Consultation Paper

AFSA-L-CE-2024-0001

Proposed Astana International Financial Centre Venture Studio Framework

Unrestricted

10 April 2024

Introduction

Why are we issuing this Consultation Paper (CP)?

1. The Astana Financial Services Authority (the "AFSA") has issued this Consultation Paper to seek suggestions from the market on the AIFC Venture Studio Rules and amendments to the AIFC Fees Rules.

Who should read this CP?

2. The proposals in this paper will be of interest to current and potential AIFC participants dealing with venture capitals, business accelerators and incubators, as well as entrepreneurs, who planning to establish startups in the Astana International Financial Centre (AIFC) and other stakeholders.

Terminology

3. Defined terms have the initial letter of the word capitalised, or of each word in a phrase. Definitions are set out in Schedule 1 of the AIFC Companies Regulations and Schedule of the AIFC Venture Studios Rules as set out in Annex 1 to this paper. 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-L-CE-2024-0001" 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 **10 May 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.

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

Structure of this CP

Part I – Background;
Part II – Advantages of the Proposal;
~~Part III – Best Practice;~~
Part III – Proposals;

Part I: Background

1. The Astana Financial Services Authority (the "AFSA") proposes to adopt the draft of the AIFC Venture Studio Rules which aims to introduce an agile and innovative legal environment for the regional and global business accelerators and incubators, venture capital companies, as well as entrepreneurs to scale up and support the growth of start-up businesses under the Venture Studio model.

2. The new framework introduces a unique status and certain exemptions from the AIFC Companies Regulations that enable operational activity under the Venture Studios model in the AIFC. The framework prescribes tailored requirements and obligations that will apply to Venture Studios that sponsor ventures and scale-up these venture into Venture Studio companies in the AIFC for further validation of the new business.

3. The proposed Rules introduce an option to establish a company which may act as both a holding and operating vehicle (a "Venture Studio") to test and iterate new business ideas (each a "Venture") and, if they reach a minimum viable product (a "MVP") stage, to scale up the Ventures to newly incorporated Venture Studio entities (each a "Venture Studio Company").

Part II: Advantages of the Proposal

1. The establishment of a new business requires addressing a wide range of legal questions and organizational challenges, including essential aspects such as financial and non-financial resources. Traditionally, the life cycle of a new business starts with setting up a legal entity that creates operational infrastructure and secures financing of the business.

2. The AIFC offers a wide range of legal organizational structures with different management rights and duties, reporting obligations, personal liability of the owners, and other legal powers, rights, and responsibilities. This includes business structures such as partnerships (General, Limited and Limited Liability Partnerships), private (Ltd.) and public (Plc.) companies, and others.

3. Once a legal entity is set up, a new business may apply traditional (bank loans, venture financing, corporate loans, equity financing, etc.) and non-traditional (crowdfunding, angel investment, and other programmes) financing for its own needs. The latter also includes incubators, accelerators and Venture Studios.

4. Incubators, accelerators and Venture Studios are business development programmes/models that serve the essential needs of start-ups in funding and mentorship.

5. Albeit these models share the common goal in the development of a venture, there are distinct features of each model that vary from the stage of development, engagement level and the end result.

(a) **Incubator** is a business model which **supports early-stage startups** and **helps** them **to develop product ideas and business strategies**.
(b) **Accelerator** is a business model which provides **support** to **existing businesses** in the early stage of development to grow by providing financial and non-financial resources in exchange for equity in the business.
(c) **Venture Studio**[1] is a business model that supports and develops start-ups in-house. Venture Studios are focused on creating new companies (Venture Studio Companies), rather than launching new products as incubators or accelerators.

6. Comparative advantages of the Venture Studio model are as follows:

ADVANTAGES	INCUBATORS	ACCELERATORS	VENTURE STUDIO
Access to mentorship and expertise	Yes	Yes	Yes
Financial resources	Not guaranteed	Not guaranteed	Yes*
Non-financial recourses	Not guaranteed	Not guaranteed	Yes*
Pre-determined timeframes for scaling up the business idea	No	No	Yes
Focus	Development of product ideas and business strategies to grow of the business	Expansion of the existing business	Building scalable business

**- Financial and non-financial resources provided under a Venture Sponsorship Agreement.*

7. The Venture Studio or Company Builder as a business model has been in practice since 1996 when Idealab[2] was established. Idealab Studio proved the benefits of this business model in practice by creating over successful 150 companies and conducting over 50 IPOs and acquisitions[3].

8. According to the report prepared by Global Startup Studio Network[4], start-ups supported and developed under the Venture Studio model demonstrate a 30% higher success rate than traditional startups. 84% of startups coming out of studios go on to raise a seed round. 72% of those ventures make it to “series A” (compared to 42% of traditional ventures). Time from zero to “series A” is 25,2 months for Venture Studio startups compared to 56 months for traditional startups. The average internal rate of return for startup ventures is 53% compared to 21,3% for traditional startups. These statistics prove that the Venture Studio model has substantial advantages in comparison with accelerators and incubators.[5]

---

[1] Entrepreneurs, Is a Venture Studio Right for You? (hbr.org)
[2] Disrupting-the-Venture-Landscape_GSSN-White-Paper-1.pdf (insightstudios.s3.amazonaws.com)
[3] Introduction to the lessons (idealab.com)
[4] Disrupting-the-Venture-Landscape_GSSN-White-Paper-1.pdf (insightstudios.s3.amazonaws.com)
[5] Ibid.

9. The mentioned above advantages are achieved by the core processes applied under the Venture Studio model. The Venture Studio model is a process-driven framework with pre-determined stages and periods when a start-up will receive funds and resources to test and iterate a business idea. If the expected results are not achieved by a start-up at a certain stage, the allocated funds and resources will be redirected to a new start-up.

10. The common model for scaling a start-up under the Venture Studio model comprised of the following stages:

I. Allocation of resources for testing and iteration of business idea (Venture stage)

1. At the venture stage, the start-up receives funds and pre-existing resources of a Venture Studio, such as infrastructure and services, that may include legal, accounting, marketing, technology, and HR services, allowing start-up entrepreneurs to concentrate on testing business ideas and developing a minimum viable product.

2. The key aspect at this stage is access to a network of professionals and seasoned experts to gain collective expertise to accelerate the development of prototypes, test hypotheses, gather early market feedback, and even pivot.

3. Start-ups are guided by experienced mentors who share industry insights and advice. This navigation helps to test and iterate business ideas in common pitfalls and make informed decisions, significantly enhancing the likelihood of success of the new business idea.

4. This allocation of resources by the Venture Studio allows entrepreneurs to mitigate inherent risks and uncertainties associated with funding, operations, and market dynamics at an early stage of development.

5. It is common practice when entrepreneurs must prove the feasibility of the business idea within 2 years.[6] Within this period, the entrepreneur tests and iterates the business idea for further scaling.

6. This financial and non-financial support of entrepreneurs is provided in exchange for equity in the future business. The key aspect of the Venture Studio model is the opportunity to set the valuation (the price of the business) or enter a business in its early valuation that allows owning of equity in a business with fewer financial resources.[7]

II. Validation and prototype of the business (Venture Studio Company stage)

1. At the second stage of the development of business, entrepreneurs receive access to extensive networks of the Venture Studio comprising industry experts, potential customers, and strategic partners. Entrepreneurs can leverage these networks to gain valuable introductions, forge partnerships, and access markets that would otherwise be challenging to penetrate. This invaluable

[6] A walk through the Venture Studio model in 2023 (mvpfactory.co)
[7] https://www.cnbc.com/2020/09/16/snowflake-investor-sutter-hill-holds-11point6-billion-after-ipo-pop.html

network effect significantly enhances entrepreneurs' prospects for validation of the business and penetration of the market with tested prototypes for further expansion.

2. The existence of the second stage of development is unique to the Venture Studio model. Unlike traditional incubators or accelerators that offer short-term support, startup studios provide long-term engagement. This sustained support maximizes the likelihood of long-term success for entrepreneurs.

3. The continuing allocation of financial and non-financial resources ensures that ventures will achieve growth and sustainable profitability in less period of time in comparison with accelerators and incubators.

4. For instance, start-ups developed under the Venture Studio model reach the scaling process in 25 months whereas traditional start-up reaches the same result in 56 months.[8]

5. The ultimate result of the second stage is building a tested and validated business that could be scaled further.

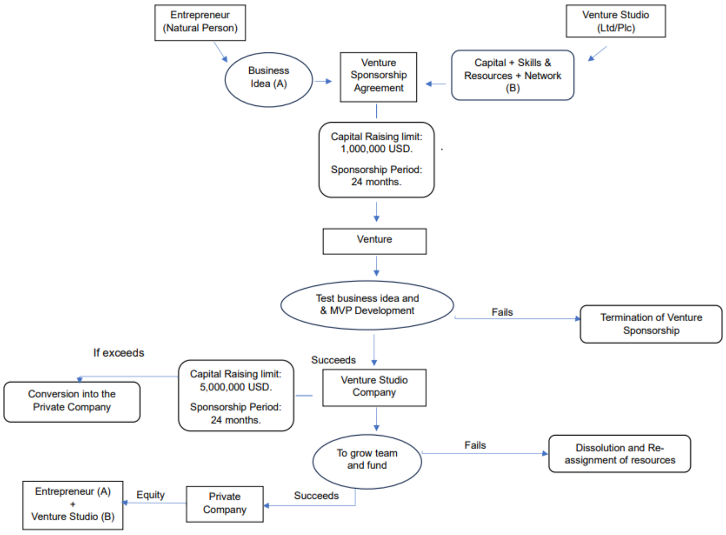
6. The methodology employed under the Venture Studio model is highly correlated to the co-founding role of the Venture Studios in new ventures. Venture Studios always act as co-founders of new ventures and convert successful ventures into Venture Studio Companies. If the testing and validation are not proven, the Venture Studio will close the Venture Studio Company.

7. Therefore, the Venture Studio model is highly dependent on the ease of incorporation and dissolution of Venture Studio Companies for redirection of the resources to launch new rounds of testing and iterating of other business ideas.

8. The above-mentioned needs of the Venture Studio model have been met under the proposed AIFC Venture Studio Rules which provides certain exemptions from the AIFC Company Regulations on setting up and dissolving Venture Studio Companies much easier in comparison with the general requirements applicable to private companies.

9. The scheme of the Venture Studio model as follows:

[8] [8] Disrupting-the-Venture-Landscape_GSSN-White-Paper-1.pdf (insightstudios.s3.amazonaws.com)



10. The proposed exemptions to Venture Studios from certain requirements of the AIFC Companies Regulations will encourage the development of the Venture Studio model which would contribute to the development of innovative projects in the AIFC.

11. The Venture Studio model would be a good alternative to accelerators and incubators with a relatively better ability to attract investors and talent to build new companies. This model will support new companies as institutional co-founders by building repeatable processes and providing the necessary funds to scale.

Part III: Proposals

12. The proposal is based on the study of the frameworks and practical experience of different jurisdictions implementing industry specific legal instruments tailored for the development of venture studio business and envisages the following:

I. Adoption of the AIFC Venture Studio Rules

1. The AIFC Venture Studio Rules will introduce a Venture Studio as a company incorporated under section 143 of the AIFC Companies Regulations for the sole purpose of sponsoring Ventures and establishing Venture Studio Companies in the AIFC.

2. The Venture Studio will be the ultimate facilitator to build and scale up of business idea (a Venture) by providing initial capital, and operational support for fast fast-track development of the MVP for further capital raising by incorporation of a Venture Studio Company under the AIFC Venture Studio Rules draft as set out in Annex 1.

3. It must be noted that a Venture is considered as a unit of Venture Studio and does not have a separate legal personality from the Venture Studio.

II. Qualifying requirements for applicant wishing to establish a Venture Studio

1. To establish a Venture Studio, an applicant must satisfy the Registrar that the Venture Studio will be Controlled by a Qualifying Applicant.

2. A Qualifying Applicant is defined as: “any person(s) that can satisfy the Registrar that it has sufficient experience and resources to conduct venture building as a business.”

3. The proposed requirement for having a Qualified Applicant within the Venture Studio is substantial to ensure that Venture Studio will attract and assemble talented individuals to build and scale ventures and a team that can execute a repeatable, scalable framework for testing, validating, building, and growing ventures.

III. Permitted activities of a Venture Studio

1. A Venture Studio is designed to serve dual roles:
   (a) as an operational platform for incubating and nurturing business ideas into Ventures; and
   (b) as a holding entity for retaining shares or other stakes in successful Ventures that have been transformed into Venture Studio Companies.

2. Additionally, unless permitted otherwise by the Registrar, a Venture Studio will be permitted to sponsor 20 Ventures and have responsibility for 10 Venture Studio Companies at any one time. The reason for this is to ensure that a Venture Studio can maintain, and provide adequate, legal, compliance and governance support to the relevant Ventures and Venture Studio Companies. Further, from a practical perspective, we understand that, on an annual basis, Venture Studios typically do not incubate more than twenty different business ideas, nor convert more than 10 such business ideas into corporate entities.

IV. Legal status of Ventures

1. Rule 3.2 of the draft Rules provides that a Venture must be sponsored by a Venture Studio through the filing of an application and Venture Sponsorship Agreement with the Registrar.

2. The Venture Studio may then apply for work permission in respect of the Venture and sponsor Entrepreneurs for Kazakhstan residency purposes to develop the Venture.

3. A Venture is a business or a business idea that is being developed to see if it can reach the MVP stage, but that may also be unsuccessful and terminated.

4. It is therefore considered undesirable for Ventures to go through an establishment, and potential wind-up process, during this early stage of business inception.

5. Consequently, a Venture is not established as an incorporated entity but instead is sponsored by the Venture Studio for the development of the Venture’s business idea. The life cycle of a Venture is anticipated to be relatively short, with the assessment of a Venture’s feasibility (and therefore whether it will be converted into a Venture Studio Company) typically taking place within 12 to 24 months.

6. Accordingly, under draft Rule 3.2, a Venture Sponsorship Agreement is made for 24 months, extendable for one further 12 months at the Registrar’s sole discretion.

7. Additionally, according to draft Rule 3.1, the Venture is not deemed to have a separate legal personality from the sponsoring Venture Studio, and during the term of sponsorship the Venture Studio is responsible for:

(a) ensuring the Venture adheres to the requirements of the AIFC Regulations; and
(b) performing the terms and conditions of any Capital Raising for the Venture and any other contracts or arrangements that the Venture may enter with third parties.

V. Sponsorship of Entrepreneurs by Venture Studios

1. Schedule 2 of the draft Rules provides the required minimal content for a Venture Sponsorship Agreement. It should be noted that Schedule 2 does not restrict parties from determining additional clauses. Schedule 2 only sets minimum terms criteria that are compulsory terms of the Venture Sponsorship Agreement.

2. The proposed terms aim to mitigate possible risks concerning the protection and securing of the rights of the Entrepreneur during the Venture stage and its conversion into Venture Studio Company. Most importantly, the proposed content requirements do not overwhelm or discriminate the Venture Studio and set up a balance in their legal and business relationships. Besides, Schedule 2 assists parties with the regulation of intellectual property rights.

VI. Limit on Capital Raising to Sponsorship of the Venture

1. Considering that Ventures does not have a separate legal personality from the Venture Studio. The Venture Studio must be responsible for performing the terms and conditions of any Capital Raising undertaken in respect of a Venture under subrule 3.2.4 of the draft Rules.

2. In particular, according to subrule 3.4.2 of the draft Rules:

> "3.2.4 Any Capital Raising undertaken by a Venture Studio in respect of a Venture must only be for the purpose of capital or operational expenses of that Venture and may not in aggregate exceed : U.S. $1,000,000.".

3. This proposed limit will be a trigger that would indicate that a Venture is no longer in need of, or should no longer benefit from its Venture status and may attract additional funds in the status of a Venture Studio Company under Part 3 of the draft Rules.

4. This threshold is based on the regional specifics of the venture market.

5. According to the MOST "Venture Capital Market Overview in Kazakhstan" start-ups in Kazakhstan achieve early stage (Series A) with funding beyond USD 1,000,000 and the expansion stage (Series B) at USD 5,000,000.

6. It is assumed that the establishment of the limit of USD 1,000,000 will be sufficient to reach the expansion stage (Series B) in the AIFC.

7. Furthermore, it must be noted that the established limit may be increased by the decision of the Registrar upon requests of the Venture Studio under subrule 3.2.5 of the draft Rules.

VII. Conversion of successful Ventures into Venture Studio Companies, or otherwise their termination

1. Where a Venture has been successfully developed to the point where the product or service is ready for market, the Venture Studio may “convert” or incorporate the Venture into a Venture Studio Company (see rule 4.1 of the draft AIFC Venture Studio Rules).

2. Whilst subsequent share transfers/equity allocation may take place to enable investment into the Venture Studio Company and/or reflect any agreement regarding share ownership with an Entrepreneur/founder, it is assumed that the Venture Studio wishes to convert successful Ventures into Venture Studio Companies as quickly as possible. Therefore, to streamline incorporation and compliance requirements, establishment by the Venture Studio is deemed the most efficient way of achieving this objective.

3. If the Venture is unsuccessful, the Venture Studio must terminate a Venture Sponsorship Agreement (and notify the Astana International Financial Centre Authority of this). The Venture Studio must then cease to work with and develop the Venture any further.

VIII. Fees for the registration of the Venture Studio and Venture Studio Company

1. One of the main features of the Venture Studio model is the opportunity to register Venture Studio Companies cheaper and easier than the process of the Private Company registration. The fee for the online registration of the Private Company is 300 USD.

2. It is expected that the fee for registration of the Venture Studio Company will be reasonable affordable and cost-effective to keep the benefits of the Venture Studio model over registration of the Private Companies.

IX. Requirements applicable for an entity to maintain its Venture Studio Company status.

1. Considering the unique corporate nature of Venture Studio Companies - its start-up nature, oversight by a Venture Studio during its Start-up Period and the benefits available to Venture Studio Companies (e.g. shared office space, reduced fees and disclosure requirements) - certain restrictions would apply to how a Venture Studio Company may be constituted, governed and operated.

2. In particular, pursuant to rule 4.2 of the draft Rules: “a Venture Studio Company must:
   - (a) have a term not exceeding the Start-up Period;
   - (b) have no more than 10 shareholders;
   - (c) have no more than 20 Employees; and
   - (d) not undertake any Capital Raisings not undertake any Capital Raisings that are in aggregate in excess of U.S. $5,000,000.”.

X. Ongoing obligations of a Venture Studio in respect of Venture Studio Companies.

1. Owing to the start-up nature of Venture Studio Companies, Venture Studios has an ongoing role in helping to develop the business of Venture Studio Companies and also to provide the benefit

of its experience in terms of growing the business, meeting compliance and regulatory standards and implementing proper governance. Therefore, according to subrule 4.1.2(d), a Venture Studio must also undertake to, or satisfy, the Registrar that during the Start-up Period of any Venture Studio Company, it has established (or in respect of any subsidiary that the Venture Studio Company may establish in the AIFC), that such entity:

- ✓ adheres to all AML and UBO Requirements and other requirements of the AIFC Legislation;
- ✓ carries out all compliance, governance and regulatory obligations, filings or other requirements under any requirements of the AIFC Regulations; and
- ✓ complies with the requirements of Part 5 (Conduct of Business) setting out certain restrictions on Venture Studio Companies.

2. The Registrar may in good faith rely on certifications provided by a Venture Studio and take certain actions against a Venture Studio if it fails to comply with these duties.

XI. Registered office requirements of Venture Studios and Venture Studio Companies.

1. During the Start-up Period, and provided it has not changed or had its status revoked under draft rule 5.2 of AIFC Venture Studio Rules, a Venture Studio Company may share the registered office space of the Venture Studio that established it.

2. Sharing premises allows Venture Studio Company focus on its main activities and reduce costs for the Venture Studio.

XII. Reporting and disclosure requirements of Venture Studios and Venture Studio Companies.

1. The draft Rules require Venture Studios to maintain and prepare Accounting Records in accordance with the AIFC Companies Regulations, whereas Venture Studio Companies must maintain Accounting Records subject to exempts from the requirement to file its accounts with the Registrar or have them audited.

2. Venture Studios would be also required to comply with the usual confirmation requirements as they would apply to a Company under Part 10 of the AIFC Companies Regulations, in respect of themselves and any Venture Studio Company that it established during that entity's Start-up Period (including in circumstances where the Start-up Period may have been extended by the Registrar).

3. Additionally, the Venture Studio must provide the following information:

- ✓ that it continues to be controlled by one or more Qualifying Applicants;
- ✓ details about the Ventures it has sponsored during the relevant reporting period, including how many have been converted into Venture Studio Companies or have otherwise failed to be converted;
- ✓ details of each Venture Studio Company for which it has responsibility pursuant to subrule 3.3.1(b).

XIII. Revocation of the status of a Venture Studio or Venture Studio Company.

1. Rule 5.5. of the draft Rules deals with circumstances where the Registrar may revoke the status of a Venture Studio or Venture Studio Company (or where a Venture Studio Company may apply to have its status changed).

2. Where a Venture Studio ceases to be controlled by one or more Qualifying Applicants, or is in material or continuous breach of the Rules, the Registrar may revoke the Venture Studio's status. In such circumstances, the entity will cease to be a Venture Studio and no longer be entitled to sponsor Ventures and Entrepreneurs or establish Venture Studio Companies. The Venture Studio must also apply to the Registrar, to suspend the activity of any existing Venture Studio Companies or otherwise initiate their wind-up.

XIV. Other miscellaneous features.

1. The draft Rules also have the following miscellaneous features:
   - In recognition that a Venture Studio Company is a start-up that may not succeed, and therefore to facilitate its liquidation, it may either apply for a voluntary wind-up under the Insolvency Regulations or to have its activity suspended and then be struck-off under subrule 4.2.4 of the draft Rules.
   - Venture Studio and Venture Studio Companies must comply with the naming requirements. Venture Studio must include the words "Venture Studio", "Venture Builder" or "Venture Builder Studio" in their registered name.
   - The Registrar will need to follow Decision-Making Procedures in instances where it seeks to revoke a Prescribed Company's status.

2. Reduced registration and incorporation fees apply to Venture Studio Companies.

IV. Public consultation questions

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

(a) Are there any new provisions or amendments that are not clear? What are they and what is your interpretation of them? How would you recommend addressing the lack of clarity?

(b) What is your view on the proposed threshold of the Capital Raising for the Venture and Venture Studio Company?

(c) Do you consider maximum number of Ventures and Venture Studio Companies relevant?

(d) How can we make Venture Studio model more attractive and more favorable comparing to the existing investment models?

(e) Do you think Qualifying Applicants should have any other requirements?

(f) Do you think Start-up Period should be 24 months?

(g) Are the any questions or issues that you did not find in the Consultation Paper and/or in the AIFC Venture Studio Rules draft?

(h) Do you have any amendments to content requirements of the Venture Sponsorship Agreement as per Schedule 2?

V. Outcomes

1. The expected outcome of the implementation of the legislative proposal will be a substantial contribution to developing a regulatory framework that will allow innovative entrepreneurs to benefit from the AIFC.

2. The creation of a favourable legal and regulatory environment for innovative companies in the AIFC will contribute to the development of innovative projects and technologies in the AIFC and, the enhancement of market competition.

3. Furthermore, this will facilitate greater inclusion of innovative projects accelerated in the AIFC to global and regional markets. The implementation of the proposal would provide access to venture capital financing for innovative companies in the AIFC and would contribute to the creation of alternative mechanisms to attract funding in the AIFC.

4. The future framework will act as an accelerator by focusing on providing full assistance in the development of innovative companies from the creation of new services and products.

5. The AIFC shall work with global industry leaders (global accelerator) to establish their presence in the AIFC for the benefit of the national innovative business and the economy.

The national innovation companies, operating under the proposed framework, due to their uniqueness in the region, shall have an opportunity to test innovative financial and non-financial projects in the AIFC with relative ease and access to venture capital.

AIFC

AIFC VENTURE STUDIO RULES

AIFC Rules No. _ of 2024

__ , 2024
Astana, Kazakhstan

CONTENTS

PART 1: GENERAL

1.1. Name

These Rules are the *AIFC Venture Studio Rules 2024* (or VSR).

1.2. Commencement

These Rules commence on __________.

1.3. Legislative authority

These Rules are adopted by the Board of Directors of the AFSA under section 181 (Power to adopt Rules etc.) of the AIFC Companies Regulations.

1.4. Venture Studio and Venture Studio Company prescribed types of Company for Companies Regulations

For Part 11 (Other types of Company) of the AIFC Companies Regulations, a Venture Studio is prescribed as a type of Company.

1.5. Application of these Rules

1.5.1. These Rules apply to:

(a) every Person who falls within the definition of a Venture Studio or a Venture Studio Company; and

(b) every Person applying for the incorporation of a Venture Studio or a Venture Studio Company in the AIFC.

1.5.2. The relevant provisions of the Legislation Administered by the Registrar apply to a Venture Studio and a Venture Studio Company unless specified otherwise in these Rules.

1.6. Definitions etc.

1.6.1. Schedule 1 contains definitions used in these Rules.

1.6.2. Terms used in these Rules (other than terms defined in Schedule 1) have the same meanings as they have, from time to time, in the AIFC Companies Regulations, or the relevant provisions of those Regulations, unless the contrary intention appears.

Note: For definitions in the AIFC Companies Regulations applying to these Rules, see Schedule 1 of those Regulations. The definitions in that Schedule relevant to these Rules include the following:

- Acting Law of the AIFC
- Accounting Records
- AFSA
- AIFC
- AIFCA
- Articles of Association
- Company
- Decision-making Procedures
- Exercise

- Employee
- Function
- Holding Company
- Person
- Private Company
- Public Company
- Registrar of Companies (or Registrar)
- Security
- Share
- Shareholder
- Subsidiary
- Writing

1.7. Administration of these Rules

These Rules are administered by the Registrar of Companies.

PART 2: VENTURE STUDIO

2.1. Purpose of Venture Studio and Venture Studio Company

2.1.1 A Venture Studio is a Company incorporated in the AIFC or an existing Company converted into a Venture Studio pursuant to the provisions of section 143 of the AIFC Companies Regulations and these Rules for the sole purposes of sponsoring Ventures and establishing Venture Studio Companies in the AIFC and all matters ancillary thereto.

2.1.2 A Venture Studio Company is a Company incorporated by a Venture Studio in the AIFC pursuant to the provisions of section 143 of the AIFC Companies Regulations and these Rules as part of its business of being a Venture Studio.

2.1.3 Except as otherwise provided in these Rules, any relevant provision of Legislation Administered by the Registrar applies to a Venture Studio and a Venture Studio Company, as if each is a Private Company, or Public Company if applicable.

2.2. Qualifying requirements for a Venture Studio

2.2.1 An application to incorporate or convert an existing Company into a Venture Studio in the AIFC must be made by a Qualifying Applicant to the Registrar in the prescribed form against payment of the required fees under the AIFC Fees Rules.

2.2.1 The Registrar may request from the applicant a written consent given by the AIFCA that the Venture Studio will be Controlled by 1 or more Qualifying Applicants;

2.2.2 An applicant to be granted a Venture Studio status in the AIFC must be able to demonstrate to the satisfaction both AIFCA and the Registrar that Qualifying Applicant has sufficient experience and resources to conduct venture building in the AIFC by completing the form prescribed by the Registrar and filing the form with the Registrar accompanied by such documents as are specified in the form.

2.2.3 In assessing an application by a Qualifying Applicant, the AIFCA may:

(a) make any enquiries which it considers appropriate, including enquiries independent of the applicant; and

(b) take into account any information which the AIFCA considers to be relevant.

Note: Neither the Registrar nor an officer, employee, delegate or agent of the Registrar can be held liable for anything done or omitted to be done in the Exercise or purported Exercise of the Functions of the Registrar under these Rules or any other Legislation Administered by the Registrar.

2.3. Venture Studio Permitted Activities

2.3.1 Subject to the other provisions of these Rules, a Venture Studio may:

(a) sponsor Ventures; and

(b) incorporate Venture Studio Companies.

2.3.2 Unless otherwise permitted by the Registrar in Writing, a Venture Studio must not at any one time:

(a) sponsor more than 20 Ventures; and

(b) have responsibility for more than 10 Venture Studio Companies pursuant to subrule 4.1.2(d).

PART 3: VENTURE

3.1. Venture

3.1.1 A Venture does not have separate legal personality from the Venture Studio and the Venture Studio must be responsible for:

(a) the Venture adhering to the requirements under the Acting Law of the AIFC, including (without limitation) those imposed by these Rules;

(b) performing the terms and conditions of any Capital Raising undertaken in respect of a Venture; and

(c) any other contracts or arrangements that the Venture may enter into with third parties, during the period of sponsorship by the Venture Studio.

3.1.2 Any agreement or arrangement between a Venture Studio and any third party to the effect that the Venture Studio must not be responsible for its obligations under subrule 3.1.1 must be null and void and unenforceable.

3.2. Sponsorship of a Venture

3.2.1 A Venture Studio that wishes to sponsor a Venture must file a Venture Sponsorship Agreement with the AIFCA together with an application for such sponsorship in the prescribed form.

3.2.2 The Registrar may refuse sponsorship application made under subrule 3.2.1 if the AIFCA is not satisfied that the content requirements for Venture Sponsorship Agreement referred to in Schedule 2 to these Rules have been met.

3.2.3 Upon acceptance by the AIFCA of a sponsorship application made under subrule 3.2.1, the Venture Studio will be eligible to:

(a) sponsor such Venture; and

(b) sponsor up to 10 Entrepreneurs associated with such Venture.

3.2.4 Any Capital Raising undertaken by a Venture Studio in respect of a Venture must only be for the purpose of capital or operational expenses of that Venture and may not in aggregate exceed U.S. $1,000,000.

3.2.5 A Venture Studio may apply to the AIFCA for an exemption from U.S. $1,000,000 limit set out at subrule 3.2.4 above, and such exemption may be granted at the Registrar's sole discretion.

3.2.6 Unless otherwise agreed with the individual involved, an Entrepreneur sponsored by a Venture Studio for Kazakhstani residency purposes pursuant to these Rules will be deemed as a consultant or contractor for services and will not be considered an Employee of the Venture Studio for purposes of the AIFC Employment Regulations.

3.2.7 A Venture Studio must maintain a register of each Venture that it sponsors and each Entrepreneur that it sponsors for residency purposes.

3.3. Venture Funding

3.3.1. A Venture Studio must separately account for Venture Funding attributable to a particular Venture and hold such funds on trust on the Venture's behalf.

3.3.2. A Venture Studio must not use Venture Funding for any purpose other than the business of the Venture to which such funds are attributable. A Venture Studio that fails to comply with the requirement in this subrule 3.3.2, is liable to a fine under section 173 of the AIFC Companies Regulations.

3.3.3. In the event a Venture is incorporated as a Venture Studio Company, the Venture Studio must transfer the Venture Funding to the Venture Studio Company.

3.4. Termination of a Venture sponsorship

3.4.1. Subject to subrule 3.4.2(a), a Venture Studio may sponsor a Venture for a period of 24 months only.

3.4.2. Upon, or prior to, the expiry of the 24 months period a Venture Studio must either:

(a) apply to the AIFCA for an extension of the sponsorship for a further period of 12 months,specifying the reasons for the proposed extension, and such extension may be granted at the AIFCA's sole discretion provided that such extension must only be granted once in respect of a Venture; or

(b) terminate the Venture Sponsorship Agreement and the sponsorship of the residency visa of each Entrepreneur identified in the relevant Venture Sponsorship Agreement, unless such individual is an Employee employed by the Venture Studio or such residency visa is transferred to a Venture Studio Company (as applicable), and either:

(i) establish the Venture as a Venture Studio Company; or

(ii) cease to work with and develop the Venture any further.

3.4.3. In the event that the AIFCA does not grant an extension of the sponsorship pursuant to subrule 3.4.2(a), the Venture Studio must comply with subrule 3.4.2(b).

3.4.4. A Venture Studio must notify the AIFCA where a Venture Sponsorship Agreement expires or is terminated for any reason prior to the 24 months period within 14 days after the day of expiry or termination of the Venture Sponsorship Agreement.

PART 4: Venture Studio Company

4.1. Incorporation of a Venture Studio Company

4.1.1. A Venture Studio Company must only be incorporated by a Venture Studio. A Venture Studio that wishes to incorporate a Venture Studio Company must file an application with the Registrar in the prescribed form against payment of the required fees under the AIFC Fees Rules.

4.1.2. A Venture Studio wishing to incorporate a Venture Studio Company in the AIFC must satisfy or undertake to the Registrar that:

(a) the Venture Studio, or an Affiliate, will hold all of the Shares in the Venture Studio Company upon its incorporation;

(b) if applicable, the Entrepreneur is informed about the Resolution of the Venture Studio on incorporation of a Venture Studio Company;

(c) if applicable, there are no outstanding liabilities of the Venture Studio under the relevant Venture Sponsorship Agreement with the Entrepreneur; and

(d) during the Start-up Period, the Venture Studio Company, or in the event that a Venture Studio Company incorporates a Subsidiary in the AIFC, the Subsidiary of the Venture Studio Company, must:

(i) adhere to requirements of Part 14-1 of the AIFC Companies Regulations or AIFC Anti-Money Laundering, Counter-Terrorist Financing and Sanction Rules 2017 if applicable;

(ii) carry out all compliance, governance and regulatory obligations, filings or other requirements pursuant to any requirements of Legislation Administered by the Registrar; and

(iii) comply with the requirements of subrule 4.2.1,

and provide information of such matters to the Registrar in an agreed format in connection with such Venture Studio Company.

4.1.3. The Registrar in the performance of any Function under the Legislation Administered by the Registrar may in good faith rely, without further enquiry, upon the certification of a Venture Studio given under subrule 4.1.2(d), provided that a Venture Studio will not be liable to the Registrar for doing so, unless it has acted in breach of its obligations to the Registrar under these Rules, in which case (without limiting the generality of its application) subrule 4.1.4 will apply.

4.1.4. The Registrar may:

(a) revoke a Venture Studio's status pursuant to rule 5.6 of these Rules;

(b) if a Venture Studio or Venture Studio Company is regulated by the AFSA, or in the process of applying for authorisation from the AFSA, inform the AFSA of any facts or circumstances that may amount to a breach of such entity's regulatory duties under the Acting Law of the AIFC; or

(c) inform any body, authority or law enforcement agencies of any alleged or suspected criminal offences on the part of a Venture Studio or a Venture Studio Company.

4.1.5. The Registrar may communicate directly with either a Venture Studio or a Venture Studio Company with regards to those matters dealt with at subrule 4.1.2(d).

4.2. Requirements applicable to a Venture Studio Company

4.2.2. Subject to subrule 4.2.2, a Venture Studio Company must:

(a) have a term not exceeding the Start-up Period;

(b) have no more than 10 Shareholders;

(c) have no more than 20 Employees; and

(d) not undertake any Capital Raisings that are in aggregate in excess of U.S. $5,000,000.

4.2.3. A Venture Studio Company may apply to the Registrar for an exemption from one of more of the requirements set out at subrule 4.2.1, and such exemption may be granted at the Registrar's sole discretion.

4.2.4. If a Venture Studio Company no longer complies with subrule 4.2.1 the Registrar may revoke a Venture Studio Company's status is accordance with rule 5.6.

4.2.5. A Venture Studio Company may at any time apply:

(a) to the Registrar to suspend its activity and for its name to be struck-off the Public Register in accordance with section 167 of the AIFC Companies Regulations; or

(b) for voluntary wind-up pursuant to the AIFC Insolvency Regulations.

Note: Notwithstanding anything in the AIFC Insolvency Regulations, a Resolution for Voluntary Winding Up of a Venture Studio Company may only be passed if there are no outstanding liabilities of the Venture Studio Company.

4.3. Expiry of Venture Studio Company status

Upon expiry of the Start-up Period, and provided that it is not subject to an application or procedure pursuant to subrule 4.2.4, a Venture Studio Company must be converted into a Private Company in the AIFC that falls outside the scope of section 143 of the AIFC Companies Regulations, at which point it must:

(a) cease to be a Venture Studio Company;

(b) no longer be entitled to the benefit of any exemption or concession (including as to fees) in these Rules; and

(c) be required to adhere to all the requirements under the AIFC Companies Regulations.

PART 5: CONDUCT OF BUSINESS

5.1. Name requirements

5.1.1. Subject to subrule 5.1.2, the proposed name of a Venture Studio and a Venture Studio Company must end with "Limited" or "Ltd." and comply with the relevant provisions of the Legislation Administered by the Registrar.

5.1.2. A Venture Studio must include in its registered name or its trade name the words "Venture Studio", "Venture Builder" or "Venture Builder Studio".

5.2. Registered Office

5.2.1. A Venture Studio must have a registered office in the AIFC for the purpose of section 24 of the AIFC Companies Regulations.

5.2.2. During the Start-up Period, and provided that it has not had its Venture Studio Company status changed pursuant to subrule 5.6.3 or revoked pursuant to subrule 5.6.4, a Venture Studio Company's registered office for the purpose of section 24 of the AIFC Companies Regulations may be the registered office of the Venture Studio which established the Venture Studio Company.

5.2.3. Where the registered office of a Venture Studio Company is, pursuant to the provision of subrule 5.2.2, the same as that of the Venture Studio:

(a) the Venture Studio Company, or the Venture Studio applying for its incorporation, must be required to submit proof to the Registrar that consent to share the premises has been obtained from the Venture Studio; and

(b) when requested by the Registrar, the Venture Studio must provide a list of all Venture Studio Companies using the Venture Studio's registered office pursuant to the provisions of subrule 5.2.2.

5.3. Permission to incorporate

5.3.1. Upon deciding to grant permission to incorporate a Venture Studio or a Venture Studio Company, the Registrar may without undue delay inform the applicant in Writing of:

(a) such decision;

(b) the date on which the certificate of incorporation applicable to the Venture Studio or a Venture Studio Company is be deemed to take effect; and

(c) any conditions and restrictions applicable to the Venture Studio Company.

5.3.2. Upon deciding to refuse to grant permission to incorporate a Venture Studio or a Venture Studio Company, the Registrar may without undue delay inform the applicant in Writing of such refusal.

5.4. Accounting Records

5.4.1. A Venture Studio must maintain and prepare Accounting Records as required under the AIFC Companies Regulations.

5.4.2. A Venture Studio Company must maintain Accounting Records as required under the AIFC Companies Regulations but will be exempt from any requirement to file its accounts with the Registrar or have them audited under Part 10 of the AIFC Companies Regulations.

5.5. Reporting and disclosure

Annual returns under section 26 of the AIFC Companies Regulations filed by a Venture Studio, on behalf of itself or a Venture Studio Company, must:

(a) comply with the requirements of the AIFC Companies Regulations as they apply to a Company; and

(b) in the case of a Venture Studio, confirm:

(i) it continues to be Controlled by 1 or more Qualifying Applicants;

(ii) details of each Venture during the relevant reporting period:

(A) sponsored by the Venture Studio and each Entrepreneur sponsored for residence purposes;

(B) that has been converted into a Venture Studio Company; and

(C) that has failed to be converted into a Venture Studio Company, and,

(iii) details of each Venture Studio Company for which it has responsibility pursuant to subrule 4.1.2(d) and confirmation of its compliance with subrule 4.1.2(d).

5.6. Revocation or change of status

5.6.1. The Registrar may, after following the Decision-Making Procedures, revoke the status of a Venture Studio if the Registrar has reason to believe that:

(a) there is a change of Control of a Venture Studio resulting in it no longer being Controlled by 1 or more Qualifying Applicants; or

(b) the Venture Studio is in material or continuous breach of its responsibilities under these Rules.

5.6.2. If a Venture Studio's status is revoked under subrule 5.6.1, the Venture Studio must:

(a) cease to be a Venture Studio;

(b) no longer be entitled to sponsor Ventures or establish Venture Studio Companies;

(c) be required to terminate, as soon as is reasonably practicable, all sponsorships of Ventures and their associated Venture Sponsorship Agreements;

(d) be required to terminate, as soon as is reasonably practicable, all residency visa sponsorships of the Entrepreneurs;

(e) adhere to all the requirements under the AIFC Companies Regulations; and

(f) apply to the Registrar:

(i) to the change of status of all Venture Studio Companies established by it; or

(ii) to initiate a voluntary liquidation or strike-off of the Venture Studio Companies not involved in the process.

5.6.3. The Venture Studio Company, or the Venture Studio involved, may apply to the Registrar in the prescribed form for a change of the Venture Studio Company's status to a Private Company in the AIFC that falls outside the scope of these Rules if:

(a) the Venture Studio that is responsible for a Venture Studio Company pursuant to 4.1.2(d) has its status revoked under subrule 5.6.1;

(b) it fails to comply with subrules 4.2.1(b), 4.2.1(c) or 4.2.1(d) without obtaining an applicable exemption pursuant to subrule 4.2.2; or

(c) it otherwise fails to comply with these Rules.

5.6.4. If any of the circumstances in subrules 5.6.3 (a) to (c) are applicable and the Venture Studio Company, or the Venture Studio involved, has failed to apply for a change of its status pursuant to subrule 5.6.3 the Registrar may, after following the Decision-Making Procedures and, in the case of a Venture Studio Company authorised by the AFSA, notifying the AFSA, revoke its status as the Venture Studio Company.

5.6.5. If a Venture Studio Company's status is revoked under subrule 5.6.4, it must:

(a) cease to be a Venture Studio Company;

(b) no longer be entitled to the benefit of any exemption or concession (including as to fees) in these Rules; and

(c) be required to adhere to all the requirements under the AIFC Companies Regulations.

SCHEDULE 1: INTERPRETATION

Definitions for these Rules

In these Rules:

AIFC Companies Regulations means the AIFC Companies Regulations 2017.

AIFC Employment Regulations means the AIFC Employment Regulations 2017.

AIFC Fees Rules means the AIFC Fees Rules 2017.

AIFC Insolvency Regulations means the AIFC Insolvency Regulations 2017

Affiliate *means any of the following:*

(a) a Holding Company;

(b) a Subsidiary, or

(c) a Subsidiary of the Holding Company, of a Venture Studio or Venture Studio Company.

Capital Raising *means a bona fide transaction or series of transactions, with the principal purpose of raising capital, pursuant to which:*

(a) *a Venture (when it becomes a Venture Studio Company);*

(b) *the Venture Studio on its own behalf, or on behalf of a Venture;*

(c) *a Venture Studio Company; or*

(d) *any Affiliate of (a), (b) or (c), issues and/or sells Securities in a Venture Studio Company, or any Affiliate.*

Control means in relation to a Venture Studio, the power of a person to secure:

(a) by means of the holding of shares or the possession of voting power, in eithercase directly or indirectly; or

(b) as a result of any powers conferred by the Articles of Association or other document regulating the Venture Studio, that the affairs of the Venture Studio are conducted in accordance with such person's wishes;

and "Controlled" has a corresponding meaning.

Entrepreneur means a natural person associated with a Venture named in a Venture Sponsorship Agreement.

Qualifying Applicant means any person(s) that can satisfy the Registrar that it has sufficient experience and resources to conduct venture building as a business.

Start-up Period means 24 months following the incorporation of a Venture Studio Company and any extended period of time agreed by the Registrar pursuant to subrule 4.2.2.

Venture *means a start-up business that a Venture Studio wishes to, or has agreed to, sponsor pursuant to a Venture Sponsorship Agreement.*

Venture Funding *means any capital raised by a Venture Studio in respect of a Venture, or income, deductions or other items attributable to a Venture.*

Venture Sponsorship Agreement *means an agreement entered into between a Venture Studio and 1 or more Entrepreneurs, under which it is agreed that the Venture Studio sponsors the Venture.*

Venture Studio has the meaning given to the term in subrule 2.1.1.

Venture Studio Company has the meaning given to the term in subrule 2.1.2.

SCHEDULE 2: CONTENT REQUIREMENTS FOR VENTURE SPONSORSHIP AGREEMENT

1.1. The Venture Sponsorship Agreement must include the following as a minimum:

(a) the names of the Venture Studio and Entrepreneur;

(b) the name(s) of the Qualifying Applicant of the Venture Studio;

(c) the summary and description of the Venture and the specification of the end deliverable;

(d) the terms and conditions of the Venture Funding;

(e) the date of the start of the Venture Funding;

(f) the maximum and minimum sizes of the Venture Funding;

(g) the terms of termination of the Venture Funding;

(h) the terms and conditions to convert the Venture to a Venture Studio Company;

(i) the scope of non-financial obligations of the Venture Studio;

(j) the scope of engagement of the Entrepreneur;

(k) the warrants of the Entrepreneur on absence of conflicting interests of third parties in relation to the Venture;

(l) the authorisation by the Entrepreneur, pursuant to separate agreement, to use all copyrights, patent, utility certificate, industrial drawing and designs, trademarks and trade secrets which the Entrepreneur have or may register for use in connection with the Venture Sponsorship Agreement;

(m) the terms of benefits of the Entrepreneur and Venture Studio, pursuant to separate agreement, in return for the Venture Sponsorship Agreement, including but not limited to:

(i) the rights of the Entrepreneur and Venture Studio to receive Securities in Venture (when it becomes a Venture Studio Company) or in any Affiliate; or

(ii) the rights of the Entrepreneur to receive payment in return for work done or services provided under the Venture Sponsorship Agreement.

Annex 2

PROPOSED AMENDMENTS TO THE AIFC FEES RULES

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

SCHEDULE 5: FEES PAYABLE TO THE REGISTRAR OF COMPANIES

…

5.1. An applicant seeking registration or recognition must pay the following fees to the Registrar of Companies:

	Effecting the registration or recognition	
	Online*	Paper
Venture Studio	300	500
Venture Studio Company	0	0

***- Online means submission through the AIFC approved digital systems (excluding email).**