



# Consultation Paper

**AFSA-P-CE-2024-0003**

in continuation of  
Consultation Paper  
AFSA-P-CE-2024-0003

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## Proposed AIFC Tokenised Commodities Framework

Unrestricted

**March 19, 2024**

## Introduction

### *Why are we issuing this Consultation Paper (CP)?*

1. The Astana Financial Services Authority (AFSA) has issued this Consultation Paper to seek suggestions from the market on the Policy paper and proposed AIFC Tokenised Commodities Framework.

### *Who should read this CP?*

2. The proposals in this paper will be of interest to current and potential AIFC participants involved in stablecoin-related activities, dealing with tokenised commodities, as well as to market participants and other interested parties.

### *Terminology*

3. Defined terms have the initial letter of the word capitalised, or of each word in a phrase. Definitions are set out in the AIFC Glossary ([GLO](#)). Unless the context otherwise requires, where capitalisation of the initial letter is not used, the expression has its natural meaning.

### *What are the next steps?*

4. We invite comments from interested stakeholders on the proposed framework. All comments should be in writing and sent to the email specified below. When sending your comments by email, please use “Consultation Paper AFSA-P-CE-2024-0003” in the subject line. You may, if relevant, identify the organisation you represent when providing your comments. The AFSA reserves the right to publish, including on its website, any comments you provide, unless you expressly request otherwise. Comments supported by reasoning and evidence will be given more weight by the AFSA.
5. The deadline for providing comments on the proposed framework is **25 April 2024**. Once we receive your comments, we shall consider if any refinements are required to this proposal.
6. Following the public consultation, we may proceed with making relevant changes to the AIFC Acts as appropriate to reflect the points raised in the consultation. You should not act on the proposals until the framework is enacted.
7. Comments to be emailed to: [consultation@afsa.kz](mailto:consultation@afsa.kz).

### *Structure of this CP*

Part I – Background;

Part II –Proposals;

Part III – Questions in this consultation paper;

Annex 1 – Draft Amendments to AIFC Glossary (GLO);

Annex 2 – Draft Amendments to AIFC Digital Asset Activities Rules (DAA);

Annex 3 – Draft Amendments to AIFC Financial Services Framework Regulations (FSFR);

Annex 4 – Draft Amendments to AIFC Authorised Market Institutions Rules (AMI);

Annex 5 – Draft Amendments to AIFC Conduct of Business Rules (COB); and

## Annex 6 – Draft Amendments to AIFC Fees Rules (FEES).

## Part I - Background

8. Commodities are broadly defined in the AIFC Glossary as any goods of a fungible nature that are capable of being delivered, such as metals and their ores and alloys, agricultural products, energy, such as gas and electricity, and Environmental Instruments (including carbon emissions and credits).
9. In 2023, the AFSA developed the Commodities Exchange framework, which allows trading of Commodity Derivatives and Environmental Instruments on the Investment Exchange platforms. Also, the AFSA took several initiatives in developing the fintech regime in the AIFC and enacted the Security Token Offering (STO) and Stablecoin frameworks.
10. Given the progress made by AFSA in building the infrastructure for developing the financial and commodities markets in the AIFC and some relevant products being tested in the AFSA's Fintech Lab, we see the need for the extension of the AFSA regulatory perimeter and tokenised instruments linked to commodities under its umbrella.

## Part II - Proposals

11. Following the analysis of the current approach of Standard Setting Bodies (SSB) and other regulators with regards to the tokens referenced to commodities, as well as the established business practice, the AFSA is proposing to consider introducing the following types of tokens in the current legislation: Commodity stablecoins, Commodity Derivative Tokens and Environmental Instrument Tokens.

### Commodity stablecoins

12. On 1 January 2024, the AFSA enacted DAA Rules, which include frameworks on Fiat stablecoin issuance and operations of Digital Asset Service Providers, where the latter framework stipulated the definition of a Commodity stablecoin, "a Digital Asset whose value purports to be determined by reference to a commodity (e.g., gold, oil)".
13. Benefits of commodity-backed stablecoins are:
  - a. They are designed to offer greater access to investors who want to invest in cryptocurrencies but look for assets that are more reliable. As they are backed by tangible assets, they are less volatile than traditional cryptocurrencies.
  - b. Commodity-backed stablecoins are less susceptible to economic inflation than fiat currencies.
  - c. Commodity-backed stablecoins are often used as payment methods.
  - d. Tokenised commodities make it easier to own fractions of assets, which can be useful when considering large-value assets or the commoditisation of assets such as diamonds.
  - e. Such stablecoins allow investors to purchase hard-to-source assets. Physical gold, for example, is generally expensive and difficult to access. Meanwhile, a commodity-backed stablecoin allows investors to access the benefits of physical gold without the storage costs and difficulties associated with physical gold.
14. DAA Rules mention Commodity stablecoins in the context of operations of Digital Asset Trading Facilities and Digital Assets that might be admitted to trading on such platforms. Thus, the framework considers the recognition regime for already existing commodity-

backed stablecoins in circulation.

15. It is proposed to extend the AIFC Stablecoins framework developed by the AFSA and incorporate Commodity stablecoins in the existing legislative provisions. The following existing requirements would be applicable to issuers of Commodity stablecoins:
- a. Issuance of stablecoins,
  - b. Technology governance,
  - c. Policies and procedures,
  - d. Capital requirements for Money Services Providers that are allowed to issue Fiat stablecoins,
  - e. Obligation to have a reserve of assets,
  - f. Custody of reserve assets,
  - g. Redemption rights,
  - h. Audit obligations,
  - i. Ongoing information to holders of Fiat stablecoins,
  - j. Requirements on Whitepapers, and
  - k. Anti-Money Laundering and Countering Financing of Terrorism.
16. It is assumed that reserve assets backing Commodity stablecoins should not be invested in any asset except the relevant referenced commodities. Rule DAA 4.7.4 outlining the right of issuers to invest reserve assets in different instruments will therefore not apply to Commodity stablecoins.
17. Due to the nature of the commodities backing the Commodity stablecoins, it is proposed to introduce additional requirements listed below.

### **Custody of reserve assets**

18. Rules DAA 4.7.1 and 4.7.3 include requirements for issuers and custodians of reserve assets backing Fiat stablecoins to comply with relevant provisions of Chapter 8 of the COB, which outlines Client Money and Client Investments Rules. Additionally, DAA requirements mostly correspond to what is required by COB in relation to safeguarding client assets. Noting the said and the fact that commodities, which might be backing Commodity stablecoins, are not covered by COB 8, it is proposed to bridge the gap and include provision DAA 4.7.3(10) to require custodians of commodities referenced by relevant stablecoins to ensure that reserve assets are recorded, registered and held in an appropriate manner to safeguard and control such reserve assets.
19. Also, noting that there are no specific requirements for persons that might act as custodians of commodities, the AFSA will keep the power to impose any additional requirements to appointed custodians of the reserve assets backing the Commodity stablecoin to ensure that equivalent protections are in place (Rule DAA 4.7.3(11)).

### **Redemption rights**

20. Noting the physical nature inherent to the majority of commodities, the framework is proposed to be revised to cover various options of redemption mechanism in addition to a claim at par value, including delivery of the assets referenced by stablecoins. The issuer would be required to provide sufficiently detailed and easily understandable information on

the different forms of redemption available. This is proposed to be reflected in DAA Rule 4.11.2.

### **Policies and procedures**

21. In terms of the policies on stabilisation mechanism prescribed in Rule DAA 4.5(1)(i), it is proposed to extend the list of requirements to the content of the relevant policies to cover issuance and redemption processes, categories of persons eligible to request redemption of stablecoins, risks resulting from the reserve of assets and general approach to investment of reserve assets.
22. It is proposed to include an additional requirement in Rule DAA 4.5(1)(h) to have internal policies on the arrangements with third parties, including persons engaged for managing the reserve assets and the investment of the reserve, the custody of reserve assets, and, where applicable, the distribution of stablecoins to the public.

The proposed requirements would also be applicable to Fiat stablecoins.

### **Commodity Derivative Tokens and Environmental Instrument Tokens**

23. Distributed ledger technology (DLT) and smart contracts have the potential to radically improve the efficiency of the derivatives market by automating the performance of certain events and obligations.
24. As in the case of regular derivative contracts, the value of derivative tokens is contingent on fluctuations in the value of one or more referenced assets, including a commodity. Decentralized tokenised derivatives may not make use of an intermediary such as a dealer or a clearing house like in traditional finance. Instead, governance, maintenance, and auto-liquidation of collateral for such derivatives are usually controlled in part by programmable code.
25. While the derivative tokens have their specific features resulting from their usage of DLT, they constitute a digital representation of an investment product and are subject to regulation under the existing laws. This is consistent with the approach adopted in peer and other leading jurisdictions.
26. SSBs and leading jurisdictions do not distinguish tokens referenced to commodity derivatives as separate types of digital assets, but they recognise them as financial instruments subject to the existing regulation.
27. One of the AFSA's initiatives on enhancement of regulatory regime was introducing the STO framework enacted in January 2024. After the analysis of various approaches to Security Tokens regulation, it was concluded that such tokens are similar in nature, effect or purpose to traditional Securities and therefore should be subject to the existing AFSA Rules.
28. Noting the technology risks inherent in tokens, it was decided to address these risks by introducing additional requirements applicable to Security Tokens.
29. In terms of the platform, the regulatory regime for Investment Exchanges and Clearing Houses has been extended by allowing such facilities to allow admitting Security tokens to trading/clearing.
30. It should be noted that, according to the current AFSA's approach, Investment Exchanges and Clearing Houses are allowed to admit to trading/clearing the following types of

commodities or commodity-backed instruments: Commodity Derivatives and Environmental Instruments.

31. Considering the above, it is proposed to allow AMIs to admit to trading/clearing tokenised Commodity Derivatives and Environmental Instruments and apply relevant requirements of the STO framework to address regulatory matters deriving from their digital form, including:
- a) Technology and governance requirements;
  - b) Additional requirements applicable to AMIs operating a facility for Commodity Derivative Tokens that permit direct access;
  - c) Safe custody of Security Commodity Derivative Tokens;
  - d) Technology audit reports;
  - e) Conduct requirements on providing information to be applied to an AMI operating a facility for Commodity Derivative Tokens and allowing direct access.
32. Additionally, below are listed additional requirements being part of the proposed framework.

### **Application of AMI Rules**

33. It is assumed that all general requirements applicable to Securities, Units, Commodity Derivatives or Environmental Instruments would also be applicable to Security Tokens, Commodity Derivative Tokens or Environmental Instrument Token. In order to avoid all possible discrepancies in interpretation of AMI provisions, it is proposed to include a guidance in the introductory part of AMI outlining such application.

### **Membership**

34. Noting that the existing general requirements would apply to tokenised instruments, it is proposed to allow AMIs to admit persons, who are not Authorised Firms or RNAMs, to trading or clearing of Commodity Derivative Tokens or Environmental Instrument Tokens. However, such persons must be qualified as Professional Clients under COB criteria. Relevant requirement is proposed to be included in AMI 2.6.1(3).

### **Fees**

35. Considering risks derived from the nature of tokenised instruments, this would result in increased authorisation and supervisory resources required to be allocated to maintain the financial stability of the AIFC market. It is therefore proposed to charge additional application and supervision fees in the amount of 5,000 USD from the Operators of Authorised Exchanges and Clearing Houses that are planning to admit Commodity Derivative Tokens or Environmental Instrument Tokens to trading/clearing and allow direct access with regard to dealing with such tokens. Relevant amendments are proposed to be reflected in table 1.1 of Schedule 2 and table 6.2 of Schedule 6 of FEES.

## **Part III - Questions in this consultation paper**

- 1. Are there any comments on or concerns related to the proposed types of tokenised commodities to be allowed for dealing in the AIFC: Commodity**

**stablecoins, Commodity Derivative Tokens or Environmental Instrument Tokens?**

- 2. Do you agree with the proposal to extend the Stablecoin and STO frameworks and apply relevant provisions on the said tokens?**
- 3. What are your views on the proposed constraints on investment of reserve assets backing the Commodity stablecoins in any instruments apart from relevant commodities?**
- 4. Do you have any proposals on stabilisation mechanisms for Commodity stablecoins due to the specific nature of commodities?**
- 5. Do you agree with other additional requirements to the Stablecoin framework the AFSA is proposing with regard to regulating issuance of Commodity stablecoins?**
- 6. Do you have any comments on the proposal allowing an Authorised Exchange or Clearing House to provide direct access membership to Professional Clients only when dealing with Commodity Derivative Tokens or Environmental Instrument Tokens?**
- 7. What are your views on the proposals to introduce additional application and supervision fees for an Authorised Exchange or Clearing House allowing direct access to trading or clearing of Commodity Derivative Tokens or Environmental Instrument Tokens? Is the level of the proposed fees considered to be appropriate? If not, what alternative is suggested?**
- 8. AFSA seeks any other comments relating to the AFSA's regulatory approach towards Commodity stablecoins, Commodity Derivative Tokens or Environmental Instrument Tokens that the AFSA should consider.**



**Proposed amendments to the AIFC Glossary**

In these Rules, the underlying indicates a new text and the strikethrough indicates a removed text

(...)

**2. INTERPRETATION**

<b><u>Commodity Derivative Token</u></b>	A digital representation of a <u>Commodity Derivative</u> , that is issued, transferred and stored using DLT or other similar technology approved by the AFSA.
<b>Commodity stablecoin</b>	A Digital Asset whose value purports to be determined by reference to a <del>commodity</del> <u>Commodity</u> (e.g., gold, oil).
<b>Digital wallet Service Provider</b>	An Authorised Firm Providing Custody of Security Tokens, <u>Commodity Derivative Tokens</u> or <u>Environmental Instruments Tokens</u> or Digital Assets by holding and controlling the public and private cryptographic keys relating to the Security Tokens, <u>Commodity Derivative Tokens</u> or <u>Environmental Instruments Tokens</u> or Digital Assets.
<b>DLT (Distributed Ledger Technology)</b>	<p>A class of technologies that support the recording of encrypted data where the data:</p> <ul style="list-style-type: none"> <li>(a) is held on a distributed ledger;</li> <li>(b) is electronically accessible, from multiple locations, by a network of participants; and</li> <li>(c) can be updated by those participants, based on agreed consensus, protocol or procedures.</li> </ul> <p>For the purposes of MAR, AMI and COB, DLT also includes any other similar technology approved by the AFSA, which is used for the issuance, transfer and storage of a Security Token, <u>Commodity Derivative Token</u> or <u>Environmental Instruments Token</u>.</p>
<b><u>Environmental Instruments Token</u></b>	<u>A digital representation of an Environmental Instrument, that is issued, transferred and stored using DLT or other similar technology approved by the AFSA.</u>
<b>Operating a facility for Security Tokens, <u>Commodity Derivative Tokens</u> or <u>Environmental Instruments Tokens</u></b>	<p>In relation to an Authorised Market Institution, means carrying on one or more of the following activities:</p> <ul style="list-style-type: none"> <li>(a) Operating an Investment Exchange on which Security Tokens, <u>Commodity Derivative Tokens</u> or <u>Environmental Instruments Tokens</u> are traded; or</li> <li>(b) Operating a Clearing House on which transactions in Security Tokens, <u>Commodity Derivative Tokens</u> or <u>Environmental Instruments Tokens</u> are cleared.</li> </ul>

**Proposed amendments to the AIFC Rules on Digital Asset Activities (DAA)**

In these Rules, underlining indicates a new text and strikethrough indicates a removed text

**4. RULES APPLICABLE TO AUTHORISED FIRMS PROVIDING MONEY SERVICES IN RELATION TO DIGITAL ASSETS AND ISSUANCE OF FIAT STABLECOINS AND COMMODITY STABLECOINS**

(...)

**4.4 Governance arrangements**

(...)

- (4) Members of the Governing Body of the Digital Asset Service Provider that issues a Fiat or Commodity stablecoin (an “issuer of a Fiat stablecoin or Commodity stablecoin”) must ensure effective and prudent management of the reserve of assets. The issuer of a Fiat stablecoin or Commodity stablecoin must ensure that issuance and redemption of a Fiat stablecoin or Commodity stablecoin is always matched by a corresponding increase or decrease of the reserve of assets.

**4.5. Policies and procedures**

- (1) Issuer of a Fiat stablecoin or Commodity stablecoin must establish, maintain and implement policies and procedures on:
- (a) the reserve of assets, including how the reserve assets will be invested and held as applicable;
  - (b) the custody of the reserve assets, including the segregation of assets;
  - (c) the rights or the absence of rights granted to the holders of Fiat stablecoins or Commodity stablecoins, as specified in DAA 4.11.2;
  - (d) the mechanism through which Fiat stablecoins or Commodity stablecoins are issued and redeemed;
  - (e) the protocols for validating transactions in Fiat stablecoins or Commodity stablecoins;
  - (f) the functioning of the issuer of a Fiat stablecoin or Commodity stablecoin’s proprietary DLT, where the Fiat stablecoins or Commodity stablecoins are issued, transferred and stored on such DLT or similar technology that is operated by the issuer of a Fiat stablecoin or Commodity stablecoin or a third party acting on its behalf;
  - (g) the mechanisms to ensure the liquidity of Fiat stablecoins or Commodity stablecoins;
  - (h) the arrangements with third parties, including for managing the reserve assets and the investment of the reserve, the custody of reserve assets, and, where applicable, the distribution of Fiat stablecoins or Commodity stablecoins to the public;
  - (i) the written consent of the issuer of the Fiat stablecoin or Commodity stablecoin given to Persons who may offer or admit to trading the Fiat stablecoin or Commodity stablecoin;
  - (j) business continuity and operational resilience, including having in place a business continuity policy and contingency plan;
  - (k) the plan that ensures, in case of an interruption of its systems and procedures, the preservation of essential data and functions and the maintenance of its activities, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of its activities;

- (l) the stabilisation mechanism which must in particular:
    - (i) list the reference assets in relation to which a Fiat stablecoin or Commodity stablecoin aims at stabilising its value and the composition of such reference assets; and
    - (ii) describe the type of assets and the precise allocation of assets that are included in the reserve of assets;
    - (iii) contain a detailed assessment of the risks, including credit risk, market risk, concentration risk and liquidity risk resulting from the reserve of assets;
    - (iv) describe the procedure by which a Fiat stablecoin or Commodity stablecoin is issued and redeemed, and the procedure by which such issuance and redemption will result in a corresponding increase and decrease in the reserve of assets;
    - (v) mention whether a part of the reserve of assets is invested as provided in DAA 4.7.4;
    - (vi) describe the procedure to purchase a Fiat stablecoin or Commodity stablecoin and to redeem such stablecoin against the reserve of assets, and list the persons or categories of persons who are entitled to do so.
  - (m) complaint handling;
  - (n) conflicts of interests;
  - (o) recovery and winddown; and
  - (p) the management of reserve assets and the liquidity risks associated with redemptions.
- (2) The policies and procedures required by DAA 4.5.1(n) must include an independent audit to be conducted by a third party at least annually to assess: (i) whether the amount required to achieve recovery and orderly winddown is set out in the policy; and (ii) whether that amount is sufficient.

## **4.6. Technology governance, controls and security**

### **4.6.1. Systems, controls and procedures**

- (1) A Digital Asset Service Provider must ensure that it implements systems and controls necessary to address the risks, including cybersecurity-related risks, to its business. The relevant systems and controls should take into account such factors that include the nature, scale and complexity of the Digital Asset Service Provider's business, the diversity of its operations, the volume and size of its business and the level of risk inherent in its business.
  - (2) A Digital Asset Service Provider must have adequate systems and controls to enable it to calculate and monitor its capital resources and its compliance with the requirements in DAA 4.2. The systems and controls must be in writing and must be appropriate for the nature, scale and complexity of the Digital Asset Service Provider's business and its risk profile.
  - (3) A Digital Asset Service Provider must employ appropriate and proportionate systems, resources, and procedures to ensure the continued and regular performance of its services and activities.
  - (4) If the issuer of a Fiat stablecoin or Commodity stablecoin decides to discontinue providing services and activities, such as issuing the Fiat stablecoin or Commodity stablecoin, the issuer of a Fiat stablecoin or Commodity stablecoin must present a plan to the AFSA for such discontinuation, for the AFSA's approval, and comply with any requirements imposed by the AFSA in relation to such discontinuation.
  - (5) Issuer of a Fiat stablecoin or Commodity stablecoin must identify sources of operational risks and minimise those risks through the development of appropriate systems, controls and procedures.
  - (6) Issuer of a Fiat stablecoin or Commodity stablecoin must have internal control mechanisms and effective procedures for risk management.
- (...)

## **4.7. Reserve of assets**

### **4.7.1. Requirements related to a reserve of assets**

- (1) Issuer of a Fiat stablecoin or Commodity stablecoin must make reserve assets available for examination and for verification of the issuer of a Fiat stablecoin or Commodity stablecoin's disclosures on the AFSA's request.
- (2) Issuer of a Fiat stablecoin or Commodity stablecoin must fully back such stablecoin with reserve assets, meaning that the value of the reserve assets must at all times be at least equal to the nominal value of all outstanding units of the Fiat stablecoin or Commodity stablecoin in circulation.
- (3) Issuer of a Fiat stablecoin must issue stablecoins whose reserve assets consist of only one of the following fiat currencies ("reference assets"):
  - (a) Australian dollar;
  - (b) British pound sterling;
  - (c) Canadian dollar;
  - (d) Chinese yuan renminbi;
  - (e) European euro;
  - (f) Japanese yen;
  - (g) New Zealand dollar;
  - (h) Norwegian krone;
  - (i) Swedish krona;
  - (j) Swiss franc;
  - (k) United States dollar; or
  - (l) any other currency, except for Kazakhstani tenge, agreed with the AFSA.

(3-1) Issuer of a Commodity stablecoin must issue stablecoins whose reserve assets consist of referenced Commodities only.

- (4) Issuer of a Fiat stablecoin or Commodity stablecoin must ensure that the reserve of assets is operationally segregated from the proprietary assets of the issuer of a Fiat stablecoin or Commodity stablecoin's ~~proprietary assets~~ and from the reserve of assets of other Fiat stablecoins or Commodity stablecoins.
- (5) The reserve of assets must be composed and managed in such a way that:
  - (a) the risks associated to the assets referenced by the Fiat stablecoin or Commodity stablecoin are covered; and
  - (b) the liquidity risks associated with the permanent redemption rights of the holders are addressed.
- (6) Issuer of a Fiat stablecoin or Commodity stablecoin that offers two or more categories of Fiat stablecoins or Commodity stablecoins to the public must operate and maintain segregated pools of reserves of assets for each category of Fiat stablecoins or Commodity stablecoins. Each of these pools of reserve of assets must be managed separately.
- (7) Issuer of a Fiat stablecoin or Commodity stablecoin must determine the aggregate value of reserve assets by using market prices. Their aggregated value must be at least equal to the aggregate value of the claims on the issuer of a Fiat stablecoin or Commodity stablecoin from holders of Fiat stablecoins or Commodity stablecoin in circulation.
- (8) Issuer of a Fiat stablecoin or Commodity stablecoin must conduct monthly reconciliation of each Fiat stablecoin or Commodity stablecoin to demonstrate that the Fiat stablecoin or Commodity stablecoin is fully backed with reserve assets.
- (9) The reconciliation must include the information that the issuer of a Fiat stablecoin or Commodity stablecoin meets requirements under DAA 4.7.1 and DAA 4.7.3.

**Guidance:**

If an issuer of a Fiat stablecoin accepts fiat currency from a Client in exchange for giving them Fiat stablecoins. The fiat currency held by the issuer would be considered as Client Money, and the issuer of a Fiat Stablecoin would need to comply with the Client Money provisions in the COB.

#### **4.7.2. Independent audit**

- (1) Issuer of a Fiat stablecoin or Commodity stablecoin must mandate an independent third party audit of the reserve assets annually but not later than four months after the close of its financial year.
- (2) The result of the audit conducted under (1) must be provided to the AFSA without delay, at the latest within 4 weeks of the reference date of the valuation. The result of the audit must be published within three weeks of the date of the provision of the result of the audit to the AFSA.
- (3) The AFSA may instruct the issuer of a Fiat stablecoin or Commodity stablecoin to delay the publication of the result of the audit in the event that:
  - (a) the issuer of a Fiat stablecoin or Commodity stablecoin has been required to implement a recovery arrangement;
  - (b) the issuer of a Fiat stablecoin or Commodity stablecoin has been required to implement a redemption plan;
  - (c) it is deemed necessary to protect the interests of holders of a Fiat stablecoin or Commodity stablecoin;
  - (d) it is deemed necessary to avoid a significant adverse effect on the financial system of the AIFC;
  - (e) the AFSA considers appropriate in pursuing the Regulatory Objectives.
- (4) The valuation referred to in DAA 4.7.1 (7) at market prices must be made by using mark-to-market.
- (5) When using mark-to-market:
  - (a) the reserve asset must be valued at the more prudent side of the bid and offer unless the reserve asset can be closed out at mid-market; and
  - (b) only good quality market data must be used. The issuer of a Fiat stablecoin or Commodity stablecoin must record the basis on which they deem market data of good quality, and ensure that such data is assessed on the basis of all of the following factors:
    - (i) the number and quality of the counterparties;
    - (ii) the volume and turnover in the market of the reserve asset; and
    - (iii) size of the reserve of assets.

(...)

#### **4.7.3. Custody of reserve assets**

- (1) Issuer of a Fiat stablecoin or Commodity stablecoin must establish, maintain and implement custody policies, procedures and contractual arrangements that ensure at all times that:
  - (a) the reserve assets are not encumbered nor pledged as Collateral;
  - (b) the reserve assets are held in custody;
  - (c) the issuer of a Fiat stablecoin or Commodity stablecoin has prompt access to the reserve assets to meet any redemption requests from the holders of Fiat stablecoins or Commodity stablecoins;
  - (d) concentration risk in the custody of reserve assets is mitigated and there is appropriate contingency planning in the event that a custodian is unable to perform its obligations; and
  - (e) concentration risks in the reserve assets are avoided; and
  - (f) there is proper due diligence of the robustness of the custodian used, including as regards ensuring that there is a credible and comprehensive wind-down plan in place for each custodian used.

- (2) Issuer of a Fiat stablecoin or Commodity stablecoin that issues two or more categories of Fiat stablecoins or Commodity stablecoins must have a custody policy for each pool of reserve of assets.
  - (3) Issuer of a Fiat stablecoin or Commodity stablecoin must operate and maintain only one custody policy per category of Fiat stablecoin or Commodity stablecoin.
  - (4) The reserve assets must be held in custody by no later than 5 working days after the issuance of the relevant Fiat stablecoins or Commodity stablecoins.
  - (5) A Person providing custody services must be a Person different from the issuer of a Fiat stablecoin or Commodity stablecoin.
  - (6) Issuer of a Fiat stablecoin or Commodity stablecoin must ensure that ~~the Digital Asset Service Provider~~ a Person appointed as a custodian of the reserve assets has the necessary licences, expertise and market reputation to act as a custodian of such reserve assets, taking into account the accounting practices, safekeeping procedures and internal control mechanisms.
  - (7) The contractual arrangements between the issuer of a Fiat stablecoin or Commodity stablecoin and custodians must ensure that the reserve assets held in custody are protected against claims of the custodians' s creditors.
  - (8) The custody policies and procedures referred to in (1) must set out the selection criteria for the appointments of custodians of the reserve assets and the procedure to review such appointments at least annually.
  - (9) A custodian of the reserve assets backing the Fiat stablecoin must comply with the rules relevant to Providing Custody, including those set out in chapter 8 of the COB (or, to the extent that the custodian is not based in the AIFC, in accordance with the rules of the jurisdiction of the custodian as well as any additional requirements which the AFSA may deem relevant to ensure that equivalent protections are in place as those provided by the Legal Framework provided by the AFSA).
  - (10) A custodian of the reserve assets backing the Commodity stablecoin must ensure that reserve assets are recorded, registered and held in an appropriate manner to safeguard and control such reserve assets.
  - (11) A custodian of the reserve assets backing the Commodity stablecoin must ensure compliance with any additional requirements which the AFSA may deem relevant to ensure that equivalent protections are in place.
- (...)

## **4.8. White paper**

### **4.8.1. Content and form of the white paper**

- (1) A Digital Asset white paper for a Fiat stablecoin or Commodity stablecoin must contain all of the following information:
  - (a) information about the issuer of a Fiat stablecoin;
  - (b) information about the Fiat stablecoin;
  - (c) information on the rights and obligations attached to a Fiat stablecoin;
  - (d) information on the underlying technology used to operate the Fiat stablecoin;
  - (e) information on risks;
  - (f) information on the reserve of assets;
  - (g) the method and all factors used to calculate the value of reserve assets;
  - (h) the initial value and composition of the reserve assets;
  - (i) the conditions and the procedure to purchase stablecoins and redeem such stablecoins against reserve assets;
  - (j) details of the arrangements for the custody and management of the reserve assets;
  - (k) the rights provided to holders of the stablecoin;



- (l) a summary of the redemption policies; and
  - (m) any other information that the AFSA requires.-
- (2) All information in the white paper referred to in (1):
    - (a) must be fair, clear and not misleading;
    - (a) must not contain material omissions; and
    - (b) must be presented in a concise and comprehensible form.
  - (3) The white paper must not contain any assertions on the future value of the Fiat stablecoin\_or Commodity stablecoin.
  - (4) The white paper must contain a clear and unambiguous statement that:
    - (a) the Fiat stablecoin\_or Commodity stablecoin may lose their value in part or in full;
    - (b) the Fiat stablecoin\_or Commodity stablecoin may not always be transferable; and
    - (c) the Fiat stablecoin\_or Commodity stablecoin may not be liquid.
  - (5) The white paper for a Fiat stablecoin\_or Commodity stablecoin must contain a statement from the management body of the issuer of a Fiat stablecoin\_or Commodity stablecoin confirming that the white paper complies with the requirements of this ~~Part~~ Rule and that, to the best knowledge of the management body, the information presented in the white paper:
    - (a) is in accordance with the facts; and
    - (b) makes no material omission likely to affect any decision to participate in the Fiat stablecoin\_or Commodity stablecoin.
  - (6) The white paper must contain a summary that in brief and non-technical language provides key information about the offer to the public of the Fiat stablecoin\_or Commodity stablecoin or about the intended admission of the Fiat stablecoin\_or Commodity stablecoin to trading on a Digital Asset Trading Facility.
  - (7) The summary must be presented and laid out in easily understandable words and in a clear and comprehensive form, using characters of readable size.
  - (8) The format and content of the summary of the white paper must provide, in conjunction with the white paper, appropriate information about the characteristics of the Fiat stablecoins\_or Commodity stablecoins concerned in order to help potential holders of the Fiat stablecoins\_or Commodity stablecoins to make an informed decision.
  - (9) The summary must indicate that:
    - (a) the holders of a Fiat stablecoin\_or Commodity stablecoin have a redemption right at any moment; and
    - (b) the conditions of redemption.
  - (10) The summary must contain a warning that:
    - (a) it should be read as an introduction to the white paper; and
    - (b) the potential holder should base any decision to purchase a Fiat stablecoin\_or Commodity stablecoin on the content of the whole white paper.
  - (11) Before the publication of the white paper no marketing communications or Financial Promotions can be made. This restriction does not affect the ability of the issuer of a Fiat stablecoin\_or Commodity stablecoin to conduct market soundings.

#### **4.8.2. Modification of the white paper**

- (1) Issuer of a Fiat stablecoin\_or Commodity stablecoin must inform in writing the AFSA of any intended change of the issuer of a Fiat stablecoin\_or Commodity stablecoin's business model likely to have a significant influence on the purchase decision of any actual or potential holder of a Fiat stablecoin\_or Commodity stablecoin, which occurs after the authorisation or approval of the white paper. Such changes may include:

- (a) the governance arrangements, including reporting lines to the management body and risk management framework;
  - (b) the reserve assets and the custody of the reserve assets;
  - (c) the rights granted to the holders of a Fiat stablecoin or Commodity stablecoin;
  - (d) the mechanism through which Fiat stablecoins or Commodity stablecoins are issued and redeemed;
  - (e) the protocols for validating the transactions in Fiat stablecoins or Commodity stablecoins;
  - (f) the functioning of the issuer of a Fiat stablecoin or Commodity stablecoin's proprietary DLT, where the Fiat stablecoins or Commodity stablecoins are issued, transferred and stored on such a DLT;
  - (g) the mechanisms to ensure the liquidity of Fiat stablecoins or Commodity stablecoins, including the liquidity management policy for issuers of Fiat stablecoins or Commodity stablecoins;
  - (h) the arrangements with third parties, including for managing the reserve assets and the investment of the reserve, the custody of reserve assets, and, where applicable, the distribution of Fiat stablecoins or Commodity stablecoins to the public;
  - (i) the complaint handling procedure; or
  - (j) the money laundering and terrorist financing risk assessment and general policies and procedures.
- (2) The AFSA must be informed in writing 30 working days before the intended changes take effect.
  - (3) The AFSA must grant its approval or refuse to approve the draft modified white paper within 30 working days following the acknowledgement of receipt.
  - (4) During the examination of the draft modified white paper, the AFSA may request an issuer of a Fiat stablecoin or Commodity stablecoin to provide any additional information, explanations or justifications on the draft modified white paper.
  - (5) If the AFSA requests additional information, the time limit of 30 working days must commence only when the AFSA has received the additional information requested.
  - (6) Where approving the modified white paper, the AFSA may require the issuer of Fiat stablecoins or Commodity stablecoins:
    - (a) to put in place mechanisms to ensure the protection of holders of Fiat stablecoins or Commodity stablecoins, when a potential modification of the issuer of a Fiat stablecoin or Commodity stablecoin's operations can have a material effect on the value, stability, or risks of the Fiat stablecoins or Commodity stablecoins or reserve assets;
    - (b) to take any appropriate corrective measures to address concerns related to financial stability, the smooth operation of payment systems, or market integrity.

#### **4.8.3. Liability of issuers of Fiat stablecoins or Commodity stablecoins for the information given in the white paper**

- (1) If an issuer of a Fiat stablecoin or Commodity stablecoin or its management or supervisory bodies has breached requirements set out in DAA 4.8.1(2), by providing in its white paper or in a modified white paper information which is not complete, fair or clear or by providing information which is misleading, a holder of such Fiat stablecoins or Commodity stablecoins or bodies can claim for damage arising from the breach.
- (2) To demonstrate that the issuer has breached DAA 4.8.1 (2), a holder of Fiat stablecoin or Commodity stablecoin must present evidence indicating that the issuer of Fiat stablecoins or Commodity stablecoins has breached DAA 4.8.1(2) and that such breach had an impact on the holder's decision to buy, sell or exchange the said Fiat stablecoin or Commodity stablecoin.
- (3) No claim for damages arising from information provided in a summary (whether in its original form or as translated) may be made by a holder of Fiat stablecoins or Commodity stablecoins unless:



- (a) the summary is misleading, inaccurate or inconsistent when read together with the other parts of the white paper; or
- (b) the summary does not provide, when read together with the other parts of the white paper, key information in order to aid potential holders when considering whether to purchase such Fiat stablecoins or Commodity stablecoins.

#### **4.8.4. Publication of the white paper**

- (1) Issuer of a Fiat stablecoin or Commodity stablecoin must publish on its website its white paper as approved and as modified.
- (2) The approved white paper must be publicly accessible by no later than the starting date of the offer to the public of the Fiat stablecoins or Commodity stablecoins or the admission of those tokens to trading on a Digital Asset Trading Facility.
- (3) The approved white paper and the modified white paper must remain available on the issuer of a Fiat stablecoin's website for as long as the Fiat stablecoin or Commodity stablecoin is available to the public.

(...)

#### **4.10. Monitoring of Fiat stablecoins or Commodity stablecoins**

- (1) If the AFSA considers it appropriate, it may require the issuer of a Fiat stablecoin or Commodity stablecoin to provide a report with the following information:
  - (a) the customer base, including details of the issuer of a Fiat stablecoin or Commodity stablecoin's customer base which must include a breakdown of the type of customer by reference to their category, size, type and geographical distribution;
  - (b) the value of the Fiat stablecoins or Commodity stablecoins issued and the size of the reserve of assets;
  - (c) the average number and value of issuances and redemption requests per day; and
  - (d) information that the AFSA requires.
- (2) Digital Asset Service Providers, which provide services in relation to Fiat stablecoins or Commodity stablecoins, must make reasonable efforts to provide the issuer of a Fiat stablecoin or Commodity stablecoin with information necessary to prepare the report, including by reporting off chain transactions.

#### **4.11. Miscellaneous**

##### **4.11.1. Ongoing information to holders of Fiat stablecoin or Commodity stablecoin**

- (1) Issuer of a Fiat stablecoin or Commodity stablecoin must in a clear, accurate and transparent manner disclose at least once a quarter, on a publicly and easily accessible place on its website, the amount of Fiat stablecoins or Commodity stablecoins in circulation, and the value and the composition of the reserve assets.
- (2) In case of a Fiat stablecoin, ~~t~~The published information must demonstrate that the reserves assets:
  - (a) are at least equal in value to the notional value of outstanding Fiat stablecoins in circulation (that value is calculated by multiplying the number of Fiat stablecoins in circulation by the purported pegged Fiat Currency value);
  - (b) are denominated in the reference currency; and
  - (c) are held in segregated accounts with properly regulated custodians.
- (3) Issuer of a Fiat stablecoin or Commodity stablecoin must publish as soon as possible on a publicly and easily accessible place on its website a brief, clear, accurate and transparent summary of the audit report and the full and unredacted audit report in relation to the reserve assets.
- (4) Issuer of a Fiat stablecoin or Commodity stablecoin must as soon as possible and in a clear, accurate and transparent manner disclose on its website any event that has or is likely to have a

significant effect on the value of the Fiat stablecoin or Commodity stablecoin, or on the reserve assets.

#### **4.11.2. Redemption rights**

- (1) Issuer of a Fiat stablecoin or Commodity stablecoin must grant holders redemption rights at all times on the issuer of a Fiat stablecoin or Commodity stablecoin, and on the reserve assets when the issuer is not able to comply with its obligations.
- (2) Holders should be able to redeem their Fiat stablecoins or Commodity stablecoins at any moment and at par value ~~to~~ against the referenced asset or by delivering the assets backing the Commodity stablecoins.
- (3) Issuer of a Fiat stablecoin or Commodity stablecoin must ensure that all requests made by holders, with valid client agreements with the issuer of a Fiat stablecoin or Commodity stablecoin, to redeem the Fiat stablecoin or Commodity stablecoin ~~at par~~ are processed and completed:
  - (a) promptly and no later than 5 five business working days of any such requests, in case of a Fiat stablecoin, or within reasonable timeframe, in case of a Commodity stablecoin; or
  - (b) if the trading or settlement of the reserve assets is subject to significant disruption events beyond the control of an issuer of a Fiat stablecoin ~~to issue the Fiat stablecoin~~, promptly and no later than 5 five business working days of the trading or settlement of reserve assets no longer being significantly impacted by such disruption events, in case of a Fiat stablecoin, or within reasonable timeframe, in case of a Commodity stablecoin.
- (4) Issuer of a Fiat stablecoin or Commodity stablecoin is allowed to charge a reasonable fee for processing and completing redemption requests. The redemption fee must be clearly disclosed on the website of the issuer of a Fiat stablecoin or Commodity stablecoin and must be proportionate and commensurate with the actual costs incurred by the issuer of a Fiat stablecoin or Commodity stablecoin in completing the redemption request.
- (5) Issuer of a Fiat stablecoin or Commodity stablecoin must establish, maintain and implement clear and detailed policies and procedures setting out:
  - (a) the conditions, including thresholds, periods and timeframes, for holders of a Fiat stablecoin or Commodity stablecoin to exercise this right;
  - (b) the mechanisms and procedures to ensure the redemption of the Fiat stablecoins or Commodity stablecoins;
  - (c) the valuation, or the principles of valuation, of the Fiat stablecoins or Commodity stablecoins and of the reserve assets when this right is exercised by the holder of a Fiat stablecoin or Commodity stablecoin;
  - (d) the settlement conditions when this right is exercised; and
  - (e) measures the issuer of a Fiat stablecoin or Commodity stablecoin is taking to adequately manage increases or decreases of the reserve, to avoid any adverse impacts on the market of the assets included in the reserve.

#### **4.11.3. Ongoing capital**

- (1) In addition to DAA 4.2(b), an issuer of a Fiat stablecoin or Commodity stablecoin must ensure that it maintains at all times ongoing capital resources in the amount of 2% of the average outstanding Fiat stablecoins or Commodity stablecoins in relation to each category of Fiat stablecoin or Commodity stablecoin issued by it.
- (2) The ongoing capital referred to in 4.11.3(1) should consist of the Common Equity Tier 1 items and instruments.
- (3) If an issuer of a Fiat stablecoin or Commodity stablecoin offers more than one category of Fiat stablecoins or Commodity stablecoins, the amount of the average outstanding Fiat stablecoins or Commodity stablecoins should be the sum of the average amounts of the reserve assets backing each category.

#### **Guidance:**

The term ‘average outstanding Fiat stablecoins or Commodity stablecoins’ refers to the average amount of reserve assets at the end of each calendar day, calculated over the preceding 6 (six) months. If the relevant period does not exceed 6 (six) months, an issuer of a Fiat stablecoin or Commodity stablecoin should calculate the average outstanding Fiat stablecoins or Commodity stablecoins based on the actual data.

#### **4.11.4. Prohibitions**

- (1) Issuer of a Fiat stablecoin or Commodity stablecoin is prohibited from granting any interest to holders of the Fiat stablecoin or Commodity stablecoin.
- (2) For the purposes of this Rule, any remuneration or any other benefit related to the length of time during which a holder of a Fiat stablecoin or Commodity stablecoin holds such a Fiat stablecoin or Commodity stablecoin must be treated as interest.
- (3) The interest includes net compensation or discount, with an equivalent effect of an interest received by the holder, directly from the issuer or through third parties, directly associated with the Fiat stablecoin or Commodity stablecoin or through the remuneration or pricing of other products.
- (4) The issuance of stablecoins that aim or purport to maintain a stable value via protocols that provide for the increase or decrease of the supply of such stablecoins or other digital assets in response to changes in demand is prohibited.

**Proposed amendments to the AIFC Financial Services Framework Regulations**

**In these Regulations, the underlining indicates a new text and the strikethrough indicates a removed text**

(...)

**55. Persons eligible for Membership**

(1) Subject to such further admission criteria as the AFSA may prescribe by Rules, an Authorised Market Institution may only admit as a Member:

(a) an Authorised Firm;

(b) a Recognised Non-AIFC Member; ~~or~~

(c) a Person that is a Body Corporate which intends to undertake Commodity Derivative or Environmental Instrument transactions on the relevant Authorised Market Institution by carrying on such activities for its own account or for another Body Corporate which is in the same Group as the Person, provided that any such member of the Group for which the Person intends to act is a wholly-owned Subsidiary of a Holding Company within the Group or is the Holding Company itself; or

(d) a Person not referred to in (a), (b), or (c) with access to the facility, on which Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens are traded or cleared or both traded and cleared, in respect of only trading or clearing of Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens.

(...)

**Proposed amendments to the AIFC Authorised Market Institutions Rules**

**In these Rules, the underlining indicates a new text and the strikethrough indicates a removed text**

(...)

**Guidance: Purpose and application of AMI**

(...)

The application of the rules in AMI is as follows:

- Chapter 1 contains introductory provisions applicable to all Authorised Market Institutions.
- Chapter 2 contains rules and guidance applicable to all Authorised Market Institutions.
- Chapter 2-1 contains rules and guidance applicable to Authorised Market Institutions Operating a facility for Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens.
- Chapter 3 contains additional rules and guidance applicable to Authorised Investment Exchanges.
- Chapter 4 contains additional rules and guidance applicable to Authorised Clearing Houses (including Authorised Central Counterparties).
- Chapter 5 contains rules in relation to the supervision of Authorised Market Institutions.
- **[intentionally omitted]**
- Chapter 7 contains additional rules and guidance applicable to Authorised Crowdfunding Platforms.

For the avoidance of doubt, a Security Token, Commodity Derivative Token or Environmental Instrument Token, being a digital representation of a Security, Unit, Commodity Derivative or Environmental Instrument, should be treated as the particular type of such Security, Unit, Commodity Derivative or Environmental Instrument. The requirements in AMI applicable to a Security, Unit, Commodity Derivative or Environmental Instrument apply to a Security Token, Commodity Derivative Token or Environmental Instrument Token, respectively.

(...)

(1) **INTRODUCTION**

**1.1. Introduction**

**1.1.1. Definitions**

(...)

(9) Operating a facility for Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens in relation to an Authorised Market Institution means Operating an

Investment Exchange on which Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens are traded or Operating a Clearing House on which Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens are cleared.

(...)

### **2.5.1. Requirement to prepare Business Rules**

(...)

- (3) An Authorised Market Institution must incorporate into its Business Rules the substance of additional provisions to be found in the COB Rules, for the purpose of regulating the conduct of business of a Person referred to in AMI 2.6.1(1)(d) as a Member of the Institution for the purposes of dealing in Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens.

(...)

## **2.6. Membership**

### **2.6.1. Persons eligible for Membership**

- (1) An Authorised Market Institution, ~~except an Authorised Digital Asset Trading Facility,~~ may only admit as a Member a Person who satisfies admission criteria set out in its Membership Rules and who is categorised as either:
  - (a) an Authorised Firm whose Licence permits it to carry on the Regulated Activities of Dealing in Investments; ~~or~~
  - (b) a Recognised Non-AIFC Member;
  - (c) a Person intending to deal in Commodity Derivatives or Environmental Instruments who meets the criteria in GEN 1.1.14; or
  - (d) a Person not referred to in (a), (b), and (c) with access to the facility, on which Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens are traded or cleared or both traded and cleared, in respect of their trading or clearing of Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens only.
- (2) **[intentionally omitted]**
  - (a) **[intentionally omitted]**
  - (b) **[intentionally omitted]**
  - (c) **[intentionally omitted]**
- (3) An Authorised Market Institution must ensure that a Member who is a Person referred to in (1)(c) or a Person referred to in 1(d) whose access is only for trading or clearing of Commodity Derivative Tokens or Environmental Instrument Tokens is a Professional Client and treat the Person as such.

For the purposes of this rule, Professional Client has the same meaning as defined in COB Chapter 2.

(...)

## **2-1. RULES APPLICABLE TO AUTHORISED MARKET INSTITUTIONS OPERATING A FACILITY FOR SECURITY TOKENS, COMMODITY DERIVATIVE TOKENS OR ENVIRONMENTAL INSTRUMENT TOKENS**

### **Guidance**

Operating a facility for Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens is defined in GLO as Operating an Exchange or Operating a Clearing House on which Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens are traded, cleared, or both traded and cleared.

### **2-1.1. Technology and governance requirements**

2-1.1.1. Without limiting the generality of the technology resources requirements in AMI 2.4, an Authorised Market Institution must:

- (a) establish and maintain policies and procedures to ensure that any DLT application used in connection with the facility operates on the basis of 'permissioned' access, such that it allows the operator to have and maintain adequate control over the Persons who are permitted to access and update records held on that DLT application;
- (b) establish and maintain adequate measures to ensure that the DLT application it uses, and the associated rules and protocols, contain:
  - (i) clear criteria governing Persons who are permitted to access and update records for the purposes of trading or clearing Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens on the facility, including criteria about the integrity, credentials and competencies appropriate to the roles played by such persons;

(...)

### **Guidance**

- (1) To be fit for purpose, the technology design of the DLT application used by an Authorised Market Institution Operating a facility for Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens should be able to address how the rights and obligations relating to the Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens traded on that facility are properly managed and capable of being exercised or performed. For example, where a Security Token confers rights and obligations substantially similar to those conferred by a Share in a company, the DLT application would generally need to enable the management and exercise of the shareholder's rights. These may, for example, include the right to receive notice of, and vote in, shareholder meetings, receive any declared dividends and participate in the assets of the company in a winding up.

(...)

- (3) Credentials which indicate a Person is suitable to update records for the purposes of trading or clearing Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens on the facility may include:
  - (a) accreditation by a recognised and reputable body to certify the requisite knowledge required; or

- (b) accreditation by the relevant body to certify compliance with the Kazakhstani standards in the area.

## **2-1.2. Operating a facility for Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens that permits direct access**

2-1.2.1. An Authorised Market Institution must ensure that:

- (1) it treats each Direct Access Member as its Client;
- (2) its Business Rules clearly set out:
  - (a) the duties owed by the Authorised Market Institution to the Direct Access Member and how the Authorised Market Institution is held accountable for any failure to fulfil those duties; and
  - (b) the duties owed by the Direct Access Member to the Authorised Market Institution and how the Direct Access Member is held accountable for any failure to fulfil those duties,
- (3) appropriate investor redress mechanisms are available, and disclosed, to each Member permitted to trade or clear Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens on its facility; and
- (4) its facility contains a prominent disclosure of the risks associated with the use of DLT for trading and clearing Investments, particularly those relating to Digital wallets and the susceptibility of private cryptographic keys to misappropriation.

2-1.2.2.

(...)

- (2) An Authorised Market Institution must have adequate controls and procedures to ensure that trading in Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens by Direct Access Members does not pose any risks to the orderly and efficient functioning of the facility's trading system, including controls and procedures to:

(...)

2-1.2.3. When an Authorised Market Institution Executes a Transaction in Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens for a Direct Access Member, the Authorised Market Institution must comply with the requirements relating to confirmation notes that would apply to an Authorised Firm under COB 9.1.2, 9.1.3 and 9.1.5.

## **2-1.3. Safe custody of Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens**

2-1.3.1. Without limiting the generality of AMI 2.9, where an Authorised Market Institution's obligations include making provision for the safeguarding and administration of Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens belonging to Members and other participants on its facility, it must ensure that:

- (1) where its safe custody arrangements involve acting as a Digital wallet Service Provider, it complies with the Client Asset provisions in COB 8.2 and 8.3 and the following requirements for firms Providing Custody of Security Tokens:
  - (a) A Digital wallet Service Provider must ensure that:
    - (i) any DLT applications it uses in Providing Custody of Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens are resilient, reliable and



- compatible with any relevant facility on which those Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens are traded or cleared;
- (ii) it has the ability to clearly identify and segregate Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens belonging to different Clients; and
  - (iii) it has in place appropriate procedures to enable it to confirm Client instructions and transactions, maintain appropriate records and data relating to those instructions and transactions and to conduct a reconciliation of those transactions at appropriate intervals.
- (b) A Digital wallet Service Provider, in developing and using DLT applications and other technology to Provide Custody of Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens, must ensure that:
- (i) the architecture of any Digital wallets used adequately addresses compatibility issues and associated risks;
  - (ii) the technology used and its associated procedures have adequate security measures (including cyber security) to enable the safe storage and transmission of data relating to the Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens;
  - (iii) the security and integrity of cryptographic keys are maintained through the use of that technology, taking into account the password protection and methods of encryption used;
  - (iv) there are adequate measures to address any risks specific to the methods of usage and storage of cryptographic keys (or their equivalent) available under the DLT application used; and
  - (v) the technology is compatible with the procedures and protocols built into the Operating Rules or equivalent on any facility on which the Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens are traded or cleared or both traded and cleared.
- (2) where it appoints a third party Digital wallet Service Provider to Provide Custody for Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens traded or cleared on its facility, that Person is either:
- (a) an Authorised Firm permitted to be a Digital wallet Service Provider; or
  - (b) a firm that is regulated by a Financial Services Regulator to an equivalent level as that provided for under the AFSA regime for Digital wallet Service Providers.

**Proposed amendments to the AIFC Conduct of Business Rules**

**In these Rules, the underlining indicates a new text and the strikethrough indicates a removed text**

(...)

**4. KEY INFORMATION AND CLIENT AGREEMENT**

(...)

**4.6. Provision of key features document relating to Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens**

- (1) An Authorised Firm must not provide a Financial Service to which this section applies to a Person unless it has provided that Person with a key features document containing the information in (2).
- (2) The key features document must contain the following information in respect of each Security Token, Commodity Derivative Token or Environmental Instrument Token relevant to the Financial Services that the Authorised Firm will provide to the Person:
  - (a) the risks associated with and essential characteristics of the Issuer, other Person responsible for discharging the obligations associated with the rights conferred (if different to the Issuer) and guarantor if any, of the Security Token, Commodity Derivative Token or Environmental Instrument Token, including their assets, liabilities and financial position;
  - (b) the risks associated with and essential characteristics of the Security Token, Commodity Derivative Token or Environmental Instrument Token, including the rights and obligations conferred and the type or types of Investment which it constitutes;
  - (c) whether the Security Token, Commodity Derivative Token or Environmental Instrument Token is or will be admitted to trading and, if so, the details relating to such admission, including details of the facility and whether the facility is within the AIFC;
  - (d) whether the Client can directly access the trading facility, or whether access is only through an intermediary, and the process for accessing the facility;
  - (e) risks associated with the use of DLT, particularly those relating to Digital wallets and the susceptibility of private cryptographic keys to misappropriation;
  - (f) whether the Client, the Authorised Firm or a third party is responsible for providing a Digital wallet service in respect of the Security Token, Commodity Derivative Token or Environmental Instrument Token, and any related risks (for example, at whose risk the Client's Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens are held in the Digital wallet, whether it is accessible online or stored offline, what happens if keys to the Digital wallet are lost and what procedures can be followed in such an event);

(g) how the Client may exercise any rights conferred by the Security Tokens, Commodity Derivative Tokens or Environmental Instrument Tokens such as voting or participation in shareholder actions; and

(h) any other information relevant to the particular Security Token, Commodity Derivative Token or Environmental Instrument Token that would reasonably assist the Client to understand the product and technology better and to make informed decisions in respect of it.

(...)

**Proposed amendments to the AIFC Fees Rules**

In these Rules, the underlining indicates a new text and the strikethrough indicates a removed text

(...)

**SCHEDULE 2: APPLICATION FEES PAYABLE TO THE AFSA FOR MARKET ACTIVITIES**

**1.1 Application fees for applying for Licence to carry on Market Activities**

Application fees are determined by the Market Activities the Authorised Person conducts or intends to conduct, as set out below:

Application fee by activities	Fee (USD)
Operator of a Clearing House	125 000 <u>USD</u> ; and an additional application fee in the amount of 5 000 USD if intends to clear Security Tokens, <u>Commodity Derivative Tokens or Environmental Instrument Tokens</u> and have Direct Access Members
Operator of an Investment Exchange	125 000 <u>USD</u> ; and an additional application fee in the amount of 5 000 USD if intends to trade Security Tokens, <u>Commodity Derivative Tokens or Environmental Instrument Tokens</u> and have Direct Access Members

(...)

**SCHEDULE 6: ANNUAL SUPERVISION FEES PAYABLE TO THE AFSA**

(...)

**6.2 Annual supervision fees for Market Activities**

Annual supervision fees for Market Activities are determined by the activities the Authorised Market Institution conducts as set out below:

Market Activities	Fee (USD) <sup>***</sup>
Operator of an Investment Exchange	Calculated according to formula 1 below; and an additional annual supervision fee in the amount of 5 000 USD if trades Security Tokens, <u>Commodity Derivative Tokens or Environmental</u>

	<u>Instrument Tokens</u> and has Direct Access Members
Operator of a Clearing House	Calculated according to formula 2 below; and an additional annual supervision fee in the amount of 5 000 USD if clears <u>Security Tokens</u> , <u>Commodity Derivative Tokens</u> or <u>Environmental Instrument Tokens</u> and has Direct Access Members