



***LIMIT ON ASSETS UNDER CUSTODY  
PROCEDURES***

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# ***LIMIT ON ASSETS UNDER CUSTODY PROCEDURES***

## **Introduction**

The objective of this Regime is to apply a mechanism whereby prescribing a limit to the extent of which a Trading Right Entitlement Certificate (TREC) Holder Participant may have custody of securities under its control.

## **Applicability of the regime**

The regime is applicable to all TREC Holders.

## **Custody Position**

Custody Position means the cumulative value of the Holding Balances at any time forming part of the Account Family of TREC Holder of the Stock Exchange, excluding Securities that are (a) in Freeze status and (b) held in the blocked accounts.

## **Capital Adequacy Level**

Capital Adequacy Level will be calculated in the following manner:

<i>Total Assets</i>	<i>xxxx</i>
<i><u>Less: Total Liabilities</u></i>	<i>(xxx)</i>
<i><u>Less: Revaluation Reserves (created upon revaluation of Fixed Assets)</u></i>	<i>(xxx)</i>
 <i><b>Capital Adequacy Level</b></i>	 <u><u><b>xxxxx</b></u></u>

## **Explanation:-**

For the purpose of determining the value of the total assets of the TREC Holder, following will be considered:

- i. Notional value of the TRE certificate held by such Participant as determined by the Stock Exchange ; and
- ii. Break-up value of the shares of the Stock Exchange held in the name of such TREC holder as determined by the Stock Exchange.

## **Maximum Custody Limit**

Maximum Custody Limit means **25 times** of the reported Capital Adequacy Level.

## **Submission of Statement of Capital Adequacy Level**

In order to enable CDC to define/update the Capital Adequacy Level in the CDS, TREC holders are required to submit a statement annually within four months of close of each financial year **and** upon any change in its paid-up capital (except for the change due to Bonus issue) in the following manner:

- i. Duly issued by the statutory auditors of the Participant as per the attached format; or
- ii. In the form of duly audited annual financial statements of the Participant.

### **Note:**

1. Auditor referred above shall be the auditor enlisted within category 'A' or 'B' of the SBP's panel of auditors.
2. The number of Pakistan Stock Exchange (PSX) shares held by the TREC Holder should be clearly mentioned in the corresponding notes to the accounts, if applicable.

## **Non-Compliance**

Following events will be considered as non-compliance:

### *A - Assets under Custody are in excess of Maximum Custody Limit:*

1. In such cases, CDC will issue Notice to the TREC Holder requiring to rectify the breach within 7 days of receipt of such notice.
2. If the Participant does not rectify the breach within 7 days of receipt of the above Notice; CDC shall issue Notice of Restriction to the Participant.

During this period, the following Restrictions shall be applied:

- Restriction on deposit of physical securities.
  - Restriction on all incoming transactions whether through Free Delivery or Balance Order Delivery mechanism.
3. In case where the default continues for more than 60 days from the date of Notice of Restriction, CDC shall issue Notice of suspension to the concerned Participant.

- B:** a) *The Participant has not submitted the Capital Adequacy Level Statement / annual audited financial statement to the CDC; or*
- b) *Capital Adequacy level of a TREC Holder is negative; or*
- c) *There is a non compliance of Notice issued by CDC to the Participant for the purpose of Inspection;*

1. In such cases, CDC shall issue Notice of Restriction to the Participant.

During the restriction period the Participant will not be allowed to perform any transactions in CDS including Balance Order Delivery Transactions (for buy or sale trade) except for Free Delivery transaction relating to Portfolio Transfer (outward).

2. In case where the default continues for more than 60 days from the date of Notice of Restriction, CDC shall issue Notice of suspension to the concerned Participant.

Please note that Auditor for the purpose of Inspection as referred in B (c) above shall be the auditor enlisted within category 'A' or 'B' of the SBP's panel of auditors.

#### **Note**

For the above cases of Restriction, Pending settlement (as per the Procedures of Pending Settlement) as well as all Corporate Action would be allowed during the restriction period.

## Revised Auditor's Certificate

(to be provided on Auditor's Letter Head)

### Annexure-A

We, being the statutory auditors of M/s. \_\_\_\_\_ certify that the following information is correct and authenticated by us after due diligence from our side as at \_\_\_\_\_.

	Note	
<i>Total Assets</i>	<i>I</i>	<i>xxxx</i>
<i>Less: Total Liabilities</i>		<i>(xxxx)</i>
<i>Less: Revaluation Reserves (created upon revaluation of fixed assets)</i>		<i>(xxxx)</i>
 <i>Capital Adequacy Level</i>		 <u><u>xxxxx</u></u>

#### Note:-

1. For the purpose of determining the value of the total assets of the TREC Holder, following has been considered:
  - i. Notional value of the TRE certificate held by such Participant as at year ended <date of the year end> as determined by the Stock Exchange ; and
  - ii. Break-up value of the shares of the Stock Exchange held in the name of such TREC holder as at year ended <date of the year end>as determined by the Stock Exchange.