



AFSA

Astana
Financial
Services
Authority

Consultation Paper

AFSA-P-CE-2023-0005

Consultation paper on the proposed AIFC Stablecoin Framework

Unrestricted

August 14, 2023

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 Commodities Exchange Framework.

Who should read this CP?

2. The proposals in this paper will be of interest to current and potential AIFC participants operating an exchange platform, as well as the market participants and other stakeholders in the commodities derivatives market.

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 address or email specified below. If sending your comments by email, please use “Consultation Paper AFSA-P-CE-2023-0005” 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 **15 September 2023**. Once we receive your comments, we shall consider if any refinements are required to this proposal.
6. AFSA prefers to receive comments by email at consultation@afsa.kz or posted to:
Policy and Strategy Division
Astana Financial Services Authority (AFSA)
55/17 Mangilik EI, building C3.2, Kazakhstan

Structure of this CP

- Part I – Background;
- Part II – Proposals;
- Part III – Public Consultation Questions;
- Annex 1 – Draft Rules Applicable to Authorised Firms Providing Money Services in relation to Digital Assets and Issuance of Fiat Stablecoins.

Background

1. The proposed stablecoin framework focuses on the issuance of Fiat stablecoins based on the recommendations of standard-setting bodies and jurisdictional analysis.
2. Regarding service provision activities in relation to stablecoins, AFSA has developed Rules applicable to Digital Asset Service Providers (“DASP”) and Digital Asset Trading Facility operators that include specific requirements for stablecoins.
3. According to the Financial Stability Board, stablecoin is defined as “a crypto-asset that aims to maintain a stable value relative to a specified asset, or a pool or basket of assets”. The AIFC Glossary defines the following stablecoins: Fiat stablecoin, Commodity stablecoin and Algorithmic stablecoin.
4. Currently, there are seven crypto exchanges in the AIFC sandbox. The trading volume of stablecoins constitutes the majority of overall trading of Digital Assets.

Proposals

5. Algorithmic stablecoins are designed to achieve price stability by balancing the circulating supply of the Digital Asset. This usually entails behind-the-scenes corrections to the supply and demand inputs to arrive at higher or lower equilibrium points. These mechanisms are not immediately transparent to users, markets, and regulators. Therefore, AFSA proposes to prohibit Algorithmic stablecoins meaning that no person may provide any Financial Service with Algorithmic stablecoins in or from the AIFC.
6. Regarding the issuance of a stablecoin, the issuer must be an Authorised Person.
7. According to the AIFC General Rules, the Regulated Activity of Providing Money Services, among others, includes issuing payment instruments and issuing stored value. Therefore, AFSA proposes requiring issuers of stablecoins to hold a Providing Money Services license.
8. AFSA proposes that the Authorised Person can issue a Fiat stablecoin backed by a single currency.
9. AFSA proposes only to allow the issuance of stablecoins pegged to Tenge and the Group of Ten (“G10”) currencies. The G10 currencies are the Australian Dollar, British Pound Sterling, Canadian Dollar, Euro, Japanese Yen, New Zealand Dollar, Norwegian Krone, Swedish Krona, Swiss Franc and United States Dollar. This considers the availability of high-quality liquid assets that would be fundamental to providing a strong backing for stablecoins.
10. A fiat stablecoin issuer accepts fiat from Clients in exchange for giving them stablecoins. The fiat currency held by the issuer would be considered as Client Money, which can be redeemed by Clients on presentation of the stablecoin. So, the Fiat stablecoin issuer would need to comply with the Client Money provisions (which include Client Reporting, Reconciliation and Recordkeeping) in the AIFC Conduct of Business Rules.
11. According to Recommendation 15 of International Organisation of Securities Commissions (“IOSCO”), the issuer and DASPs should conduct regular and frequent reconciliation of Client Money on a client-by-client basis to identify and resolve any discrepancies in a timely manner. AFSA proposes that the issuer must be able to show that the Fiat stablecoin is backed 1:1 through monthly reconciliation. The frequency and manner of the reconciliation is a matter that may be further refined in the course of the public consultation.
12. Minimum capital requirements for stablecoin issuers are typically determined by their license type. Therefore, it is proposed to establish a base capital requirement of USD 200,000 for stablecoin issuers, aligning with the AIFC Banking Business Prudential Rules applicable to Authorised Firms Providing Money Services. Considering the jurisdictional analysis and incorporating feedback from the FinTech Office, it is necessary to supplement the base capital requirement with a risk-based

capital requirement. The risk-based capital requirement is proposed to be set at 2% of the average outstanding value of stablecoins.

13. Considering standard-setting bodies recommendations, AFSA proposes that issuers of stablecoins shall at all times constitute and maintain a reserve of assets.
14. IOSCO policy recommendations for crypto markets highlight that the risks relating to reserve assets are enhanced in stablecoin arrangements in which the reserve assets are not segregated. Therefore, AFSA proposes that the issuer of stablecoins shall ensure that the reserve of assets used to back the stablecoins in circulation is segregated from the issuer's estate and the reserve of assets of other Digital Assets.
15. The reserve of assets shall be composed and managed in such a way that the liquidity risks associated with the permanent redemption rights of the holders are addressed. Particularly, assets must be denominated in the same currency as the pegged currency. The value of the reserve assets should meet the value of the outstanding stablecoins at all times.
16. According to Recommendation 6 of the IOSCO, it is proposed that issuers of stablecoins shall have a clear and detailed policy describing the stabilisation mechanism of stablecoins.
17. Issuers of stablecoins shall establish, maintain and implement custody policies, procedures and contractual arrangements. A Person Providing Custody Services must be an Authorised Person different from the issuer of a Fiat stablecoin. The contractual arrangements between the issuers of stablecoins and the custodians shall ensure that the reserve assets held in custody are protected against claims of the custodians' creditors.
18. The Financial Stability Board stresses that stablecoins referenced to a single fiat currency should have redemption rights that allow holders to redeem at par into fiat. In the European Union, Japan, Hong Kong, Singapore and the United Kingdom, holders are entitled to a claim at par value. Therefore, AFSA proposes that issuers of stablecoins shall grant holders redemption rights at all times on the issuer of stablecoins. The issuer shall establish, maintain and implement clear, detailed policies and procedures on such rights.
19. Holders of Fiat stablecoins should always be granted a redemption right at par value with funds denominated in the official currency that the stablecoin is referencing.
20. Issuers of stablecoins should have independent third-party verification or checks carried out at least annually to verify that the amount and value of stablecoins and Client Money held in custody on behalf of Clients is correct and matches what the stablecoin Custodian is supposed to hold. The result of the audit is proposed to be notified to AFSA and be published on the website of the issuer.
21. Issuers of stablecoins shall, in a clear, accurate and transparent manner, disclose, on a publicly and easily accessible place on their website: (a) the amount of stablecoins in circulation, and the value and composition of the reserve assets; (b) any event that has or is likely to significantly affect the value of the stablecoins or the reserve assets. Such information shall be updated once a quarter.
22. AFSA proposes requiring issuers to publish a whitepaper where the information about the issuer, rights and obligations attached to the Fiat stablecoin, risks, reserve of assets, underlying technology, and the conditions and the procedure to purchase stablecoins and redeem such stablecoins against reserve assets must be disclosed.
23. A stablecoin arrangement in the AIFC could become systemic if any disruption to the stablecoin arrangement could cause further disruption to its users, cause systemic disruption to the financial system of Kazakhstan, or affect public confidence in the financial system of Kazakhstan. The considerations used to identify a systemic stablecoin arrangement include number, value and type of transactions processed by the stablecoin arrangement, value of stablecoins in circulation, number and type of users, markets served and market share of the stablecoin arrangement, interconnectedness and interdependencies with other financial market infrastructures and financial institutions.

24. At this point, based on the Monetary Authority of Singapore's environmental scan, no stablecoin arrangement in Singapore is likely to qualify as systemic. Regarding the United Kingdom, general agreement was achieved that systemic stablecoin issuers should be subject to Bank of England regulation. For entities authorised by the Financial Conduct Authority and recognised under the Banking Act, the Bank of England will be the lead prudential authority. AFSA agrees that systemic stablecoin arrangement should be subject to higher regulatory and supervisory standards to safeguard financial stability risk and seeks comments relating regulatory approach towards systemic stablecoins.

Public Consultation Questions

In the course of public consultation, existing and potential market participants will be invited to comment on the following questions:

1. AFSA shall establish constraints on concentration, preventing the issuer from investing in more than a certain percentage of reserve assets issues by a single entity. What should the percentage be? Further should AFSA specify what type of assets may or may not be held by the issuer?
2. The AFSA's proposals in relation to the investment of reserve assets are following. Comments are sought on the proposals and consultation questions:
 - a) Issuers of stablecoins that invest a part of the reserve of assets shall only invest in highly liquid financial instruments with minimal market risk, credit risk and concentration risk. The investments shall be capable of being liquidated rapidly with minimal adverse price effect. Should AFSA specify a minimum a percentage of assets that need to be held in highly liquid financial instruments?
 - b) The financial instruments in which the reserve of assets is invested shall be held in custody.
 - c) All profits or losses and any counterparty or operational risks that result from the investment of the reserve of assets shall be borne by the issuer of the stablecoins.
 - d) Issuers of stablecoins shall take all appropriate steps to identify, prevent, manage and disclose conflicts of interest arising from the management and investment of the reserve assets.
 - e) Issuers of stablecoins shall adopt policies and procedures that are sufficiently effective to ensure compliance with this Regulation. In particular, issuers of stablecoins shall establish, maintain and implement policies and procedures on arrangements with third-party entities for operating the reserve of assets, and for the investment of the reserve assets, the custody of the reserve assets, and, where applicable, the distribution of the stablecoins to the public.
 - f) If the reserve of assets includes investments, the risks posed by the investment policy on the reserve of assets, then issuers of stablecoins may be required to hold an amount of own funds which is up to 20 % higher than the capital requirement.
 - g) Where issuers of stablecoins invest a part of the reserve of assets, they must describe in detail the investment policy and contain an assessment of how that investment policy can affect the value of the reserve of assets.
3. AFSA is proposing to regulate stablecoin issuers under the activity of Providing Money Services, and as such, the AIFC Banking Business Prudential Rules are not directly applicable to such issuers. Should AFSA include in the AIFC stablecoin framework the approach that applies specific provisions of the AIFC Banking Business Prudential Rules to issuers of a specific type of stablecoins (e.g. systemic stablecoins) or to all stablecoin issuers?

4. Do you agree with proposed reference currencies that can be pegged to the stablecoin set out in section 4.7.1 of the Annex 1? If not, what are your concerns, and how should they be addressed?
5. Do you agree that Algorithmic stablecoins must be prohibited meaning that no person may provide any Financial Service with Algorithmic stablecoins in or from the AIFC?
6. AFSA proposes that the issuer must be able to show that the Fiat stablecoin is backed 1:1 through monthly reconciliation. Do you agree with the frequency and manner of the reconciliation?
7. Some jurisdictions (e.g. Dubai International Financial Center, Abu Dhabi Global Market) have adopted an approach that limits the types of Digital Assets that can be used in their jurisdictions. This means that any Person wanting to provide a Financial Service in or from the AIFC, in relation to stablecoins, will only be able to do so if the Digital Asset is an accepted stablecoin. Should the AFSA develop assessment criteria for stablecoins that will be included in the "Green list", i.e. allowed for the use in the AIFC?
8. Do you agree with the prohibitions set out in the section 4.11.4 of the proposed stablecoin framework? If not, what are your concerns, and how should they be addressed?
9. AFSA seeks any other comments relating to the AFSA's regulatory approach towards stablecoins and stablecoin-related activities, including any implementation issues that the AFSA should consider.

DRAFT RULES APPLICABLE TO AUTHORISED FIRMS PROVIDING MONEY SERVICES IN RELATION TO DIGITAL ASSETS AND ISSUANCE OF FIAT STABLECOINS

This Part 4 applies to a Digital Asset Service Provider which is an Authorised Person carrying on, in or from the AIFC, the Regulated Activity of Providing Money Services in relation to Digital Assets.

Guidance

An Authorised Firm Providing Money Services is a Centre Participant to which provisions of the following regulations and rules apply either directly or in respect of its officers and Employees who are Approved Individuals or Designated Individuals:

FSFR (in whole);

AML (in whole);

Chapter 3 (Communications with Clients and Financial Promotions) of the COB;

Chapter 4 (Key information and client agreement) of the COB;

Chapter 7 (Conflicts of interest) of the COB;

Chapter 8 (Client Assets) of the COB;

Chapter 15 (Complaints handling and dispute resolution) of the COB;

Chapter 2 (Controlled and Designated Functions) of the GEN;

Chapter 3 (Control of Authorised Persons) of the GEN;

Chapter 4 (Core Principles) of the GEN;

Chapter 5 (Systems and Controls) of the GEN;

Chapter 6 (Supervision) of the GEN; and

Rules on Currency Regulation and Provision of Information on Currency Transactions in the AIFC.

4.1. Authorisation

A Person wishing to carry on the Regulated Activity of Providing Money Services in relation to Digital Assets in or from the AIFC must be an Authorised Firm licensed by the AFSA.

4.2. Requirements

The AFSA may not grant authorisation or variation of a Licence to carry on the Regulated Activity of Providing Money Services in relation to Digital Assets if:

(a) the applicant does not meet general authorisation requirements under the Framework Regulations and other applicable rules, and

(b) the applicant of USD 200,000. In case a Person applying for authorisation of the Regulated Activity of Providing Money Services in relation to Digital Assets conducts or is applying for a Licence to conduct another Regulated Activity for which the capital requirement is higher than USD 200,000, the highest amount applies.

(c) An Authorised Firm carrying on Regulated Activities, including Providing Money Services, in relation to Digital Assets cannot carry on Regulated Activities in relation to other Investments unless it obtains a written approval from the AFSA.

4.3. Mandatory appointments

In addition to the mandatory appointments required by GEN 2.1, an Authorised Person Providing Money Services in relation to Digital Assets must appoint a Chief Information Technology Officer, who is an individual responsible for its ongoing information technology ("IT") operations, maintenance and security oversight to ensure that the Authorised Firm's IT systems are reliable and adequately protected from external attack or incident.

4.4 Governance arrangements

(1) A Digital Asset Service Provider must have robust governance arrangements, including a clear organisational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and adequate internal control mechanisms, including sound administrative and accounting procedures.

(2) Members of the management body of the Digital Asset Service Provider must have sufficiently good repute and possess sufficient knowledge, experience, and skills to perform their duties. They must also demonstrate that they are capable of committing sufficient time to effectively perform their duties.

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

4.5. Policies and procedures

Issuer of a Fiat stablecoin must establish, maintain and implement policies and procedures on:

- (a) the reserve of assets;
- (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, as specified in DAA 4.11.2;
- (d) the mechanism through which Fiat stablecoins are issued and redeemed;
- (e) the protocols for validating transactions in Fiat stablecoins;
- (f) the functioning of the issuer’s proprietary DLT, where the Fiat stablecoins are issued, transferred and stored on such DLT or similar technology that is operated by the issuer or a third party acting on its behalf;
- (g) the mechanisms to ensure the liquidity of Fiat stablecoins;
- (h) the written consent of the issuer of the Fiat stablecoin given to Persons which may offer or admit to trading the Fiat stablecoin;
- (i) the business continuity policy;
- (j) 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;
- (k) the stabilisation mechanism which must in particular:
 - (i) list the reference assets to which a Fiat 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) complaint handling; and
- (iv) conflicts of interests.

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 but not limited to the nature, scale and complexity of the Digital Asset Service Provider’s business, the diversity of its operations, the volume and size of its transactions and the level of risk inherent with 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 their services and activities.

(4) If the issuer of a Fiat stablecoin decides to discontinue providing services and activities, such as issuing the Fiat stablecoin, the issuer must present a plan to the AFSA for such discontinuation, for the AFSA’s approval.

(5) Issuer of a Fiat stablecoin must identify sources of operational risk and minimise those risks through the development of appropriate systems, controls and procedures.

(6) Issuer of a Fiat stablecoin must have internal control mechanisms and effective procedures for risk management.

4.6.2. Technology governance and risk assessment framework

(1) A Digital Asset Service Provider must implement a technology governance and risk assessment framework which must be comprehensive and proportionate to the nature, scale, and complexity of the risks inherent in their business model.

(2) The technology governance and risk assessment framework must apply to all technologies relevant to a Digital Asset Service Provider's business and clearly set out the Digital Asset Service Provider's cybersecurity objectives.

(3) A Digital Asset Service Provider must ensure that its technology governance and risk assessment is capable of determining the necessary processes and controls that they must implement in order to adequately mitigate any risks identified.

(4) A Digital Asset Service Provider must ensure that its technology governance and risk assessment framework address appropriate governance policies and system development controls, such as a development, maintenance and testing process for technology systems and operations controls, back-up controls, capacity and performance planning and availability testing.

4.6.3. Cyber-security matters

A Digital Asset Service Provider must take reasonable steps to ensure that its IT systems are reliable and adequately protected from external attack or incident.

4.6.4. Cyber-security policy

(1) A Digital Asset Service Provider must create and implement a policy which outlines their procedures for the protection of its electronic systems.

(2) A Digital Asset Service Provider must ensure that its cyber-security policy is reviewed at least on an annual basis by its Chief Information Technology Officer.

(3) The cyber-security policy must, as a minimum, address the following areas:

(a) information security;

(b) data governance and classification;

(c) access controls;

(d) business continuity and disaster recovery planning and resources;

(e) capacity and performance planning;

(f) systems operations and availability concerns;

(g) systems and network security, consensus protocol methodology, code and smart contract validation and audit processes;

(h) systems and application development and quality assurance;

(i) physical security and environmental controls, including but not limited to procedures around access to premises and systems;

(j) customer data privacy;

(i) procedures regarding their facilitation of Digital Asset transactions initiated by a Client including, but not limited to, considering multi-factor authentication or any better standard for Digital Asset transactions that—

(i) exceed transaction limits set by the Client, such as accumulative transaction limits over a period of time; and

(ii) are initiated after a change of personal details by the Client, such as the address of a Digital wallet;

(j) procedures regarding Client authentication and session controls including, but not limited to, the maximum incorrect attempts for entering a password, appropriate time-out controls and password validity periods;

(k) procedures establishing adequate authentication checks when a change to a Client's account information or contact details is requested;

(l) vendor and third-party service provider management;

(m) monitoring and implementing changes to core protocols not directly controlled by the Digital Asset Service Provider, as applicable;

(n) incident response, including but not limited to, root cause analysis and rectification activities to prevent reoccurrence;

(o) governance framework and escalation procedures for effective decision-making and proper management and control of risks and emergency incidents, including but not limited to responses to ransomware and other forms of cyberattacks; and

(p) hardware and infrastructure standards, including but not limited to network lockdown, services/desktop security and firewall standards.

4.7. Reserve of assets

4.7.1. Requirements related to a reserve of assets

- (1) Issuer of a Fiat stablecoin must make reserve assets available for examination and for verification of the issuer's disclosures on the AFSA's request.
- (2) Issuer of a Fiat 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.
- (3) Issuer of a Fiat stablecoin must issue stablecoins whose reserve assets consist of only one of the following fiat currencies ("reference assets"):
 - (a) Kazakh tenge;
 - (b) Australian dollar;
 - (c) Euro;
 - (d) Japanese yen;
 - (e) New Zealand dollar;
 - (f) Norwegian krone;
 - (g) British pound sterling;
 - (h) Swedish krona;
 - (i) Swiss franc;
 - (j) Canadian dollar; or
 - (k) United States dollar.
- (4) Issuer of a Fiat stablecoin must ensure that the reserve of assets is operationally segregated from the issuer's proprietary assets and from the reserve of assets of other Fiat stablecoins.
- (5) The reserve of assets must be composed and managed in such a way that the liquidity risks associated to the permanent redemption rights of the holders are addressed.
- (6) Issuer of a Fiat stablecoin that offers two or more categories of Fiat stablecoins to the public must operate and maintain segregated pools of reserves of assets for each category of Fiat stablecoins. Each of these pools of reserve of assets must be managed separately.
- (7) Issuer of a Fiat 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 from holders of Fiat stablecoins in circulation.
- (8) Issuer of a Fiat stablecoin must conduct monthly reconciliation of each Fiat stablecoin to demonstrate that the Fiat stablecoin is fully backed with reserve assets.

4.7.2. Independent audit

- (1) Issuer of a Fiat stablecoin must mandate an independent audit of the reserve assets annually.
- (2) The result of the audit conducted under (1) must be provided to the AFSA without delay, at the latest within four 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 to delay the publication of the result of the audit in the event that:
 - (a) the issuer has been required to implement recovery arrangement;
 - (b) the issuer has been required to implement a redemption plan;
 - (c) it is deemed necessary to protect the interests of holders of a Fiat 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.
- (3) The valuation referred to in DAA 4.7.1 (7) at market prices must be made by using mark-to-market.
- (4) When using mark- to-market:
 - (a) the reserve asset must be valued at the more prudent side of bid and offer unless the reserve asset can be closed out at mid-market; and
 - (b) only good quality market data must be used. Such data must be 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.
- (5) If use of mark-to-market is not possible or the market data is not of sufficient quality, a reserve asset must be valued conservatively by using mark-to-model.
- (6) The mark-to-model must accurately estimate the intrinsic value of the reserve asset, based on all of the following up-to-date key factors:
 - (a) the volume and turnover in the market of that reserve asset;
 - (b) the size of the reserve of assets; and
 - (c) market risk, interest rate risk, credit risk attached to the reserve asset.
- (7) When using mark-to-model, the amortised cost method, must not be used.

4.7.3. Custody of reserve assets

- (1) Issuer of a Fiat 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 has prompt access to the reserve assets to meet any redemption requests from the holders of Fiat stablecoins;
 - (d) concentration in the custodians of reserve assets are avoided; and
 - (e) concentration risks in the reserve assets are avoided.
- (2) Issuer of a Fiat stablecoin that issues two or more categories of Fiat stablecoins must have a custody policy for each pool of reserve of assets.
- (3) Issuer of a Fiat stablecoins that has issued the same category of Fiat stablecoins must operate and maintain only one custody policy.
- (4) The reserve assets must be held in custody by no later than 5 working days after the issuance of the Fiat stablecoins.
- (5) A Person Providing Custody Services must be a Person different from the issuer of a Fiat stablecoin.
- (6) Issuer of a Fiat stablecoin must ensure that the Digital Asset Service Provider appointed as a custodian of the reserve assets has the necessary 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 and custodians must ensure that the reserve assets held in custody are protected against claims of the custodians' 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.

4.8. White paper

4.8.1. Content and form of the white paper

- (1) A Digital Asset white paper for a Fiat stablecoin must contain all of the following information:
 - (a) information about the issuer;
 - (b) information about the Fiat stablecoin;
 - (c) information on the rights and obligations attached to a Fiat stablecoin;
 - (d) information on the underlying technology;
 - (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 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 instructs to include.
- (2) All information in the white paper referred to in (1):
 - (a) must be fair, clear and not misleading;
 - (b) must not contain material omissions; and
 - (c) 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.
- (4) The white paper must contain a clear and unambiguous statement that:
 - (a) the Fiat stablecoin may lose their value in part or in full;
 - (b) the Fiat stablecoin may not always be transferable; and
 - (c) the Fiat stablecoin may not be liquid;
- (5) The white paper for a Fiat stablecoin must contain a statement from the management body of the issuer confirming that the white paper complies with the requirements of this Part 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) that the white paper makes no omission likely to affect its import.
- (6) The white paper must contain a summary that must in brief and non-technical language provide key information about the offer to the public of the Fiat stablecoins or about the intended admission of Fiat stablecoins 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 characteristics of the Fiat stablecoins concerned in order to help potential holders of the Fiat stablecoins to make an informed decision.
- (9) The summary must indicate that:
 - (a) the holders of a Fiat 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 on the content of the whole white paper.
- (11) Prior to 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 to conduct market soundings.

4.8.2. Modification of the white paper

- (1) Issuer of a Fiat stablecoin must inform in writing the AFSA of any intended change of the issuer's business model likely to have a significant influence on the purchase decision of any actual or potential holder of a Fiat 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;
 - (d) the mechanism through which Fiat stablecoins are issued and redeemed;
 - (e) the protocols for validating the transactions in Fiat stablecoins;
 - (f) the functioning of the issuer's proprietary DLT, where the Fiat stablecoins are issued, transferred and stored on such a DLT;
 - (g) the mechanisms to ensure the liquidity of Fiat stablecoins, including the liquidity management policy for issuers of Fiat 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 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 prior to the intended changes taking 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 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 request the issuer of Fiat stablecoins:

(a) to put in place mechanisms to ensure the protection of holders of Fiat stablecoins, when a potential modification of the issuer's operations can have a material effect on the value, stability, or risks of the Fiat 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 for the information given in the white paper

(1) If an issuer 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 may claim damages from that issuer of Fiat stablecoins or its bodies for damage caused to her or him due to that infringement.

(2) It must be the responsibility of the holders of Fiat stablecoins to present evidence indicating that the issuer of Fiat 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.

(3) A holder of Fiat stablecoins must not be able to claim damages for the information provided in a summary, including the translation thereof, except where:

(a) the summary is misleading, inaccurate or inconsistent when read together with the other parts of the white paper;

(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.

4.8.4. Publication of the white paper

(1) Issuer of a Fiat stablecoin must publish on its website its approved white paper and, where applicable, its modified white paper.

(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 the admission of those tokens to trading on a Digital Asset Trading Facility.

(3) The approved white paper, and, where applicable, the modified white paper must remain available on the issuer's website for as long as the Fiat stablecoin is held by the public.

4.9. AFSA power to limit the amount of Fiat stablecoins

(1) The AFSA may limit the amount of Fiat stablecoins to be issued or impose a minimum denomination to the Fiat stablecoins when the National Bank of the Republic of Kazakhstan issues an opinion that the Fiat stablecoins poses a serious threat to monetary policy transmission, smooth operation of payment systems or monetary sovereignty, and specify the applicable limit or minimum denomination amount.

(2) The AFSA may, at any time and in its sole discretion, prohibit or otherwise limit the issuance or use of a Fiat stablecoin before or after an issuer which has been approved issues such Fiat stablecoin, and may require that any such issuer delist, halt, or otherwise limit or curtail activity with respect to such Fiat stablecoin.

4.10. Monitoring of Fiat stablecoins

(1) If the AFSA considers it appropriate, it may require the issuer of the Fiat stablecoin to provide a report with the following information:

(a) the customer base;

(b) the value of the Fiat stablecoins issued and the size of the reserve of assets;

(c) the average number and value of transactions per day; and

(d) any other information the AFSA considers appropriate.

(2) Digital Asset Service Providers, which provide services on the Fiat stablecoins, must provide the issuer of a Fiat 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 stablecoins

(1) Issuer of a Fiat 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 in circulation, and the value and the composition of the reserve assets.

(2) The published information must demonstrate that the reserves:

(i) 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);

(ii) include not more than 10% in high-quality liquid assets other than cash;

(iii) are denominated in the reference currency; and

(iv) are held in segregated accounts with properly regulated banks or custodians.

(3) Issuer of a Fiat stablecoin must publish as soon as possible on a publicly and easily accessible place on their 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 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 on the reserve assets.

4.11.2. Rights on issuers of Fiat stablecoins

1. Issuer of a Fiat stablecoin must grant holders redemption rights at all times on the issuer of Fiat stablecoins, and on the reserve assets when the issuer is not able to comply with its certain obligations.

2. Holders should be able to redeem their Fiat stablecoins at any moment and at par value to the referenced asset. Issuer of a Fiat stablecoin must establish a policy on such permanent redemption right setting out:

(a) the conditions, including thresholds, periods and timeframes, for holders of a Fiat stablecoin to exercise this right;

(b) the mechanisms and procedures to ensure the redemption of the Fiat stablecoins;

(c) the valuation, or the principles of valuation, of the Fiat stablecoins and of the reserve assets when this right is exercised by the holder of a Fiat stablecoin;

(d) the settlement conditions when this right is exercised

(e) measures the issuer of a Fiat 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

In addition to DAA 4.2(b), an issuer of a Fiat stablecoin must ensure that it maintains at all times ongoing capital resources in the amount of 2% of the average outstanding Fiat stablecoins issued by the issuer of a Fiat stablecoin.

4.11.4. Prohibitions

(1) Issuer of a Fiat stablecoin is prohibited to grant interest in relation to a Fiat 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 holds such a Fiat 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 to the Fiat 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.