AMENDMENTS No. 1.1
AIFC CONDUCT OF BUSINESS RULES

Approval Date: 4 July 2018

Commencement Date: 11 July 2018

Nur-Sultan, Kazakhstan

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…

Guidance: Purpose of this rulebook

…

Chapter 17 (Operators of a Private E-currency Business) sets out the conduct of business requirements that apply to Operators of a Private E-currency Business.

…

8.1.5. Arranging Custody

An Authorised Firm which Arranges Custody must comply with the requirements in COB 8.3.7 (on assessing the suitability of Third Party Account Providers), COB 8.3.13 (on disclosure), COB 8.3.14(2) (on client reporting), and COB 8.3.15 (on record keeping).

…

8.2.19. Client reporting

In relation to each Client for whom it receives or holds Client Money, an Authorised Firm must provide at least once a year a~~n audited~~ statement of the Client Money unless such a statement has been provided in a periodic statement in accordance with COB 9.

…

8.3.14. Client reporting

(1) In relation to each Client for whom it receives or holds Client Investments, an Authorised Firm must provide at least once a year a~~n audited~~ statement of the Client Investments unless such a statement has been provided in a periodic statement in accordance with (2) or COB 9.

(2) An Authorised Person which Provides Custody for safeguarding and administering Private E-currencies belonging to a Retail Client must send a statement to its Retail Clients at least monthly. The statement must include the list, description and amount of each Private E-currency held by the Authorised Person as at the date of reporting.

…

8.3.16. Reconciliations

(1) An Authorised Firm must:

(a) at least once every calendar month, reconcile its records of Client Accounts held with Third Party Account Providers with monthly statements received from those Third Party Account Providers;

(b) at least every six months, count all Client Investments physically held by the Authorised Firm, or its Nominee Company, and reconcile the result of that count to the records of the Authorised Firm; and

(c) at least every six months, reconcile individual Client ledger balances with the Authorised Firm's records of Client Investment balances held in Client Accounts.

(2) An Authorised Firm must ensure that the process of reconciliation does not give rise to a conflict of interest.

(3) Where Authorised Persons Provide Custody for safeguarding and administering Private E-currencies belonging to another Person, all reconciliations required under 8.3.16 shall be conducted at least every week.

…

11.8.15. Client reporting

In relation to each Client for whom it receives or holds Client Money, an Insurance Intermediary must provide at least once a year a~~n audited~~ statement of the Client Money.

…

16.3. Internal Audit of Client Statements

At least annually, a sample of Client statements provided by an Authorised Firm under any of sections 8.2.19, 8.3.14, 9.2 or 11.8.15 must be reviewed by the internal audit function of the Authorised Firm established under GEN 5.5. The sample must be significant and stratified.

Guidance: Significant and Stratified Sample

A sample will be considered "significant" if it includes ≥5% of the total number of Client statements provided during the review period. A sample will be considered "stratified" if it is drawn proportionately from a range of different Client types based on appropriate factors in light of the business of the Authorised Firm, which may include, for example: status (Retail Clients versus Professional Clients), business type, assets, income, geography and types of products held with the Authorised Firm. The results of the internal audit review must be made available to the AFSA upon request.

…

17. OPERATORS OF A PRIVATE E-CURRENCY BUSINESS

17.1. Application

This chapter applies to an Authorised Person engaged in the activity of Operating a Private E-currency Business.

Guidance

The following activities do not constitute Operating a Private E-currency Business–

(1) trading of Private E-currencies for the Person's own investment purpose;

(2) the issuance of Private E-currencies by a Person and their administration (including sale, redemption);

(3) any other activity or arrangement that is deemed by the AFSA to not constitute Operating a Private E-currency Business, where necessary and appropriate in order for the AFSA to pursue its objectives.

17.2 Rules Applicable to an Authorised Private E-currency Trading Facility

In addition to all requirements applicable to Authorised Persons in these rules, GEN, and AML, an Authorised Person carrying on the Market Activity of Operating a Private E-currency Trading Facility must comply with the applicable requirements set out in the AMI, unless the requirements in this chapter expressly provide otherwise.

17.3. Admission of Private E-currencies to trading

(1) An Authorised Person Operating a Private E-currency Trading Facility may grant admission of Private E-currencies to trading only where it is satisfied that such admission is in accordance with the AMI and an Authorised Private E-currency Trading Facility's Admission to Trading Rules.

(2) An Authorised Person Operating a Private E-currency Trading Facility must not permit trading of Private E-currencies on its facilities unless those Private E-currencies are admitted to, and not suspended from, trading by the Authorised Person Operating a Private E-currency Trading Facility pursuant to Chapter 6 of AMI.

17.4. Additional disclosure requirements

Prior to entering into an initial transaction for, on behalf of, or with a Client, an Authorised Person Operating a Private E-currency Business shall disclose in a clear, fair and not misleading manner:

(a) all terms, conditions and risks relating to the Private E-currencies that have been admitted to trading and/or is the subject of the transaction;

(b) all material risks associated with its products, services and activities; and

(c) all details on the amount and the purpose of any premiums, fees, charges or taxes payable by the Client, whether or not these are payable to the Operating a Private E-currency Business.

17.5. The risks to be disclosed pursuant to Rule 17.4. include, but are not limited to, the following:

(a) Private E-currencies not being legal tender or backed by a government;

(b) the value, or process for valuation, of Private E-currencies, including the risk of a Private E-currency having no value;

(c) the volatility and unpredictability of the price of Private E-currencies relative to Fiat Currencies;

(d) that trading in Private E-currencies is susceptible to irrational market forces;

(e) that the nature of Private E-currencies may lead to an increased risk of Financial Crime;

(f) that the nature of Private E-currencies may lead to an increased risk of cyber-attack;

(g) there being limited or, in some cases, no mechanism for the recovery of lost or stolen Private E-currencies;

(h) the risks of Private E-currencies with regard to anonymity, irreversibility of transactions, accidental transactions, transaction recording, and settlement;

(i) that there is no assurance that a Person who accepts a Private E-currency as payment today will continue to do so in the future;

(j) that the nature of Private E-currencies means that technological difficulties experienced by the Authorised Person may prevent the access or use of a Client's Private E-currencies;

(k) any links to Private E-currencies related activity outside the AIFC, which may be unregulated or subject to limited regulation; and

(l) any regulatory changes or actions by the AFSA or Non-AIFC Regulator that may adversely affect the use, transfer, exchange, and value of a Private E-currency.

17.6. Complaints

(1) An Authorised Person Operating a Private E-currency Business shall establish and maintain written policies and procedures to fairly and timely resolve complaints made against it or other parties (including members).

(2) An Authorised Person Operating a Private E-currency Business must provide, in a clear and conspicuous manner: on its website or websites; in all physical locations; and in any other location as the AFSA may prescribe, the following disclosures:

(a) the mailing address, email address, and telephone number for the receipt of complaints;

(b) a statement that the complainant may also bring his or her complaint to the attention of the AFSA;

(c) the AFSA's mailing address, website, and telephone number; and

(d) such other information as the AFSA may require.

(3) An Authorised Person Operating a Private E-currency Business shall report to the AFSA any change in its complaint policies or procedures within ten days.

(4) An Authorised Person Operating a Private E-currency Business must maintain a record of any complaint made against it or other parties (including members) for a minimum period of six years from the date of receipt of the complaint.

17.7. Obligation to report transactions

(1) An Authorised Person Operating a Private E-currency Business shall report to the AFSA details of transactions in Private E-currencies traded on its facility which are executed, or reported, through its systems.

(2) The AFSA may, by written notice or Guidance, specify:

(a) the information to be included in reports made under (1); and

(b) the manner in which such reports are to be made.

17.8. AFSA power to impose a prohibition or requirement

(1) The AFSA may prohibit an Authorised Person Operating a Private E-currency Business from:

(a) entering into certain specified transactions or types of transactions; or

(b) outsourcing any of its functions or activities to a third party.

(2) The AFSA may, by written notice or guidance, set fees payable by an Authorised Person Operating a Private E-currency Business to the AFSA on certain specified transactions or types of transactions.

AMENDMENTS No. 1.2
AIFC CONDUCT OF BUSINESS RULES

Approval Date: 30 July 2018

Commencement Date: 30 July 2018

Nur-Sultan, Kazakhstan

AIFC Conduct of Business Rules No. FR0005 of 2017 are to be amended by inserting the underlined text and deleting the struck through text as shown below:

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Guidance: Purpose of this rulebook

The purpose of this rulebook, “COB”, is to ensure that financial services firms operating in the AIFC meet the standards of conduct expected of such firms, particularly with regard to the treatment of their clients, but also in their dealings with counterparties and other market participants. COB also includes rules to ensure that the behaviour of firms operating in the AIFC contributes to fostering and maintaining the integrity of financial markets in the AIFC. COB also includes rules to ensure that the conduct and behaviour of banks operating in the AIFC, contribute towards developing trust and confidence among the customers and wider market participants for the banks and the banking market in the AIFC.

This will assist the AFSA to meet the regulatory objectives specified in the Financial Services Framework Regulations (the "Framework Regulations"), including the AFSA's objectives of:

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

Chapter 1 (Application) states that the requirements in the COB rulebook generally apply to Authorised Firms licensed to carry on a Regulated Activity. Some requirements may be modified or disapplied altogether depending on the type of Authorised Firm involved, the nature of its activities, and/or the classification of the Client to whom the Authorised Firm provides services.

In particular, the majority of the COB rules do not apply to Insurance Intermediaries, Trust Service Providers, or Ancillary Service Providers, which are instead required to comply with the requirements set out in Chapters 11, 12 or 13 of COB respectively.

For the avoidance of doubt, COB does not apply to Representative Offices or Authorised Market Institutions.

Chapter 2 (Client classification) requires an Authorised Firm to classify each of its Clients as either a Retail Client, Professional Client, or Market Counterparty, depending on the Client's financial resources and knowledge and experience of Financial Services. The Authorised Firm must inform the Client of its classification. The purpose of this classification is to ensure that the COB rules are applied in a risk-sensitive manner in proportion to the risks faced by a Client and the level of protection which that Client requires. In particular, the COB rules seek to ensure that the Client receives an adequate level of protection based on its resources and understanding of the Financial Products and Financial Services involved. For example, a Retail Client is assumed to need more protection than a Market Counterparty, so an Authorised Firm dealing with a Retail Client will be required to comply with more stringent requirements in COB.

Chapter 3 (Communications with Clients and Financial Promotions) imposes a general duty on Authorised Firms to ensure that their communications with Clients are fair, clear and not misleading. In addition, there are specific requirements for the handling of Financial Promotions (that is, marketing materials directed at potential investors). This is to ensure the protection of Clients, including potential clients.

Chapter 4 (Key information and client agreement) provides the key information to be provided by Authorised Firms to their Clients, and the requirement to enter into a client agreement with their

Clients. The purpose of this requirement is to ensure that Clients receive the information which they need in order to come to an informed decision about the Financial Products and Financial Services being offered, and to ensure that there is a binding contract containing the rights and obligations of both parties.

Chapter 5 (Suitability and appropriateness) states that an Authorised Firm that is Advising on Investments or Managing Investments for a Client must assess whether the Financial Product or Financial Service being offered is "suitable" for that Client. If the Authorised Firm is Dealing in Investments or receiving and transmitting orders for a Client, the Authorised Person must assess whether the Financial Product or Financial Service is "appropriate" for the Client. The respective nature of assessments of suitability or appropriateness are described in detail in COB 5.

Chapter 6 (Order execution and order handling) sets out the obligation for an Authorised Firm, when executing an order on behalf of a Client, to obtain the best possible result for the Client. The Authorised Firm is required to handle orders according to a specified order allocation policy.

Chapter 7 (Conflicts of interest) builds on the requirement in GEN that an Authorised Firm must identify a conflict of interest between itself and a Client, or between one Client and another Client, and where appropriate manage such conflicts. COB 7 provides further detail on how such conflicts should be managed and disclosed to the Client. COB 7 is also intended to prevent a third party making payments or providing other benefits to an Authorised Firm in a way that may damage the Client's interests.

Chapter 8 (Client assets) is intended to ensure that, where an Authorised Firm holds or controls Money or Investments belonging to a Client, such Money or Investments will be protected in the event of that Authorised Firm's insolvency.

Chapter 9 (Reporting to clients) states the requirements on an Authorised Firm to report to the Client. COB 9 is intended to ensure that the Authorised Firm provides the Client with post-trade confirmation of the Client's purchases and sales of Investments as well as regular periodic statements on the value of the Investments held by the Authorised Firm on behalf of the Client.

Chapter 10 (Investment research) sets out requirements in relation to the production of investment research by an Authorised Firm. This is intended to prevent any conflict of interest from acting to the detriment of the Client.

Chapter 11 (Insurance intermediaries) deals with specific conduct of business rules that apply to insurance intermediaries.

Chapter 12 (Trust Service Providers) sets out the conduct of business requirements that apply to Trust Service Providers.

Chapter 13 (Ancillary Service Providers) sets out high-level principles that apply to Ancillary Service Providers.

Chapter 14 (Credit Rating Agencies) sets out high-level principles that apply to Credit Rating Agencies.

Chapter 15 (Complaints handling and dispute resolution) contains high-level requirements setting out how a Client may issue a complaint against an Authorised Firm and how this may be escalated in the event of a dispute.

Chapter 16 (Record keeping) sets out how records must be maintained by an Authorised Firm.

Chapter 18 (Banks) sets out the conduct of business requirements that apply to Banks.

18. BANKS

18.1. Application

This chapter applies to an Authorised Firm that is licensed by the AFSA to conduct the Regulated Activity of Accepting Deposits.

An Authorised Firm that is licensed to conduct the Regulated Activity of Accepting Deposits is defined as a Bank in BBR 1.5.

18.2. Accepting Deposits

A Bank, in the course of Accepting Deposits, must not accept Deposits from Retail Clients.

18.3. Terms of business for Accepting Deposits—general requirements

(1) A Bank accepting a Deposit from a customer must give the customer its terms of business, before the acceptance of the first Deposit from that customer.

(2) This rule does not apply if the activity of Accepting Deposits is carried on after the termination of the terms of business and the Bank is acting only for the purposes of fulfilling any obligations that remain outstanding under the terms of business.

18.4. Terms of business for Accepting Deposits — contract

(1) A Bank must ensure that its terms of business for accepting a Deposit from a customer contain, in adequate detail, the basis on which it will accept the Deposit from that customer.

(2) Without limiting (1), the Bank must ensure that the terms of business contain the information as specified by the rules in this chapter (Minimum content of terms of business— Accepting Deposits).

(3) A Bank is not required to include information in the terms of business if the information is, by its nature, unavailable when the terms of business are given to the customer. If such information becomes available after the terms of business are given to the customer, the Bank must give the information to the customer as soon as practicable after it becomes available to the Bank.

18.5. Terms of business for Accepting Deposits —multiple documents

A Bank's terms of business for a customer for the activity of Accepting Deposits may consist of one or more documents if it is made clear to the customer that collectively they make up the terms of business.

18.6. Terms of business for Accepting Deposits — amendment

If the terms of business of a Bank for a customer for the activity of Accepting Deposits allow the Bank to amend the terms of business without the customer's agreement, the Bank must not conduct business with or for the customer on the basis of an amendment of the terms of business unless the Bank has given the customer written notice of the amendment:

(a) at least 10 business days before the amendment is to take effect; or

(b) if it is impractical to give that notice, as early as is practicable.

18.7. Terms of business for Accepting Deposits — recordkeeping

A Bank must keep a copy of a terms of business that it gives a customer under this chapter, and of each amendment of the terms of business, for at least 6 years after the day the Bank ceases to conduct business with or for the customer under the terms of business.

18.8. Terms of business for Accepting Deposits — minimum content

(1) Commencement of the terms of business – when and how the terms come into force.

(2) Regulatory status of the Bank as required by the GEN Rules.

(3) The services to be provided by the Bank, including, if applicable, the provision of credit, cheque clearing and provision of statements.

(4) The Bank's fee payment terms, including, if appropriate

(a) how fees are calculated; and

(b) how fees are to be paid and collected; and

(c) how frequently fees are to be paid; and

(d) whether any other payment is receivable by the Bank (or to its knowledge by any members of its Group) instead of fees in relation to a transaction executed by the Bank with or for the customer.

(5) The Bank's terms relating to interest, including, if appropriate

(a) how interest is calculated for both debit and credit balances; and

(b) how interest is paid or collected depending on whether the account is having debit or credit balances; and

(c) how frequently interest is charged and paid.

(6) The Bank's approach to dealing with any applicable conflicts of interest and material interests.

(7) Information about the Bank's internal complaint handling procedures, including information about how a complaint may be made to the Bank.

(8) The details of the arrangement for the customer to provide instructions to the Bank and for the Bank to acknowledge such instructions.

(9) Method of terminating account relationships, either by the bank or by the customer and the consequences of termination in either case.