

Development of clearing activities

Improvement of the risk management system

From June 1, 2018 the Exchange launched a new mechanism allowing an efficient management of risks on the stock market – the concentration limit which allows limiting the risk of failure to meet obligations on repo transactions arising when particular trading participant's deals in particular shares amass.

To determine the maximum amount of securities that can be sold or used as underlying assets of a repo transaction without losses, at a price being within standard volatility limits of a security, the following is calculated for each one of shares available for trading based on the T+2 scheme:

1. the concentration limit – as a figure equal to the total of average daily amounts of trading on a particular financial instrument on markets T+0, T+2, foreign markets according to data of the information agency Bloomberg, as well as average daily amounts of trading on opening of nego repos, autorepos, repos with netting, with that particular security as underlying asset;
2. concentration limits – as volatility of a security with an increased risk horizon (15 days) level of trust of 99.97%.

Values of concentration limits and concentration rates on securities are calculated monthly and come into effect on the 15th day of each calendar month, information on values of concentration rates on securities is released on the Exchange's website two days before their coming into effect. Daily, at the beginning of the day the Exchange defines the open position of trading participants for each share.

As part of the project the Exchange made amendments to its information systems, as well as improved internal documents, in particular, Rules of execution of repo transactions and Specification of auto repo market.

Switching instruments to T+2 settlement scheme

In 2018 the Exchange continued the development of clearing activities on Kazakhstan's exchange market, particularly, by way of extending the list of financial instruments which are subject to the trading and settlement scheme T+2.

In the year under review the T+2 settlement scheme was expanded to the secondary GS exchange market, however it is worth noting that on deals in GS with the T+2 settlement scheme no checking of the security sufficiency is carried out, nor netting, nor clearing. Settlements are carried out on the second business day after the deal was concluded in the "deal after deal" mode, and in case of insufficiency of assets of any participant for execution of obligations under a deal, such deal can be executed on account of the National Bank, provided it agrees to execute such deal.

For the primary GS market the possibility of conducting trading according to the T+2 scheme was also introduced; this scheme, equally as the T+0 scheme can be used when conducting auctions upon the choice of the GS issuer or the operator of the special trading session.

The project on the launch of the T+2 trading and settlement scheme on KASE started in 2015. Since that moment the Exchange according to a schedule switched groups of instruments to the new settlement scheme, after shares from KASE Index universe it was shares of the first liquidity class, then Eurobonds denominated in foreign currencies, and in 2018 – all GS.

Central counteragent (CC) on the currency market

On October 1, 2018 KASE began carrying out functions of the CC on the exchange's foreign currency market. The purpose of implementing CC functions in this market segment is to provide its participants with the Exchange's guarantee of fulfillment of their claims on deals concluded in case of a failure of any trading participant. Introduction of the CC on KASE's foreign currency market must increase its reliability and liquidity which on the whole promotes that exchange market.

The work on the project began in 2016, the following has been done so far:

- amendments were made to laws, statutory acts and internal documents of the Exchange;
- an automated risk management system was developed based on KASE's existing trade and clearing system; it ensures control of the sufficiency of marginal security of clearing participants;
- a WEB-module was developed for clearing participants, that in real time displays each participant's current net position, the value of his margin security, as well as margin requirements;
- the Methodology of defining clearing funds' amounts was developed;
- the Policy of investing the security of clearing participants and clearing funds was developed;
- the new tariff policy was developed.

KASE, taking into account potential risks related to the increasing number of participants, maintains stability on the currency market on account of improving the risk management system which includes the following elements:

- requirements for the financial position of clearing participants;
- setting categories of clearing participants defining the method of ensuring obligations on execution of deals;
- the system of defining risk-parameters of financial instruments;
- control of the security's sufficiency for clearing participants;
- re-valuation of the security and net positions of clearing participants;
- clearing reserve and guarantee funds;
- daily control of the sufficiency of guarantee contributions of clearing participants.

The CC's development outlooks for the years to come are related to the implementation of the Agreement on strategic cooperation between KASE and MOEX dated October 10, 2018, aimed at the introduction of the trade-clearing complex of Moscow Exchange, including the gradual implementation of the single security management system and risk management system for the stock market and money market.

After switching to the trade-clearing system of Moscow Exchange KASE plans to provide CC services on the stock market.