prosecution of breaches of AIFC law.

PART 3: ENCOURAGING INNOVATION AND SUPPORTING PERFORMANCE AREAS

7. PROMOTING FINTECH INNOVATION IN AIFC AND BEYOND

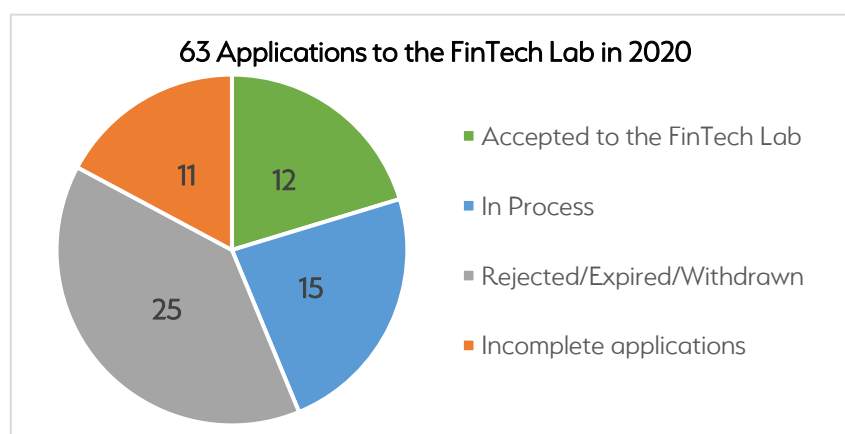
FINTECH LAB

Helping firms to innovate with FinTech Lab

Now in its third 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.

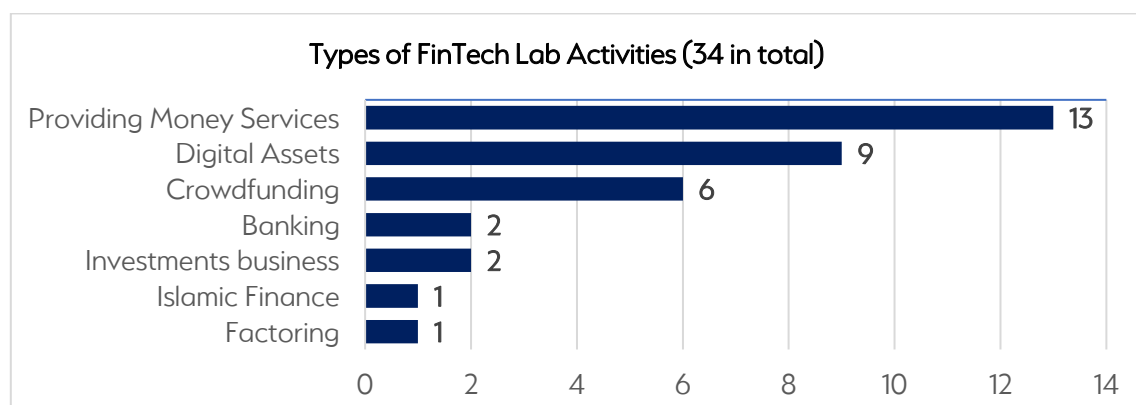
FinTech Lab participants have been able to obtain individual guidance from the regulator about how the rules apply to new business models and innovative financial services (for more information on the advantages of the FinTech Lab please click on this [link](#) to watch the 2-minute video).

Three years of effective functioning has proven the FinTech Lab to be a highly popular destination for financial innovators from all over the world. In 2020, the FinTech Office received/processed 63 applications and accepted 12 firms to the FinTech Lab.

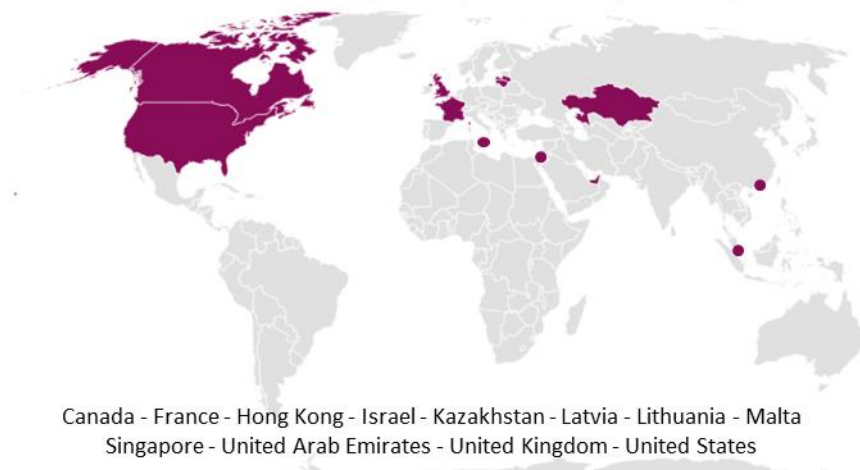


As part of Global Financial Innovation Network (GFIN) cross-border testing, FinTech Lab received 10 applications from firms aiming to test innovative financial services and products in multiple jurisdictions.

By the end of 2020, there were 34 firms in total accepted to the FinTech Lab from 12 jurisdictions offering 7 different types of innovative financial services (see pictures 1 and 2 below).



FinTech Lab Participants by Countries (34 firms)



By the end of 2020, 3 FinTech Lab Participants were operating in a live environment mode with clients and facilitated contracts in loan-based crowdfunding, investments in digital assets and payments amounting to more than USD 1.7 mln. Although the scale of operations of FinTech Lab Participants is relatively small, we believe that the FinTech Lab helps to promote financial inclusion and competition in the market.

During 2020, 3 Fintech Lab Participants providing financial services in Islamic finance, investment crowdfunding and digital banking exited the FinTech Lab due to licence expiration. As some of the participants experienced challenges in developing systems and controls during the testing, AFSA responded by issuing guidelines on building internal compliance systems and controls.

Supervision

To protect and enhance the integrity of the financial ecosystem, AFSA Fintech Lab has developed a forward-looking approach to identify and prevent problems. The approach includes meticulous analysis of the performance of Sandbox Participants using a scoring model. The scoring model has been designed to profile the Participants with respect to their testing performance and compliance.

Digitalisation of Application Process

To improve the applicant user experience and overall process efficiency, AFSA launched an automated back-office Customer Relationship Management system and a user-friendly front-end system for customers. The Self-services portal allows:

- 1) online assessment of FinTech Lab applications;
- 2) organisation of online committee voting;
- 3) automated generation of reports and licences;
- 4) interactive communication of the applicant and regulator.

A business requirements document has also been generated for further improvement of the system in 2021. It is planned to implement supervision functions for the

applicants to introduce complete automation of FinTech Lab's functions within one system.

Collaboration with Foreign IT Universities on FinTech Lab matters

With the view to expanding FinTech business opportunities, AFSA is considering the establishment of collaboration with local and foreign IT Universities on the following streams:

- To engage the university faculty and students to test their innovations within the AIFC FinTech Lab;
- To feed demand on a regional scale and establish a bridge between university innovators and the market/investors; and
- To launch a new "Umbrella Sandbox" regime, which envisages authorisation of a university in the AIFC FinTech Lab to test its students' innovations under the strict supervision of the university, which in turn shall be reportable to AFSA.

As part of a tripartite Co-operation Agreement between AFSA, AIFC Authority and Novosibirsk State University (NSU), the FinTech Lab initiated discussions within different AIFC units to identify the need for innovations and products developed and presented by NSU. As a result of multiple discussions, NSU proposed solutions to current digital issues and is expected to provide further detailed descriptions of potential solutions.

Information security risks

Due to the high dependency of Fintech Lab Participants on information technology and to ensure customer data security, AFSA has developed procedures for security analysis of Participants' systems, including a vulnerability assessment procedure (penetration test). In 2020, AFSA successfully completed vulnerability assessments for two companies, which proceeded to go-live procedures. As a result of vulnerability assessment testing, high severity issues were identified for both companies and addressed accordingly.

DEVELOPMENT OF AIFC FINTECH ECOSYSTEM

Framework on extension of the lists of Regulated and Market Activities

Amendments to the AIFC acts have been developed to: (1) enhance the level of regulatory certainty for firms offering or willing to offer financial services that are not currently regulated in the AIFC, (2) extend the list of financial services eligible for tax exemptions under the Joint Order on tax exemptions between the AIFC and Ministry of Finance of Kazakhstan and (3) harmonise and optimise the legislation development process related to the Market and Regulated Activities. The relevant framework was enacted on 9 January 2020.

Provision of CIT and VAT tax exemptions to FinTech firms

AFSA has actively engaged in the development of the Joint Order of the AIFC, Ministries of Finance and National Economy of Kazakhstan on tax reliefs, as a result

of which AIFC financial firms, including FinTech firms, are exempt from Corporate Income Tax (CIT) and Value Added Tax (VAT) (the Joint Order on tax exemptions was adopted in June 2020).

In addition, it is planned to exempt financial services related to cryptocurrencies, including activities of Providing Custody and Operating a Private E-currency Trading Facility, from VAT and CIT taxes.

Framework on digital assets (cryptocurrencies)

Draft amendments on digital assets to the national law “On digital technologies” were developed and enacted on 7 July 2020, which allows for having two separate regulations on digital assets in Kazakhstan (including different definitions and types, such as cryptocurrencies): one – under the AIFC acts, and another – under the national law of Kazakhstan on Informatization.

Following this, draft amendments to the AIFC Acts have been enacted on 23 July 2020 to harmonise the titles used for cryptocurrencies regulated in the AIFC and the above-mentioned law.

Framework on Mobile/ Digital Banking

This Framework is intended to create a lighter banking regime for institutions intending to provide basic products and services associated with small transactions (e.g. microloans, remittance, bank accounts, small deposits etc.) and therefore will establish a favourable AIFC regulatory environment conducive to greater financial inclusion (through easily accessible digital banking solutions) and efficient offer of financial services (through branchless banking), including the use of the Open Banking (open API) concept. The project is planned to be finalised by the end of 2021.

Framework on the AIFC E-money and Payments Services

This Framework envisages regulation of E-money and Payments services, and implementation of an Open API (Open Banking) regime. Access to public banking data via open APIs is expected to facilitate the emergence of new payment products and services, such as credit reports and scoring, financial dashboards and mobile contactless payment systems. The project is planned to be finalised by the end of 2021.

E-commerce Framework

It is expected that the E-commerce Framework will ensure: (1) legal certainty for e-commerce businesses, (2) proper functioning of the e-commerce market and (3) trust in e-commerce businesses through guaranteeing the interest of consumers, while safeguarding platforms' innovation potential. The project is planned to be finalised by the end of 2021.

Umbrella sandbox regime

AFSA is developing the AIFC Framework on Umbrella Sandbox, which conceptually represents a regulatory lab, that would supplement the existing AIFC FinTech Lab

regimes of Testing and Developing FinTech Activities. This is designed for universities, venture capital funds, financial institutions and research organisations (Principals) to allow its students, professors, researchers and start-ups (Principal Representatives) to experiment and test FinTech products/services under the licence of its Principal (without the need for Principal Representatives to obtain an additional licence from AFSA). Under the proposal, the authorisation and supervision will be performed by the Principal who is in turn authorised and supervised by AFSA. The project is planned to be finalised by the end of 2021.

NATIONAL FINTECH ECOSYSTEM

Passporting of fintech licences in Eurasian and South-East Asian regions

With the view to enabling mutual access within regional markets of Eurasian and South-East Asian countries, AFSA has driven an initiative on engaging with regional regulators to allow FinTech firms authorised by AFSA to carry out permitted FinTech activities in Eurasian and South-East Asian countries without the need to obtain further authorisation from the local regulator (passporting) and vice versa.

Similar to passporting approaches existing between the EU and ASEAN, AFSA expects that this initiative will make the AIFC an attractive place for doing FinTech businesses as well as improve the efficiency of the provision of FinTech services due to lower compliance costs as authorisation from each country regulator will not be required.

Establishment of a National Sandbox regime for cross-sectoral testing

Given that innovations disrupt not only the conventional financial industry but also affect various sectors across industries, AFSA has initiated the implementation of a cross-sectoral national sandbox regime (excluding financial industry), which is a special regulatory regime envisaging live testing of new products in a controlled environment with simultaneous oversight from multiple regulators across industries. Such a cross-sectoral national sandbox regime would provide several benefits for the market and economy of Kazakhstan overall:

- **Society and economy** – in terms of ensuring wider access or access to better/new/less costly innovation-driven personalised products and services;
- **Businesses** – in terms of improving confidence that innovative products/services are compliant in different regulatory contexts (establishment of regulatory certainty and better regulatory risk management solutions) and reducing time-to-market for innovations; and
- **Regulators** – opportunities to learn from collaboration with innovators to develop risk-averse regulatory responses.

The initiative has been included in the approved policy paper of National law on Innovations.

Collaboration with the Eurasian Economic Commission (EEC)

AFSA received a formal letter of thanks from the EAEU Commission's Chairman for its significant contribution made to the project on provision of expert support and

conduct of a series of research works on the development of a regional regulatory sandbox for cross-border testing of innovations within the EAEU in 2019. In view of AFSA's experience, AFSA has been co-operating with the EEC on matters related to the area of regulating cryptocurrencies and regulatory sandboxes.

8. EFFECTIVE AUTHORITY

DIGITALISATION

AFSA has rapidly scaled up digitalisation to both optimise AIFC Participants' experience of engaging with AFSA and streamline its public-facing processes.

One of the most significant initiatives covered a comprehensive digitalisation of the registration process for AIFC participants. This has significantly shortened the duration of all procedures through enabling the following: (a) the registration process time has been shortened from 3-5 to 1 business day on average; (b) a complete online experience for submission of applications through the digitalresident.kz portal; (c) the business identification number issue process has been integrated with the local database (Ministry of Justice); (d) monitoring through the online back-office by AFSA case managers; (e) an online process for know your client (KYC) checks has been integrated into the workflow; (f) digitalisation of post-registration process for the AIFC participants has been started; (g) data migration process of all web and paper-based documents has been started jointly with the AIFC Authority (AIFCA); (h) automation of the Public Register on the AFSA website has started.

Additionally, a version of digitalised authorisation of FinTech Lab Participants has been released and digitalisation of recognition procedures for Recognised Non-AIFC members has been launched.

To facilitate the ability to analyse reports and data by using the specialised automated analytical tools, a draft Supervisory Technologies Concept (SupTech) has been developed. The CRM for online submission of returns has been initiated.

INTERNATIONAL CO-OPERATION

In 2020, AFSA's main priority was accession to multilateral regulatory co-operation agreements due to the following reasons: first, it demonstrates adherence to global standards; second, it increases AFSA's global regulatory co-operation coverage; third, it ensures confidence in the AIFC's financial system and regulatory regime.

Pursuing multilateral co-operation

Global standard-setting organisations: AFSA pursued multilateral co-operation to ensure that its regulatory framework is aligned with global standards and provide its contribution to workstreams of the standard setting bodies.

Following extensive peer reviews and comprehensive verification processes, AFSA became a signatory to two multilateral agreements: (1) the Multilateral Memorandum of Understanding of IAIS (MMoU) in September 2020; and (2) the Enhanced

Multilateral Memorandum of Understanding of IOSCO (MMoU) (November 2020). Accession to these multilateral agreements enhances AFSA's supervisory capabilities and reflects its adherence to global standards on cross-border regulatory co-operation and protection of confidential information.

AFSA continues to increase 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 in 14 committees and working groups of international organisations. During the reporting period, AFSA was able to provide increased contribution by joining 2 governing committees (IAIS Implementation and Assessment Committee and IOSCO Committee on Issuer Accounting, Audit and Disclosure) and 3 working groups (IAIS Financial Inclusion Forum, IAIS Signatories Working Group and the Expert Group on an Agreement concerning mutual admission of securities in the Eurasian Economic Union);
- (2) contributions to 21 research initiatives and surveys of standard setting bodies throughout 2020, which normally serves as the first step to generating new standards and assessing best practices;
- (3) active participation in various virtual international fora, which facilitated consultations, exchange of experiences and discussions globally among regulators (overall 87 events).

International development finance institutions (IDFs): AFSA had frequent interactions with IDFs on obtaining technical assistance for certain areas of limited expertise. To prepare the regulatory community for the Mutual Evaluation of Kazakhstan against FATF standards by the Eurasian Group (EAG), AFSA received technical assistance from the Asian Development Bank (ADB) on the evaluation of AIFC legislation compliance with FATF recommendations.

With the upcoming Financial Sector Assessment Program (FSAP) by the International Monetary Fund (IMF), AFSA has begun engaging with the IMF on receiving technical assistance for the FSAP.

Several prospective technical assistance projects were prioritised and conveyed for discussion with the European Bank for Reconstruction and Development (EBRD), such as the development of the derivatives framework and digitalisation of regulatory framework, and with the ADB on the access to insurance development in Kazakhstan.

Pursuing bilateral co-operation

Cross-border regulatory co-operation: AFSA developed bilateral relations with peer regulators from Europe and Asia, which enhances its ability to exchange information and experience with regulators on supervisory issues. In 2020, AFSA entered into 6

bilateral agreements and memoranda with the following regulators, bringing the total number of agreements to 25:

- Central Bank of UAE
- Cyprus Securities and Exchange Commission (General MoU)
- Cyprus Securities and Exchange Commission (AIFMD MoU)
- Agency on regulation and development of financial markets of Kazakhstan and the National Bank of Kazakhstan
- Bulgarian Financial Services Commission
- Financial Services Authority of Indonesia (OJK)

In December 2020, the Board of Supervisors of European Securities and Markets Authority (ESMA) approved the formalisation of MoUs between AFSA and national competent authorities of the EU in the area of alternative investment funds.

Multilateral agreements have enhanced AFSA's bilateral co-operation coverage. The IAIS MMoU allows AFSA to co-operate with 74 insurance regulators bilaterally, while the IOSCO MMoU/EMMoU enables AFSA to co-operate with 123 capital markets regulatory authorities globally.

Exchange of experience with peer-regulators: The pandemic affected the practice of exchange of experience between regulators significantly. AFSA's programmes for bilateral exchange of experience were conducted in the form of virtual online sharing sessions. In 2020, AFSA held the following virtual sessions:

- Japan International Co-operation Agency (JICA) on self-regulation, regulatory and supervisory responsibilities (28 July);
- Financial Conduct Authority (FCA) UK on the exchange of experience in illegal insider trading (30 July);
- Prudential Regulation Authority (PRA) of the Bank of England on prudential regulation and supervision (9-15 December).

PUBLIC COMMUNICATIONS

Throughout the year, AFSA has made enormous efforts in reaching out to its stakeholders which resulted in 37 virtual public events. Public outreach events covered topics ranging from registration and authorisation in the AIFC to regulation and supervision, consumer protection, anti-money laundering, enforcement, FinTech, and regulatory relief measures.

2020 World Investor Week (WIW) in the AIFC has been the largest single outreach event. Due to its virtual format, it proved to be the most inclusive event and allowed any interested person the opportunity to participate. Overall, 3,000 people from 23 cities of Kazakhstan attended events under WIW in the AIFC.

Public outreach events were organised in partnership with several external stakeholders, including KPMG, Refinitiv, Clifford Chance, IOSCO and the Association

of Financiers of Kazakhstan. It is worth mentioning that many of AFSA's initiatives were supported by other AIFC bodies and organisations, including the AIFC Authority, AIFC Court and International Arbitration Centre, AIFC Academy of Law, Astana International Exchange, Bureau for Continuing Professional Development Ltd., FinTech Hub Ltd., AIFC Green Finance Centre Ltd. and AIFC Business Connect Ltd.

HUMAN CAPITAL DEVELOPMENT

AFSA Employees: Staff members of AFSA are graduates of universities from Kazakhstan, USA, UK and other European countries. 61% hold a master's degree. 32% are graduates of the Bolashak Presidential Scholarship Programme and 8% (6/69) are graduates of Nazarbayev University. AFSA is committed to providing equal opportunities for men and women. Overall, women accounted for 59% of AFSA staff and men 41%.

Managing talent: AFSA is highly supportive of and provides all possible opportunities for continuous professional development to its employees. Throughout 2020, including during the pandemic, all AFSA employees had access to the FSI Connect learning platform, where more than 150 courses were completed. Additionally, all employees were presented with the opportunity to join a variety of training programs through the AIFC Bureau for Continuing Professional Development (BCPD).

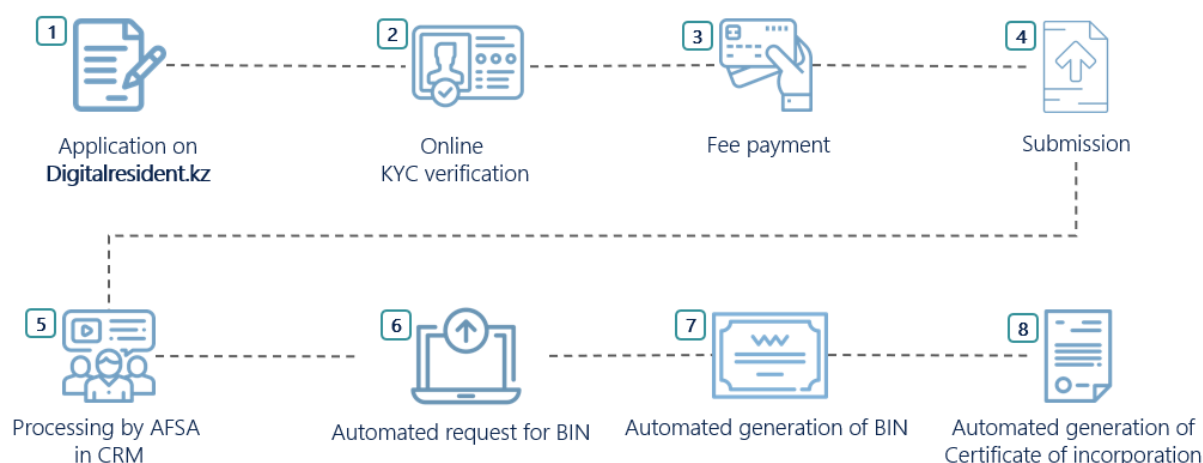
Staff health and safety in response to COVID-19: During the pandemic, one of the main priorities for AFSA has been the safety of staff and COVID-19 prevention. To ensure the health and safety of staff members, most employees worked remotely. AFSA has fully transitioned to working in a virtual office environment, including the ability to digitally sign documents and hold virtual meetings.

9. KEY INITIATIVES

Digital Resident

The Digital resident portal and customer relationship management (CRM) solution provide a fully online procedure to start the business in the AIFC (as depicted below). Currently, it covers business processes of registration, authorisation and FinTech Lab authorisation. In September 2020, the registration process became 100% digitalised, while in November 2020, an on-line process for reviewing applications for Recognised Non-AIFC Members and Recognised Non-AIFC Market Institutions was launched.

Company registration process in AFSA



World Investor Week 2020

World Investor Week (WIW) is a global campaign initiated by IOSCO to raise awareness on investor education and protection. In support of this global campaign, AFSA organised WIW in the AIFC from 5 to 9 October 2020. The purpose of the event was to raise awareness about financial services, consumer protection and basic principles of investing. In 2020, AFSA organised WIW for the third time, which reflects AFSA's promotion of financial consumers' education and protection.

This year's events at the World Investor Week were held in the format of online presentations and online information sessions. The Programme included four initiatives: (1) Opening of the Virtual World Investor Week in AIFC, (2) Retail Investors Day, (3) Investment Awareness Campaign, (4) Investor's Day Conference. Events under these initiatives covered various topics, including investment opportunities and investor protection in the AIFC, capital markets financial instruments in AIFC, Islamic investments in Kazakhstan, and investor protection in the AIFC in the context of digitalised financial services. 2020 WIW allowed participants to improve their level of financial and investment literacy, learn more about consumers' protection, and get to know more about financial services and conditions for doing business at the AIFC.

The virtual format of WIW allowed any interested person to participate in online presentations and sessions. Overall, 3,000 participants from 23 cities of Kazakhstan attended events under WIW.

All events at the 2020 WIW were live-streamed on social networks, including Facebook and Instagram. WIW was broadly covered by national media outlets resulting in 21 articles and 4 interviews on television in 3 languages: Russian, Kazakh and English.

PART 4: CONCLUSIONS

10. LOOKING FORWARD

Policy development

Workstreams for 2021 will aim to strengthen the AIFC regulatory environment in line with international standards. Planned legislative initiatives will focus on the following priorities: (1) approval of the AIFC currency regulation framework; (2) green finance framework; (3) enhancement of the AIFC recognition framework for recognised non-AIFC members; (4) amendments to the AIFC market and market institutions frameworks; and (5) development of the commodity exchange framework.

Continuous improvements to the existing regulatory framework will be undertaken to ensure that the regulatory regime is optimal and conducive for doing business. This will entail a review of banking business, Islamic banking, the prudential framework, Islamic finance, conduct of business, and anti-money laundering frameworks.

Registration

Registration related priorities will be centred around scaling up digitalisation, development of legal entities' frameworks and collaboration with local authorities on incorporation matters.

Digitalisation will advance to offer world's best solutions of establishing businesses, smooth obtaining of post-registration services and efficient online registration experience. AFSA will collaborate with local governmental authorities on the following: (1) solution of taxation issues during redomiciliation from AIFC to foreign jurisdictions; (2) enabling share capital to be indicated in foreign currency, and (3) incorporation of certain specific AIFC legal forms, such as protected cell companies and restricted scope companies.

Development of the regulatory frameworks will be another priority in 2021. Specifically, AFSA will work towards enhancement of the AIFC insolvency Regulations and Rules, legal entities framework and receivership in the AIFC.

Authorisation

During the upcoming year, AFSA will also enhance its authorisation processes through the following efforts: (1) digitalisation of authorisation processes to accept and process licence applications online, and (2) development of the Guidance for potential AIFC participants to clarify types of activities permitted in the AIFC (Perimeter Guidance).

Supervision

In 2021, AFSA will continue upgrading its supervisory capabilities for the efficient performance of the regulatory objectives. Consumer protection, whistleblowing and complaints frameworks enhancement will be prioritised at a time of heightened vulnerability. AFSA will continue supporting the financial community through

mitigation of the negative effects of the COVID-19 pandemic with a view to maintaining financial system resilience and integrity.

With the steady growth of the regulated community, AFSA will proceed with the digitalisation of submission of regulatory returns and supervisory data processing.

Focus on the supervised firms' conduct will continue, particularly regarding combating money laundering, suitability and market conduct issues. In preparation for the FATF evaluation of Kazakhstan, AFSA will develop further enhancements of its AML/CTF oversight. The quality of audit service providers in the AIFC will be supervised jointly with the Institute of Chartered Accountants in England and Wales. AFSA will continue to identify, disrupt and deter the most harmful conduct through its whistleblowing, complaints frameworks and enforcement actions.

AFSA will prioritise the regulatory obligations of RNAMs and the respective supervisory roles of AIX and AFSA over them.

FinTech

FinTech related priorities for 2021 will include improvements in the supervision and operational resilience of firms. These will involve adoption of the following: (1) guidance on testing system vulnerabilities of FinTech Lab participants, and (2) guidance on the inspection of FinTech Lab participants.

In addition to the above initiatives, another key priority in the upcoming year will be the automation of procedures related to supervision and post-licence applications.

AFSA will collaborate with AIFCA on the development of new FinTech frameworks in digital banking, e-money payment services, venture capital, and an umbrella sandbox to offer opportunities for the provision of novel financial services.

International relations and communications

AFSA's international co-operation efforts in 2021 will be aimed towards further alignment of AIFC financial services framework with global standards and international recognition. In pursuit of these objectives, AFSA will expand upon its existing self-assessments against IOSCO and conduct self-assessment against IAIS principles and standards.

In contribution to missions of global standard-setting organisations, AFSA will chair the Group of BSCEE, where the CEO of AFSA has been elected as Chairman for 2021. AFSA will host key international events in the upcoming year including: the Annual Conference of BSCEE (May), the meeting of the IOSCO's European Regional Committee (September) and the meeting of the Consultative Committee on Financial Markets (CCFM) under the Eurasian Economic Commission.

As part of facilitating cross-border co-operation in alternative investment funds markets, AFSA will seek formalisation of co-operation with national competent authorities of the EU under the EU's Alternative investment funds markets directive.

AFSA will continue hosting public outreach events to raise awareness of its stakeholders on various topics, such as the regulatory regime in the AIFC, consumer protection, changes to the rules on captive insurance, registration and licencing procedures, and combating money laundering. These presentations will communicate to the public, and potential AIFC participants, the role of AFSA and opportunities offered in the AIFC.

CONTACT US

Astana Financial Services Authority

Address: Nur-Sultan, 55/17 Mangilik El, block C3.2.

For general enquiries regarding registration and authorisation, please contact the AIFC Call Centre. Both international and local enquiries: [+7 7172 91 90 01](tel:+77172919001) or [+7 800 080 08 01](tel:+78000800801).

AIFC Business Connect is the first point of contact for all establishments interested in having a presence in the AIFC. We have a dedicated team of Business Development Officers who are on hand to support and guide organisations through the entire process. Contact details: +7 7172 64 73 30; +7 7172 64 73 31 or bdo@aifc.kz

For registration and authorisation inquiries, please contact us at registration@afsa.kz or authorisation@afsa.kz.

Web-site: www.afsa.kz