# Consultation Paper

**AFSA-P-CE-2024-0002**

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# Proposed Enhancements to the AIFC Asset Management Framework

**Unrestricted**

**26 March 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 Proposed Enhancements to the AIFC Asset Management Framework.

*Who should read this CP?*

2. The proposals in this paper will be of interest to current and potential AIFC participants who are interested in asset and fund management activities in or from the Astana International Financial Centre (AIFC).

*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-2024-0002" 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 **26 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 relevant amendments are enacted.

7. AFSA prefers to receive comments by email at consultation@afsa.kz.

*Structure of this CP*

Part 1 – Background
Part 2 – Proposals

I. Expanding the list of Specialist Funds:
   A. Credit Funds
   B. Digital Asset Funds
   C. Exchange Traded Funds
   D. Money Market Funds
II. Enhancements to the AIFC VC framework
III. Application of CIS Rules to a Centre Participant which markets a Collective Investment Scheme in or from the AIFC
IV. Mandatory appointment of AFSA licensed Fund Administrator
V. Amendments in relation to tokenised Units and Funds investing in Security Tokens or Commodity Derivative Tokens

## BACKGROUND

The AFSA intends to further enhance the legislative framework governing investment funds or collective investment schemes in the AIFC and activities of the asset and fund managers operating in or from the AIFC.

In 2018, the AIFC Collective Investment Scheme Rules (AIFC CIS Rules) were drafted to establish a regime to regulate funds within the AIFC and complement the regulatory framework established by the AIFC Financial Services Framework Regulations and respective AIFC rules in relation to authorisation and supervision of Collective Investment Schemes in the centre.

In 2019, significant enhancements were made to the AIFC CIS Rules, expanding its scope to include several key provisions. These developments encompassed various categories such as Listed Funds, facilitating the inclusion of publicly traded investment vehicles within the regulatory framework. Moreover, several types of the Specialist Funds, including Venture Capital, Private Equity Funds and Real Estate Investment Trusts, were incorporated. Additionally, the enhancements covered the regulation of Foreign Fund Managers and Foreign Funds, fostering international collaboration and investment opportunities within the AIFC. These comprehensive enhancements underscored the AIFC's commitment to fostering a robust and diversified investment environment, catering to the evolving needs of both domestic and international market participants.

In 2023, based both on the feedback received from the existing AIFC participants stemming from the practical application of the AIFC funds regime and internal commitment to increase the attractiveness of the AIFC regime for asset and fund managers, further enhancements were introduced. Thus, the AIFC asset management framework was improved by including a Limited Partnership in the list of entities permitted to operate as a CIS, and allowing Real Estate Investment Trusts to invest in property under development. Additionally, clarifications were made regarding the recognition of Foreign Fund Managers, Umbrella Funds and Protected Cell Companies, while provisions concerning Self-managed Funds were eliminated to avoid ambiguity. Also, the introduction of structures such as Fund of Funds, Master and Feeder Funds marked a notable expansion in the diversity of available investment vehicles within the AIFC framework.

Since Q1 2023, the total number of funds has risen from 26 to 40 (Table 1), while the number of fund managers have increased from 28 to 42.

Table 1. Types of funds in the AIFC

| Types | Private Equity | Venture Capital | REIT | Hedge Funds | Commodity Funds | Credit Funds | Crypto Funds |
|---|---|---|---|---|---|---|---|
| Quantity | 8 | 3 | 1 | 25 | 1 | 1 | 1 |

By the end of 2023, the assets under management (encompassing both asset and fund managers) amounted to $1 051 mln., representing a significant increase from $585 mln. in Q4 2022.

Considering the developments in the AIFC asset management sector and insights gained during the supervision of the regulated community, this paper contains further enhancements to the AIFC asset management framework.

# PROPOSALS

## I. Expanding the list of Specialist Funds

Due to the development of the AIFC asset management sector and assessment of market needs, the AFSA recognises the necessity to broaden the range of Specialist Funds available in the AIFC. This facilitates the diversification of investment options, empowering investors to tailor portfolios to specific sectors and strategies. Offering a comprehensive list of Specialist Funds not only gives a competitive advantage, but also aligns with global investment trends, demonstrating regulatory adaptability.

While broadening the range of Specialist Funds, we also recognise that Fund Managers can employ mixed investment strategies inherent to various types of Specialist Funds, which will require the appropriate level of disclosure provided to investors.

### A. Credit Funds

**Status quo**

Credit funds are investment vehicles that primarily focus on investing in credit instruments, such as loans and debt securities. Credit funds operate with the objective of generating returns through interest income and potential capital appreciation from credit-related investments. Credit funds can have a diverse portfolio that includes a range of debt instruments such as bonds, loans, and other fixed-income securities.

The private finance markets have experienced rapid growth post the Global Financial Crisis, driven by accommodating monetary policies, bank retrenchment, and cost advantages. However, the global macro-financial landscape has undergone significant near-term changes, raising concerns about vulnerabilities in private markets, particularly with higher interest rates. The inherent opacity in private finance activities poses challenges in assessing risks, and the intertwined nature of private and public markets implies that a single market event could impact both, potentially affecting the broader financial system. The lack of transparency in private markets results in information asymmetry, requiring investors to rely on specialist intermediaries for due diligence. Despite potential risks, private finance activities offer benefits, such as providing bespoke, flexible covenants, higher risk tolerance, and longer investment horizons. However, the sector may face challenges in the medium to long term, especially as portfolio companies seek refinancing, potentially revealing hidden risks.[1]

Over the past decade, middle-market companies, often too small to seek financing from public markets, have increasingly relied on private credit funds for capital. The global private credit market expanded from under USD $60 billion in 2002 to surpass USD $1.3 trillion in the first half of 2022. This growth is expected to continue, with global private credit assets under management projected to reach USD $2.3 trillion by 2027.

Though the existing AIFC financial services framework did not specifically cover such type of funds, the AFSA approved the establishment of the first Credit Fund in 2023. Considering the development made, the AFSA would like to provide further opportunities to market participants and introduce the relevant regulation in respect of Credit Funds.

[1] "Thematic Analysis: Emerging Risks in Private Finance", Report of the Board of IOSCO, September 2023

## Proposals

Considering the analysis of private finance activities by global regulatory organisations and experience of the peer jurisdictions, it is proposed to expand the range of Specialist Funds available in the AIFC by including Credit Funds within the existing Collective Investment Scheme regulatory framework.

Expanding the variety of funds aims to enhance the appeal of engaging in the AIFC investment fund ecosystem for a broader spectrum of asset managers. This initiative acknowledges the inherent risks linked to credit funds and incorporates suitable safeguards accordingly.

It is proposed to introduce a Credit Fund as a separate type of Specialist Funds by amending the AIFC CIS Rules and the GLO.

***Definition of a Credit Fund should clearly state the nature of the Funds' business.***
A Credit Fund must have its operations limited to investment in Credit Facilities, whether by origination, purchase or participation, and holding Financial Instruments for the purposes of cash management or hedging.
We are not suggesting regulating this activity to the same extent as the regulatory oversight applied to banking lending activities. Therefore, managing a Credit Fund will not be considered as Regulated Activity of Providing Credit.

***Investor base needs to be limited to Professional Clients.***
Credit Funds may involve investments in high-risk assets. Professional Clients are presumed to have a higher risk tolerance and the capacity to absorb potential losses, making them better suited to these types of investments compared to retail investors who may have lower risk tolerance.

***A Credit Fund must be a closed-ended Fund*** (the maximum duration will be determined by investor interest).
Opting for a closed-ended structure helps alleviate risks associated with maturity transformation, as such funds retain originated loans until maturity. The rationale behind this lies in the potential liquidity imbalances that could arise from the lack of liquidity in loans within the Credit Fund. This becomes a concern in open-ended structures, where investors can frequently redeem their units.

***A Domestic Fund Manager***
Given the risky nature of Credit Funds, allowing them to be managed only by a Domestic Fund Manager is considered reasonable. This would provide the appropriate level of oversight compared to the recognised Foreign Fund Managers.

***A prohibition upon lending to certain types of borrowers***
Aiming to reduce future financial stability risks, we consider relevant to incorporate lending restrictions, which prohibit granting loans to:

a) natural persons;
b) other CIS;
c) related persons;
d) other lenders;
e) financial Institutions; and
f) persons intending to use proceeds of the Credit Facility for trading in Investments.

***Portfolio diversification***
We propose to impose the concentration risk investment restrictions which require the Fund to diversity its exposures across multiple borrowers - 25% of Net Asset Value (NAV).
We understand that during the initial operational phase, a Credit Fund might have limited investment opportunities. However, it may cause the potential vulnerabilities associated with having a large portion of the Fund's assets concentrated in one borrower or project. Limiting the maximum exposure

to a single borrower can help mitigate the impact of default or financial difficulties, reducing the overall risk to the Fund.

***Leverage restrictions***
We consider appropriate to impose a restriction on leverage and propose limiting the Credit Fund's leverage to 100% of NAV.

The AFSA proposes to require a Fund Manager of a Credit Fund to employ stress testing methodologies in order to identify risks that may affect the Fund’s portfolio in adverse scenarios.

It is also proposed to introduce additional content requirements for the annual and interim report, as well as additional content information requirements for the Offering Materials.

## Questions

1. Do you agree with our proposal to introduce a Credit Fund as separate type of Specialist Funds? If not, why not?
2. Do you agree with our proposal that a Credit Fund should be an Exempt Fund? If not, why not?
3. Do you agree with our proposals on the Credit Fund`s lending restrictions? If not, why not?
4. Do you agree with the proposal on diversification requirements for the loan portfolios of Credit Funds? If not, why not?
5. Do you agree with the proposal on leverage for Credit Funds? If not, why not?
6. Do you have any additional comments concerning other requirements and conditions proposed to introduce?

## B. Digital Asset Funds

## Status quo

A crypto fund is an investment fund specifically designed to manage and invest in cryptocurrencies and blockchain-related assets. These funds pool capital from investors and allocate it to various cryptocurrencies, tokens, or projects within the broader blockchain ecosystem. Crypto funds come in various forms, catering to different investment strategies and risk profiles.

As of the end of Q3, 2023 there were more than 875 crypto funds across the globe with primary offices in more than 80 countries. While new funds continued to launch in Q3, this was largely offset by several fund closures.[2]

A Fund Manager of Digital Asset Fund is regulated under the AIFC Rules on Digital Asset Activities, since the Fund Manager to be treated as Digital Asset Service Provider Managing a Collective Investment Scheme. Currently, there is one Digital Asset Fund established in the AIFC.

## Proposals

It is proposed to introduce a Digital Asset Fund as a new type of Specialist Fund in the AIFC CIS Rules, by incorporating the relevant definition and additional Offering materials content requirements.

[2] Crypto Fund Quarterly Report Q3 2023, Crypto Fund Research

***Types of investors***

We propose a Digital Asset Fund to be available for not only Professional but also Retail Clients, as professional Fund Managers will oversee portfolio investments. Moreover, this proposal is in line with the AFSA's policy approach to regulation of Digital Assets. According to the AIFC Rules on Digital Asset Activities any natural person, which carries out the activity solely for its own investment purposes, can be admitted as a Member by a Digital Asset Trading Facility Operator.

***Fund investing in Digital Assets indirectly***

Also, we aim to cover regulation of Fund investing in Digital Assets indirectly and establish specific qualifying conditions for such Funds.

Funds that invest in Digital Assets indirectly through other fund structures can gain exposure to the market without directly holding the underlying assets. However, it's important to note that such investing still carries risks.

***Investment restrictions***

It is considered relevant to restrict the Fund's direct/indirect portfolio investment to Digital Assets admitted to trading on the AFSA licensed Digital Asset Trading Facilities. We believe that this measure provides an additional level of investor protection, given that the AIFC Rules on Digital Asset Activities include the requirements on admission of Digital Assets to trading.

***Additional content of Offering Materials***

The additional content of Offering Materials for Funds that invest in Digital Assets (directly or indirectly) is proposed to be included in the AIFC CIS Rules:

- essential characteristics of the Digital Asset;
- details of the DLT that is used to issue, store or transfer the Digital Asset;
- in case of indirect investment, whether the Digital Asset will be admitted to trading on a Digital Asset Trading Facility or other facility and, if not, details as to how the Digital Asset can be transferred or redeemed, how that might impact its liquidity and any resulting risks;
- cybersecurity risks associated with the Digital Asset or its underlying technology;
- details of other risks associated with the use of the DLT application;
- any other information relevant to the Digital Asset.

**Questions**

7. Do you agree with our proposal to introduce a Digital Asset Fund as separate type of Specialist Funds? If not, why not?
8. Do you agree with our proposal to introduce restrictions on the Fund's direct/indirect portfolio investment?

## C. Exchange Traded Funds

**Status quo**

Exchange Traded Funds (ETFs) are investment funds that are traded on stock exchanges, similar to individual stocks. These funds aim to track the performance of a specific index, commodity, bond, or a basket of assets. ETFs offer investors a convenient way to gain exposure to a diversified portfolio of assets without having to buy each individual security.

ETFGI[3] reports that assets invested in the global ETFs industry increased by 25.6% in 2023, going from US$9.26 trillion at end of 2022 to US$11.63 trillion.

The Global ETFs industry had 11,869 products, with 23,848 listings, assets of $11.63 Tn, from 731 providers listed on 81 exchanges in 63 countries at the end of 2023.

## Proposals

The AFSA has considered the IOSCO Principles for the Regulation of Exchange Traded Funds[4], and has considered various jurisdictions' regulatory approaches in relation to the ETFs.

ETFs have become increasingly popular among both retail and institutional investors. Their introduction would give greater choice of Funds available to investors, with Fund Managers also having a greater choice of Funds they could offer.

Moreover, in accordance with the IOSCO principles, regulators should seek to ensure a clear differentiation between ETFs and other collective investment schemes, as well as appropriate disclosure for index-based and non-index-based ETFs.

We propose to allow the establishment of ETFs as a distinct type of Specialist Funds by introducing the following changes to the AIFC CIS Rules:

1. ETF definition, ETF criteria and the use of the term ETF;
2. Criteria for underlying indices and other benchmarks;
3. Enhanced Offering Materials disclosure for ETFs;
4. Ongoing disclosure to markets;
5. Requirements for foreign ETFs marketing in the AIFC.

## Questions

9. Do you agree with our proposal to introduce Exchange Traded Funds as separate type of Specialist Funds? If not, why not?
10. Do you have any comments on our approach to introduce the relevant provisions in relation to ETFs? Do you have any specific suggestions to what else must be considered?

### D. Money Market Funds

## Status quo

Money Market Funds are funds that invest in short-term, low-risk debt securities and other highly liquid assets. The investments typically include government securities, certificates of deposit and other short-term instruments.

Money market funds are known for their stability, liquidity, and capital preservation. They offer an alternative to traditional savings accounts and are often used by investors seeking a low-risk option with higher returns than a standard savings account.

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[3] https://etfgi.com/

[4] "Principles for the Regulation of Exchange Traded Funds" Final Report, Board of the IOSCO, June 2013; "Good Practices Relating to the Implementation of the IOSCO Principles for Exchange Traded Funds" Report, May 2023

While they provide a safer investment option compared to many other financial instruments, the returns on Money Market Funds are generally lower than those associated with riskier investments.

In different regions, Money Market Funds can be categorised as either Variable Net Asset Value Funds (VNAV Funds) or Constant Net Asset Value Funds (CNAV Funds). VNAV Funds assess the value of their assets based on market fluctuations, leading to changes in the value of units. Conversely, CNAV Funds strive to preserve a constant face value, such as $1 per unit.

The AIFC Fund Management regime does not, at present, provide explicitly for Money Market Funds as an available CIS type.

## Proposal

The AFSA has considered the IOSCO Recommendations[5] and the experience of peer jurisdictions below in relation to Money Market Funds regulation.

Subject to market interest, it is proposed to introduce **a Money Market Fund as a new type of Specialist funds in the AIFC CIS Rules**. Our objective is to harmonize the AFSA regime with global standards and offer clear guidance to stakeholders regarding AFSA's expectations if they intend to establish these funds.

We propose **to allow only VNAV Funds to be established** in the AIFC.

A CNAV Fund is obligated to regularly compute the market value and amortised cost-based valuation of its portfolio. Should any disparities arise between the two, the Fund Manager must commit to providing financial support to the Money Market Fund to uphold the CNAV. However, as the CNAV is not guaranteed, significant mismatches between the market value and amortised cost may result in the fund no longer issuing or redeeming units at the specified stable NAV or par value. Such occurrences may arise, for instance, due to a default by the issuer of an underlying instrument in the portfolio. In such situations, the Fund might be compelled to sell other assets, potentially suspend unit transactions, and, in a worst-case scenario, liquidate the Fund, distributing assets based on their realisable value.

VNAV Funds determine the value of their assets through a mark-to-market approach, allowing for NAV fluctuations. Investors in VNAV Funds are informed, before investing, that the investment's value will vary, and the issuance and redemption of units will persist unless a major event occurs. The utilisation of VNAV effectively precludes the use of amortised cost valuation for any securities held by the Fund, a practice seen in CNAV Funds.

Also, we would like to **seek for market opinion on the following investment conditions and borrowing rules** we propose to introduce:

- The Fund Manager must align the investment strategy with the Fund's objectives.
- At least 90% of the NAV should be in high-quality Deposits or Debentures.
- Minimum 10% of the NAV should be in immediately withdrawable cash.
- Restrictions on the concentration of investments in a single entity and specific criteria for Deposits or Debentures.
- Weighted average maturity of Fund Property should not exceed 6 months.
- Weighted average life of Fund Property should not exceed 12 months.
- Limitations on investing in Financial Instruments, with specific exceptions.
- Borrowings should not exceed 10% of the NAV.

[5] IOSCO Final Report on Policy Recommendations for Money Market Funds, October 2012.

We propose to require the Fund Managers **to conduct due diligence on portfolio investments** considering credit quality, asset class, liquidity, and associated risks.

Moreover, we aim to require the **enhanced disclosure in the Offering Materials**, featuring:

- Notable distinctions regarding the nature of a Unit in a Money Market Fund in contrast to a Deposit.
- Explicit mention that the capital investment is not assured.
- Recognition that the value of Units in the Money Market Fund is subject to fluctuations.

### Questions

11. Do you agree with our proposal to introduce a Money Market Fund as separate type of Specialist Funds? If not, why not?
12. Do you agree with the proposed investment conditions and borrowing rules in relation to Money Market Funds?
13. Do you have any comments concerning other proposed requirements?

## II. Enhancements to the AIFC VC framework

### Status quo

The Venture Capital Fund was initially introduced as a category of Specialist Funds in 2019.

Venture Funds in the AIFC show a preference for investing in Fintech and Edtech startup companies in the Asian region. In Q3 of 2023, one of the AIFC's venture capital-specialised fund managers experienced a 220% increase in subscribed capital compared to Q1 of the same year. The company primarily concentrates on funding startups in the FinTech, HrTech, and EdTech sectors. Instances such as these demonstrate investors' increased willingness to engage in the AIFC's venture capital activities.

Venture capital investments in company equity address the challenges arising from a shortage of capital, thereby easing challenges related to credit accessibility.

Currently, the Government of the Republic of Kazakhstan is focusing on establishment of the requisite legislative framework and conducive environment to foster venture financing through initiatives such as Astana Hub, Qaztech Ventures, and the AIFC.

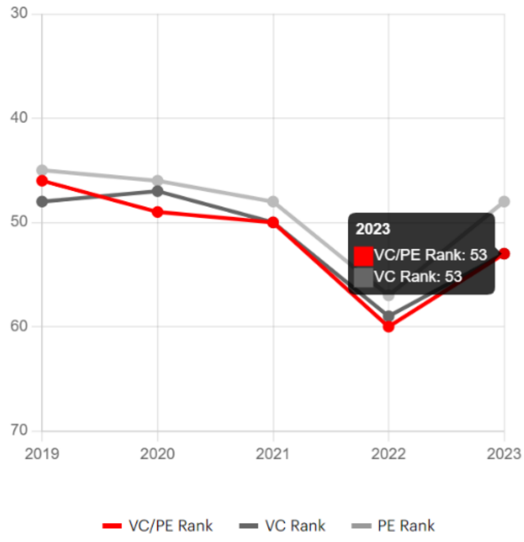
Moreover, further development of alternative financing instruments, including venture financing, is one of the AIFC priorities according to the Concept of the financial sector development of the Republic of Kazakhstan until 2030.

According to the Venture Capital Country Attractiveness Index Kazakhstan is ranked 53 out of 125 countries in 2023. While Kazakhstan has been making progress in its venture capital ranking over the years, it still falls behind comparable economies. Figure 1 below shows the historic performance of the index from 2019 to 2023.

The total amount of observables deals for 2018-2022 equals 87 mln. USD with 175 deals [6].

[6] https://tech.aifc.kz/files/pages/2024/docs/19/venture-capital-market-overview-in-kazakhstan-2023.pdf

Figure 1. Historic performance, 2019-2023




## Proposals

Considering the practices of peer jurisdictions and thoroughly examining the existing framework for Venture Capital Funds in the AIFC, we aim at introducing the amendments that enhance the advantages for participants in the venture capital market.

Currently, according to the AIFC CIS Rules a Venture Capital Fund is an Exempt Fund and a Domestic Fund that primarily invests in the equity share capital of unlisted businesses which are at an early stage of development.

It is proposed to introduce the following enhancements:

1. **To allow a Venture Capital Fund to be set up as a Foreign Fund for Professional Clients.** By extending the Venture Capital Fund status to Foreign Funds, the AFSA aims to facilitate the participation of international investors in supporting startups, innovative businesses, and high-growth potential enterprises. It may enhance the competitiveness of the AIFC jurisdiction in attracting foreign capital for venture capital activities.

2. **To allow a Venture Capital Fund to invest more broadly outside equity.** Allowing a Venture Capital Fund to invest in the Securities and Units of companies which are at an early stage of development and that are not listed or admitted to trading on any exchange would prove advantageous and expand the array of available financial instruments.

3. **To allow a Venture Capital Fund to invest directly or indirectly as a Feeder Fund holding units of a Master Fund.** Permitting a Venture Capital Fund to consist of a Master Fund and Feeder Fund provides a strategic and operational framework that enhances diversification, flexibility, efficiency, ultimately contributing to the Fund's overall effectiveness and attractiveness to a broad spectrum of investors.

It is important to note that the proposed amendments are expected to be effective in conjunction with the prudential relief measures that the AFSA is currently considering.

## Questions

14. Do you agree with our proposals aimed to enhance the AIFC Venture Capital Funds framework?
15. Do you have any further recommendations on improvement the AIFC Venture Capital Funds framework?

### III. Application of the AIFC CIS Rules to a Centre Participant which markets a Collective Investment Scheme in or from the AIFC

## Status quo and issue

The AIFC CIS Rules application extends to a Domestic Fund Manager (managing a Domestic or a Foreign Fund), a Foreign Fund Manager (managing a Domestic Fund) and a Centre Participant which markets a Collective Investment Scheme in or from the AIFC. According to the Rules a Centre Participant is allowed to market a Fund in the AIFC and apply for registration of a Non-Exempt Fund.

We have received numerous inquiries seeking clarification regarding the application of the AIFC CIS Rules to a Centre Participant. Both internal and external stakeholders have expressed confusion in identifying whether such Centre Participant must have a licence.

## Proposal

It is proposed to amend the AIFC CIS Rules, by explicitly stating that any mention of Centre Participant refers to a firm authorised by the AFSA to carry one of the relevant Regulated Activities.

## Questions

16. Do you agree with our proposed approach to clarify the application of the AIFC CIS Rules to a Centre Participant? If not, why not?

### IV. Mandatory appointment of AFSA licensed Fund Administrator

## Status quo and Issue

In accordance with the AIFC CIS Rules a Foreign Fund Manager is permitted to manage a Domestic Fund, that must be an Exempt Fund.

The AFSA will register a Fund only if the Foreign Fund Manager has appointed a Fund Administrator and Eligible Custodian in accordance with the requirements of CIS 8.

In 2023, during the recognition process of the first Foreign Fund Manager, it was noted that there were shortcomings in delivering efficient supervision and administration for externally managed Funds within the AIFC jurisdiction. The AIFC Legislation does not specify whether the Fund Administrator must be an AFSA licensed Firm.

## Proposal

It is proposed to introduce in the AIFC CIS Rules the requirement for a Foreign Fund Manager to appoint an AFSA licensed Fund Administrator.

This measure is proposed to provide a framework for effective oversight and administration of Funds operated by Foreign Fund Managers within the AIFC.

By introducing this requirement, we also aim to develop asset management ecosystem and encourage firms to apply for this type of licence.

## Questions

17. Do you agree with our proposal to introduce the requirement for Foreign Fund Manager to appoint an AFSA licensed Fund Administrator? If not, why not?

## V. Amendments in relation to tokenised Units and Funds investing in Security Tokens or Commodity Derivative Tokens

### Status quo

The AIFC Security Token Offering Framework (STO Framework), governing the issuance and trading of Security Tokens within the AIFC, came into force on 1 January 2024.

Within the STO Framework the relevant amendments to the AIFC CIS Rules in relation to tokenised Units of a Listed Fund were introduced. However, we acknowledged that there is potential for including the relevant amendments in the AIFC CIS Rules in regard to the tokenised Units of unlisted Funds and Funds investing in Security Tokens as part of the future enhancement.

Currently the AFSA is developing the AIFC Tokenised Commodities Framework, which addresses the regulation of both Commodity stablecoins and Commodity Derivative Tokens.

Commodity stablecoins are proposed to be treated as Digital Assets whose value purports to be determined by reference to a Commodity. Hence, our proposal on introduction of the Digital Assets Fund encompasses both direct and indirect portfolio investments in Commodity stablecoins.

Therefore, we also see the rational to include provisions in relation to Funds investing in Commodity Derivative Tokens.

### Proposal

To properly cover the regulation of tokenised Units we propose to incorporate **the relevant amendments to the AIFC CIS Rules in relation to tokenised Units of unlisted Funds and Funds investing in security tokens or commodity derivative tokens.**

It is **proposed to introduce the additional content requirements** for Offering Materials of unlisted Fund with tokenised Units and a Fund investing in security tokens or commodity derivative tokens:

- In case of Fund with tokenised Units, extent of Fund`s tokenisation must be disclosed.
- In case of Fund investing in security tokens or commodity derivative tokens, amount of investment needs to be disclosed.
- A description of the security tokens or commodity derivative tokens held, or proposed to be held, as Fund property, and the underlying represented by security tokens or commodity derivative tokens.
- Description of DLT system used (governance arrangements, an explanation of the potential risks and mitigation measures)
- Description of listing and trading facilities and settlement procedures
- Information on custody of security tokens or commodity derivative tokens
- Technology declaration

- Additional content information requirements for the Offering Materials.

## Questions

18. Do you agree with our proposals in relation to tokenised Units of unlisted Funds and Funds investing in security tokens or commodity derivative tokens? If not, why not?
19. Do you think any additional disclosure requirements should be introduced?