

**NATIONAL CLEARING COMPANY OF
PAKISTAN LIMITED**

**NATIONAL CLEARING AND SETTLEMENT
SYSTEM**

PROCEDURES

2008

Amendments Approved upto August 18, 2009

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NATIONAL CLEARING COMPANY OF PAKISTAN LIMITED

Notification

Karachi, the January 15, 2004

THE NATIONAL CLEARING AND SETTLEMENT SYSTEM PROCEDURES

Whereas, National Clearing Company of Pakistan Limited (“Company”) has been formed under the authorisation of the Securities and Exchange Commission of Pakistan;

And whereas, the Company has established a National Clearing and Settlement System (“NCSS”);

And whereas, the Company has made and notified the National Clearing and Settlement System Regulations 2003 (“NCSS Regulations”) for regulating the affairs of the Company, the NCSS and the persons who are admitted as Clearing Members under the NCSS Regulations;

And whereas, the NCSS Regulations substitute the National Clearing and Settlement Regulations made and notified by the Company in 2001 (“2001 Regulations”);

And whereas, Regulation 3.5 of the NCSS Regulations empowers the Board of Directors of the Company to make procedures (“NCSS Procedures”) relating to the operations and functions of NCSS and implementation of the NCSS Regulations;

And whereas, Regulation 3.5.4 of the NCSS Regulations empowers the Company to make any changes in or substitution of the NCSS Procedures;

And whereas, in exercise of its powers under the 2001 Regulations, the Board of Directors of the Company had made and notified NCSS Procedures in 2001 (“NCSS Procedures 2001”);

And whereas, based upon the changes and modifications proposed in the services provided by the Company, the Board of Directors of the Company has decided to revise and substitute the NCSS Procedures 2001 by a new set of Procedures;

And whereas, in exercise of its powers under Regulations 3.5 and 3.5.4 of the NCSS Regulations, the Board of Directors has made these new NCSS Procedures in substitution for the NCSS Procedures 2001;

And whereas, as required by Regulation 3.5.4 of the NCSS Regulations, the Company has already given notice to the Clearing Members of NCSS of the substitution of these new NCSS Procedures for the NCSS Procedures 2001.

Chapter 1 SHORT TITLE AND COMMENCEMENT

1.1 Short title

1.1.1 These Procedures may be called The National Clearing and Settlement System Procedures, 2003.

1.2 Commencement

1.1.2 These Procedures shall come into force as of January 15, 2004 and shall supersede the NCSS Procedures of 2001 in force before that date.

Chapter 2 NATIONAL CLEARING AND SETTLEMENT SYSTEM (NCSS)

2.1 Introduction

2.1.1 Purpose and Scope

2.1.1.1 Subject to the NCSS Regulations, the procedures contained herein (“Procedures”) shall be applicable to all NCSS users. The Procedures shall cover the following broad areas of the operations of NCSS:

- 1 Maintenance of referential files containing data of different types of codes used in NCSS such as Stock Exchange code, Security type code, Settlement type code, Market type code, Role code and any other similar data;
- 2 Setting up of Clearing Members (“CM” or “CMs”), Settling Banks and Securities in NCSS;
- 3 Clearing and settlement activities in respect of valid Exchange trades and Exchange transactions based on trade details or data in respect of marked-to-market loss amounts to be collected from CMs and/or the amounts of the profit to be disbursed to CMs in respect of Cash Settled Futures Contracts received from respective Stock Exchanges (“Exchange” or “Exchanges”), under contract or any other arrangement between the Company and the Exchanges;
- 4 Clearing and settlement activities in respect of Non-Exchange transactions recorded by CMs on NCSS;
- 5 Pay & Collect of money obligations of CMs and the Company relating to Exchange trades, Exchange transactions and Non-Exchange transactions;
- 6 Delivery default in respect of settlement of Exchange trades, Exchange transactions and Non-Exchange transactions on NCSS and the related money obligations of CMs;
- 7 Administrative activities connected with NCSS operations; and
- 8 Generation of reports in respect of NCSS operations.

2.1.2 Types of Trades / Transactions Processed on NCSS

2.1.2.1 The trades / transactions to be processed on NCSS shall include the following:

- 1 All valid Exchange trades and Exchange transactions in NCSS live securities between broker CMs transmitted to NCSS through Stock Exchanges’ Trading Systems;
- 2 All Non-Exchange transactions in NCSS live securities between broker CMs and recorded on NCSS through its Broker-to-Broker delivery module (“BTB module”);

- 3 All Non-Exchange transactions in NCSS live securities between broker CMs and non-broker CMs (Institutions) and recorded on NCSS through its Institutional Delivery System (“IDS”); and
- 4 All Non-Exchange transactions in NCSS live securities between broker CMs and / or non-broker CMs recorded on NCSS through its Margin Financing module for facilitating margin financing.

2.1.3 Settlement Options

- 2.1.3.1 NCSS shall be a clearing and settlement system for NCSS live securities with the following settlement options:
 - 1 Balance Order T+2 rolling settlement cycle with multilateral netting to be used for settlement of Exchange trades, Exchange transactions and Non-Exchange transactions.
 - 2 Balance Order T+1 rolling settlement cycle with multilateral netting. This settlement cycle shall be used for settlement of Exchange trades and Non-Exchange transactions in a security of which book closure has been announced by the Issuer for ascertaining of the names of the holders who are entitled to dividend or any other benefits, including rights or bonus shares and for ascertaining of the names of the holders in connection with merger, de-merger, split and consolidation.
- 2.1.3.2 NCSS shall also process the collection of marked-to-market loss amounts from and disbursement of profits to CMs in respect of Cash Settled Futures Contracts.

2.1.4 The Company Account Structure with Central Depository Company (“CDC”)

- 2.1.4.1 The Company shall maintain the following CDS Accounts with CDC as Account Holder:
 - (a) **NCC–Squaring-up Account:** for movement of Securities against squaring-up.
 - (b) **NCC–Retrieval Account** for retrieval of blocked Securities in case of money default by any CM.

2.2 Admission of Clearing Members

2.2.1 Eligibility Criteria of Clearing Members

- 2.2.1.1 In considering applications for admission as CMs, the Company shall adhere to and apply the Eligibility criteria, as set out in the NCSS Regulations, for admission to NCSS as CM.

2.2.2 Admission Requirements

- 2.2.2.1 CM admission requirements and terms and conditions shall be set-out in the Admission Form from time to time prescribed by the Company for this purpose. The Company shall ensure that the admission requirements or terms and conditions as set out in the NCSS Regulations are included in the Admission Form.

2.2.3 Process of Application

- 2.2.3.1 A period of up to three (3) Business Days may be taken by the Company, after receipt of completed Admission Form and other documents and required fee/deposits, to complete the process of CM admission, unless the Admission Form is found to be defective as referred to in Clause 2.2.3.2 below.
- 2.2.3.2 The Company shall have the right to reject any application for admission as CMs if the documents / details, and other information set out in the prescribed Admission Form shall be found to be incorrect or incomplete. The Company shall communicate any such defect to the applicant within three (3) Business Days from the date of receipt of an Admission Form.

2.2.4 Account Structure

- 2.2.4.1 Clearing Member Account Structure:
- 1 Exchange trades and Exchange transactions of an Exchange member (that is to say, a CM who is a member of a Stock Exchange) executed and transmitted to NCSS through the Exchange's trading system shall be identified and processed on NCSS based on his membership Id (trader Id) used by the respective Exchange. Provided that Stock Exchanges will provide a CFS flagged trader ID as per the agreed mechanism for each CFS transaction of the CM who is also a CFS Financier CM
 - 2 The Company will set up a unique Clearing Account in NCSS for each CM through which all clearing and settlement obligations shall be aligned other than CFS transactions of a CFS Financier CM. For such CFS transactions the Company will also set up a separate Clearing Account in NCSS by the name of a CFS Financier CM.
 - 3 The Company will set up a unique Clearing Account in NCSS for each CM through which all clearing and settlement obligations shall be aligned.
 - 4 Admission as separate CM in respect of each Stock Exchange membership (if having common exchange member title) shall not be mandatory and more than one Exchange membership can be aligned with one CM (in NCSS) and one Account Holder/ Participant status of CDS, provided that more than one CM shall not be aligned with one CDS Account.
 - 5 A CM shall be admitted to NCSS with same title and Id as that of his CDS Account Holder / Participant Id and both shall be linked through live interface between NCSS and CDS.
 - 6 If a CM's CDS Participant/Account Holder title is changed (without change in status) his CM membership title in NCSS will accordingly be changed, at the request of the CM, after any required formalities with the Settling Bank are completed. Any further requirements to be completed in this regard shall be prescribed from time to time by the Board.
 - 7 If the status of an Exchange member admitted as CM is changed from individual to corporate or vice versa, the Clearing Account of such CM with old status will be closed and a Clearing Account with new status will be set-up after (i) CM has opened a new Account with CDC under his new status, (ii) necessary formalities are completed for opening of a new Clearing Account, and (iii) a new bank account under the changed status is opened with the designated branch of the CM's Settling Bank.

Notwithstanding the foregoing, Exchange trades and Exchange transactions executed and transmitted to NCSS through Exchange trading system and Non-Exchange transactions recorded on NCSS through IDS and BTB module under a CM's old status for settlement shall be settled through the Clearing and CDC Accounts with old status.

- 2.2.4.2 A CM shall open a bank account ("settling account") with same title as that of his Clearing Account in NCSS, with any Designated Branch of a Settling Banks in connection with settlement of all his money obligations except where otherwise permitted by the Company. However, a CM who is also a CFS Financier CM may open a new bank account ("settling account") with same title as that of his Clearing Account in NCSS, with any Designated Branch of a Settling Banks in connection with settlement of all his money obligations for CFS transactions, except where otherwise permitted by the Company

2.3 Admission of Settling Banks

2.3.1 Eligibility Criteria for Settling Bank / Designated Branch

- 2.3.1.1 The Company may accept a bank as a Settling Bank if it meets the following criteria:
- (a) It is duly licensed to carry on banking business in Pakistan under the Banking Companies Ordinance 1962 or (being a statutory corporation) it is otherwise entitled to carry on banking business under the law by which it is created.
 - (b) It has designated branches ("Designated Branches") having physical presence in the premises or building in which Stock Exchange(s) are located.
 - (c) It has designated a Branch located in Karachi and acceptable to the Company as its main contact branch for the purpose of Clause 2.3.3.
 - (d) It is capable of maintaining online linkage with NCSS.
 - (e) It has signed or agree to sign with the Company an agreement ("Settling Bank Agreement") in the form prescribed by the Company whereby it undertakes to perform money settlement services for the benefit of the Company and those CMs who become customers of the Designated Branch (es) and have entered into agreements in the form prescribed by the Company with the Company and the Settling Bank ("Tripartite Agreement").
- 2.3.1.2 A List of approved Settling Banks and of their Designated Branches shall be available on NCSS.

2.3.2 Designated Branch

- 2.3.2.1 A Designated Branch of a Settling Bank shall perform money settlement services for the purposes of NCSS in respect of the CMs who shall have established or maintain settling accounts with such branch.

2.3.3 Main Contact Branch

- 2.3.3.1 The main contact Branch of a Settling Bank shall be responsible for corresponding with the Company on behalf of the Settling Bank, provided this branch may also be used for managing intra Settling Bank fund movements.

2.3.4 The Company's Account with each Designated Branch of a Settling Bank

- 2.3.4.1 The Company shall maintain a settling account with each Designated Branch of a Settling Bank for Pay and Collect.
- 2.3.4.2 The Company shall have the right to change its settling account with any Designated Branch of a Settling Bank by notice to such Designated Branch and to the CMs who maintain their settling accounts with that Designated Branch.

2.3.5 Admission Requirement of Settling Banks

- 2.3.5.1 The terms and conditions of appointment of Settling Banks, including applicable technical requirements, are set out in the Settling Banks Application Document prescribed by the Company.
- 2.3.5.2 The Company shall notify to all CMs, the relevant Exchanges and to the existing Settling Bank the names of the Banks who appear on the List of Settling Banks maintained by the Company under NCSS Regulations.
- 2.3.5.3 The names and location of the Designated Branches of Settling Bank shall also be notified to all CMs, relevant Exchanges and to the existing Settling Banks of the Company.

2.4 Securities

2.4.1 Eligibility Criteria of Securities

- 2.4.1.1 All Securities appearing on the List of Securities ("NCSS eligible securities") maintained by the Company pursuant to NCSS Regulations and in respect of which the Company has notified to all Exchanges and CMs live date(s) and Security Symbol(s) for "NCSS live securities" and Exchange trades, Exchange transactions and Non-Exchange transactions in such NCSS live securities shall, as of such live date, be cleared and ultimately settled through NCSS.
- 2.4.1.2 Update list of NCSS live Securities along with their symbols and details about marketable lots shall be available on NCSS.

2.4.2 Details of NCSS live Securities

- 2.4.2.1 For setting-up NCSS eligible securities (which are CDS Eligible Securities as well) in NCSS, so as to make them NCSS live securities, the Company shall be entitled to obtain from time to time all relevant information and particulars about such Securities from the CDS database [including details of books closure].

2.4.3 Marketable Lots

The marketable lot of all NCSS Eligible Securities shall be ONE. Accordingly, all Exchange trades/transactions and Non-Exchange transactions shall be received and settled in NCSS in multiple of ONE lot size

- 2.4.3.1 Where the Company makes any changes in the marketable lots of any NCSS live securities under the NCSS Regulations earlier notified by it under Clause 2.4.3.2, the Company shall notify such change to the Exchanges. The Exchanges shall modify their marketable lots in such Securities in their trading and other relevant systems in conformity with the revised marketable lots notified by the Company.

2.4.4 Security Symbols

- 2.4.4.1 The Company shall ascertain and define the security symbols for all NCSS eligible securities. The Exchanges shall change the security symbols in their respective trading and other relevant systems in conformity with the security symbols determined by the Company.
- 2.4.4.2 The Exchanges may add any suffix or prefix with the Company's ascertained and defined security symbols for NCSS eligible securities for their trading purposes only. However, the Exchanges will send the Locked-in Exchange trades and Exchange transactions data of such securities with the Company's ascertained and defined symbols, without suffix or prefix, to NCSS.

Chapter 3 SERVICES AND FACILITIES

3.1 Overview of Clearing & Settlement in NCSS

3.1.1 Securities Settlement

3.1.1.1 NCSS Exchange trades and Exchange transactions in NCSS live securities for the last one Trade Dates before the book closure start date (where the issuer has declared any benefits for the shareholders, such as dividend, bonus, rights, merger, de-merger, split and consolidation) shall be ignored and settled outside NCSS.

3.1.1.2 In case where trades and/or transactions of more than one day are settled on a particular single Settlement Date due to declaration of spot, bank holiday, or postponement of settlement for any other reason, securities obligations shall be revised and shall be settled on net basis directly between the CMs in accordance with the Balance Orders generated by NCSS.

3.1.2 Money Settlement

3.1.2.2 For the purpose of money settlement, each CM shall maintain a settling account as referred to in Clause 2.2.4.2 of these Procedures with any Designated Branch of a Settling Bank. As per the standing instructions provided under the Tripartite Agreement signed between the Company, the Settling Bank and a CM, the Designated Branch shall debit / credit the settling account of the CM for NCSS money settlement, in accordance with NCSS Procedures for Pay and Collect.

3.1.2.3 On each Settlement Date, the amounts (debit/credit) reflected in CM's money account in NCSS may comprise of the following activities:

- 1 Security wise provisional debit / credit amounts at actual average trading price based on net securities traded, falling due for settlement on that Settlement Date;
- 2 Debiting the money account in NCSS with an amount which is calculated, Security-wise, at **BO Settlement Short Reverse Amount** for the number of securities undelivered;
- 3 crediting of amounts (as specified in item "b") in the money account upon tendering of delivery during the extended delivery time;
- 4 debiting / crediting amounts as a result of square-up procedure;
- 5 debiting / crediting amounts as a result of allocation of losses in case of a CM's default; and
- 6 Collection of fee or any other charges from CMs.

Note: **BO Settlement Short Reverse Amount** will be calculated at System Price plus 15% of such price of Security of which delivery

was short at the end of Normal Delivery Time. To mitigate risk of squaring-up in volatile market, the management is authorized to increase or decrease above 15% margin for all or specific Security with the consent of all three Exchanges.

3.1.2.2A Debiting/crediting of the money accounts of CMs on account of marked-to-market loss amounts to be collected from CMs and the profit amounts to be disbursed to CMs in respect of the Cash Settled Futures Contracts shall be made in terms of the Regulations and Clause 3.8 of these Procedures.

3.1.2.4 In case where trades and/or transactions of more than one day are settled on a particular single Settlement Date due to declaration of spot (applicable only in case of declaration of entitlements, such as, dividend, rights/bonus shares, splitting of securities or any other similar benefit), bank holiday or postponement of settlement for any other reason, money settlement shall be carried out on net basis.

3.2 Activities on Trade Day (TD)

3.2.1 Exchange Trades and Transactions

3.2.1.2 Receipt of Exchange trades:

- 1 **Regular Market Trades:** On each Trade Date, Locked-in Regular Market trade data of NCSS live securities shall be received on NCSS from the Exchanges on a real time basis or as near thereto as may be practicably possible.
- 2 **Over The Counter (OTC) Market Trades:** On each Trade Date, Locked-in OTC Market trade data of NCSS live securities shall be received on NCSS from the Exchanges on a real time basis or as near thereto as may be practicably possible.

3.2.1.3 Receipt of Exchange transactions:

- (a) **Continuous Funding System (CFS):** on each Trade Date, Locked in CFS data of NCSS Live securities shall be received on NCSS from the Exchanges on real time basis, or as near thereto as may practicably be possible. Such data shall be netted off with that day's Exchange trades of the CM to arrive at net obligation for the day for settlement under Balance Order T+2 settlement cycle other than CFS transactions of a CFS Financier CM.
- (b) **Continuous Funding System Released (CFSR):** The un-released Continuous Funding System Transaction shall be retained by the Exchanges till such time that such transactions are released by the CM(s) concerned, and CFS Released transactions shall be processed similarly as defined in (a) above.
- (c) **Futures Market Transactions:** On every last Business Day of the Contract Period, Out-Lots data (net buy or net sell positions) of CMs in the Futures Market Contracts in NCSS Live Securities based on their Futures Market Contracts traded during whole Contract Period shall be

received on NCSS from the respective Exchanges before the End of Day of the Company.

3.2.1.4 **Details of Exchange Trades and Exchange transactions data:**

Locked-in trades / transactions data includes the following information::

- (a) System Identifier (KSE (K) /LSE (L) /ISE (I))
- (b) Security Symbol (For Futures Market transactions, symbol will be the same as determined for Regular, and CFS Market trades/transactions)
- (c) Trade / Transaction date & time (For Futures Market transactions, Transaction date will be the date as on last business day of the Contract Period)
- (d) Ticket number
- (e) Volume traded/transaction volume
- (f) Trade / Transaction Price (For Futures Market transactions, price will be the closing of price of the Security on the last Business Day of the Contract Period)
- (g) Buying Trader Code (For Futures Market transactions, code may be assigned by the Exchange)
- (h) Buying Trader Client Code
- (i) Selling Trader Code (For Futures Market transactions, code may be assigned by the Exchange itself)
- (j) Selling Trader Client Code
- (k) Buying/Selling flagged trader ID in case of each CFS transaction of the CFS Financier CM
- (l) Market Type (Regular, CFS, CFSR, OTC, or Futures)
- (m) Settlement Type (Normal, Spot)

3.2.1.5 **Validation of Exchange trades & Exchange Transactions:**

Exchange trades and Exchange transactions shall be validated upon receiving into NCSS database. Details of trades and transactions successfully validated shall be available through Purchase & Sale Detail Report.

3.2.1.6 **Exchange trades and Exchange transactions failing validation:**

Exchange trades and Exchange transactions failing the validation process described below in this clause shall be moved to invalid trades/transactions file and shall be dropped from further processing. Details of such invalid trades and transactions shall be available through Invalid Exchange Trade/Transaction Report which shall show the appropriate error message(s), so that the reason for rejection is known. Trades and transactions can be invalidated due to various reasons such as:

- 1 Invalid Stock Exchange (System Identifier)
- 2 Invalid market type
- 3 Invalid security symbol
- 4 Invalid settlement type
- 5 Invalid volume
- 6 Invalid price
- 7 Invalid buying trader code

- 8 Invalid selling trader code
- 9 Duplicate ticket number
- 10 Invalid Buying/Selling flagged trader ID

3.2.1.7 Review/Reprocessing of Invalid Exchange trades & Exchange transactions:

- 1 The Company shall review invalid Exchange trades and Exchange transactions which may have become invalid due to any error.
- 2 Exchange trades and/or Exchange transaction, which become invalidated due to NCSS set-up may be reprocessed through NCSS Trade Re-processing module.
- 3 Exchange trades and/or Exchange transactions invalidated due to any other reason shall be settled outside NCSS and shall for this purpose be advised to the respective Exchanges enabling them to advise the relevant CMs and to arrange for their settlement outside NCSS.

3.2.1.8 Ignored Exchange Trades & Exchange Transactions (only CFS and CFSR):

Exchange trades and Exchange transactions in NCSS live securities for the last one Trade Dates before the book closure start date (where the issuer has declared any benefits for the shareholders, such as dividend, bonus, rights, merger, de-merger, split and consolidation) shall be ignored and settled outside NCSS.

3.2.1.9 Verification of Exchange Trades & Exchange Transactions:

NCSS shall provide Purchase and Sale Detail Report on real time basis to all CMs containing details of their respective locked-in Exchange trades and Exchange transactions in NCSS live securities. CMs shall review this Report for verification purposes and in case of any discrepancy / error, notify the details to the Company within designated time as per the Designated Time Schedule made pursuant to the NCSS Regulations.

3.2.1.10 Cancellation/modification of Trades and/or Transactions not permitted:

Except to deal with occurrence of Force Majeure, cancellation and/or modification of any valid Exchange trades or Exchange transactions shall not be permitted. Where cancellation and/or modification of any valid Exchange trade or Exchange transaction becomes necessary because of Force Majeure, such cancellation and/or modification shall be effected only with the consent of the Exchange.

3.2.1.11 Trade and Transaction Confirmation Process

- (a) Exchanges shall send "Locked-in Trade and Transaction Confirmation" on each Trade Day which will also include the information of marked-to-market collection / distribution amount of Cash Settled Futures Contracts, within the time prescribed in the Designated Time Schedule, on the prescribed format. This confirmation shall include details of Exchange trades and Exchange transactions executed on their respective Exchanges in NCSS live securities duly signed by the authorized signatories and sent by personal delivery, facsimile and/or electronic communication, provided that requirement of signature of authorised signatories will not be

applicable in case of electronic communication. Following further requirements shall apply:

- (i) Where no confirmation shall have been received from an Exchange within the time prescribed in the Designated Time Schedule, it will be assumed by the Company that no trades and/or transactions have been executed in the NCSS live securities at that Exchange (where no trades and/or transaction have been received in NCSS for the current day) and the Company shall proceed with Day End process by the time specified in Designated Time Schedule;
- (ii) All such valid trades and transactions as are received in NCSS shall be full and final and correct and complete in all respects. Subject to NCSS Regulations and Procedures, these trades and transactions shall be included in the Day End process of the Company.
- (b) Where trades and/or transactions have been actually executed but not sent to NCSS, in total or in part, such trades and/or transactions shall not be included in the Day End processing and shall be settled by the relevant CMs, outside NCSS, through the relevant Exchange.
- (c) In case of discrepancy in locked-in trades and/or transactions due to network failure, database crash or for any other technical reason, the Company may adopt a process of trade and/or transaction feed based on trade and/or transaction feed file, trade fax and similar other data.

3.3 Non-Exchange Transactions

3.3.1 BTB module

- 3.3.1.2 BTB module shall facilitate CMs to record their Non-Exchange transactions between broker CMs for clearing and settlement through NCSS.
- 3.3.1.3 Such transactions can be initiated in NCSS live securities eligible for Non-Exchange transactions through BTB module, based on Regular market trades of a broker CM at an Exchange.

3.3.2 IDS

- 3.3.2.2 IDS shall facilitate a broker CM and a non-broker CM to record their Non-Exchange transactions for clearing and settlement through NCSS.
- 3.3.2.3 Such transactions can be initiated in NCSS live securities eligible for Non-Exchange transactions through IDS, based on locked-in Regular Market Trades, Continuous Funding System (CFS & CFSR) transactions and Future Market Transactions of a broker CM at an Exchange.

3.3.3 Margin Financing Module

- 3.3.3.2 **Margin Financing.**

- (a) Margin Financing shall facilitate broker CMs to record their Non-Exchange transactions for fund borrowing from other broker CMs or non-broker CMs for the purpose of clearing and settlement through NCSS.
- (b) Such Non-Exchange transactions can be initiated by broker CMs in NCSS live Securities which are eligible for Non-Exchange transactions through Margin Financing module, based on their aggregated security-wise buys (purchases) calculated from his Regular Market Trades, Continuous Funding System-released (CFSR) and Future Market Transactions received on NCSS, whose trade /transaction and settlement dates are common, at the Margin Financing System Price of respective Securities.

3.3.3.3 Reversal of Margin Financing

- (a) Reversal of Margin Financing shall facilitate CMs to record their Non-Exchange transactions for reversing of fund borrowing with their lending CMs for the purpose of clearing and settlement through NCSS.
- (b) Such Non-Exchange transactions can be initiated by a Broker CM in NCSS live Securities eligible for Margin Financing, based on their aggregated security-wise sales, calculated from his Regular Market Trades and Future Market Transactions received on NCSS in each Securities with his Financier CM's at the Margin Financing System Prices of such Securities on NCSS. However, a Broker CM is allowed to initiate reversal of Margin Financing transactions upto the extent of his Finanee's Positions in all markets of NCSS.
- (c) Reversal of Margin Financing shall not be allowed through NCSS based on Finanee's positions which are older than 90 calendar days from the date of recording of their correspondence Margin Financing Transaction

3.3.4 Recording of Non-Exchange Transactions (BTB & IDS)

3.3.4.2 Recording of BTB and IDS Transactions

- (a) CMs shall be allowed to record their Non-Exchange transactions based on Exchange trades and Exchange transactions.
- (b) The quantity, price and Settlement Date of each Non-Exchange transaction shall be the same as of actual underlying Exchange trade or Exchange transaction. Non-Exchange transaction cannot be generated for partial quantity of the underlying Exchange trade or Exchange transaction.
- (c) NCSS shall not allow modification/cancellation of any Exchange trade or Exchange transaction for which Non-Exchange transaction has been generated.

3.3.4.3 Recording of Margin Financing Transactions

- (a) Broker CM shall be allowed to record his Non-Exchange transactions for Margin Financing through Margin Financing module, based on their aggregated security-wise buys (purchases) calculated from his Regular Market Trades, Continuous Funding System-released (CFSR) and Future Market Transactions received on NCSS, whose trade /transaction and settlement dates are common, at the Margin Financing System Prices of respective Securities.
- (b) Settlement Date of each Non-Exchange transaction for Margin Financing shall be the same as of the underlying aggregated buys of securities.

- (c) NCSS shall not allow modification/cancellation of any Exchange trade or Exchange transaction for which Non-Exchange transaction for margin financing has been generated

3.3.4.4 **Recording of Reversal of Margin Financing Transaction**

- (a) Broker CM shall be allowed to record their Non-Exchange transaction for reversal of Margin Financing through Margin Financing module based on their aggregated security-wise sales, calculated from his Regular Market Trades and Future Market Transactions received on NCSS, at the Margin Financing System Prices of such Securities on NCSS
- (b) Settlement type, date and price shall be assigned to such Non-Exchange transaction for reversal of Margin Financing based on the Settlement type, date and Margin Financing System Price which is currently applicable to the Security of which reversal of Margin Financing transaction is recorded
- (c) Reversal of Margin Financing can only be initiated with the CM against which initiating CM has Financee position in that Security.

3.3.5 **Initiation Process**

3.3.5.2 **BTB & IDS Transactions**

- (a) Non-Exchange transactions shall be initiated only by Broker CM (“Initiating CM”) and affirmed by any other CM which may be a broker CM (in case of BTB module) or non-broker CM (in case of IDS) (“Counter CM”) within specified time as per Designated Time Schedule.
- (b) Initiating broker CM can cancel the initiated Non-Exchange transactions at any time before it is affirmed by the Counter CM.
- (c) NCSS shall restrict initiation of more than one Non-Exchange transaction against an Exchange trade or an Exchange transaction, provided that upon cancellation of such Non-Exchange transaction by initiating CM or its rejection by the Counter CM, NCSS shall allow generation of another Non-Exchange transaction.
- (d) If an initiated Non-Exchange transaction is neither affirmed nor rejected within the specified time as per Designated Time Schedule on the Transaction Day, NCSS shall automatically drop it during End of Day (EOD) process from further processing.

3.3.5.3 **Margin Financing Transactions**

- (a) A broker CM shall be required to retrieve his aggregated security-wise buys (purchases) of particular trade / transaction date for initiating Non-Exchange transactions for Margin Financing.
- (b) Non-Exchange transactions for Margin Financing shall be initiated by a broker CM with any other CM who may be a broker or non-broker within specified time as per Designated Time Schedule.
- (c) NCSS shall not allow initiation of Margin Financing No-Exchange transaction which results into more quantity than of the underlying aggregate security-wise buys (purchases) on a particular trade day. However, upon

cancellation of any Initiated Margin Financing transaction by the initiating CM or its rejection by the counter CM, NCSS shall allow generation of further Non-Exchange transaction for Margin Financing upto limit of underlying aggregated buys in such Security.

- (d) Initiating CM can cancel the initiating Non-Exchange transaction for Margin Financing at any time before it is affirmed by the counter CM.
- (e) If an initiated Non-Exchange transaction for Margin Financing is neither affirmed nor rejected within the specified time as per Designated Time Schedule on the Transaction Day, NCSS shall automatically drop it during End of Day (EOD) process from further processing.

3.3.5.4 Reversal of Margin Financing Transactions

- (a) A Broker CM who is a financee in Margin Financing transaction, may retrieve his aggregated security-wise sales, calculated from his Regular Market Trades and Future Market Transactions received on NCSS for initiating Non-Exchange transaction for Reversal of Margin Financing
- (b) Broker_CM who is a Financee can record Non-Exchange transaction for Reversal of Margin Financing based on their aggregated security-wise sales with his Financer_CM of particular margin financing date, at the current Margin Financing System Price.
- (c) Initiating CM can cancel the initiating Non-Exchange transaction for reversal of Margin Financing at any time before it is affirmed by the counter CM.
- (d) If an initiated Non-Exchange transaction for reversal of Margin Financing is neither affirmed nor rejected within the specified time as per Designated Time Schedule on the Transaction Day, NCSS shall automatically drop it during End of Day (EOD) process from further processing
- (e) Non-Exchange transaction for reversal of Margin Financing shall not be allowed in a Security during the period in which its trading was shifted on spot counter by the relevant Exchange for settlements between counter parties i.e., member to member direct settlement

3.3.6 Affirmation/Rejection Process

3.3.6.1 BTB and IDS Transactions

- (a) Counter CM shall not be allowed to edit the details of the Non-Exchange transaction posted by the initiating CM.
- (b) Counter CM shall be required to affirm or reject the Non-Exchange transaction within specified time as per Designated Time Schedule on the Transaction Day.
- (c) In case of IDS Transaction(s), it is mandatory for all Non-Broker Clearing Members (“NBCM”) to affirm their auto-initiated IDS Transactions. However, in case where such transaction(s) are rejected and/or remained un-affirmed at the close of the Business Day, following procedure will be followed:

- I. Where IDS transactions are rejected, the concerned NBCM shall mention the reason of such rejection in the remarks field available on “IDS Transaction Affirmation Screen” in NCSS for each transaction. Such reason of rejection shall also be disclosed to the concerned Broker CM for information.
- II. Where the IDS transactions are remained un-affirmed at the close of the Business Day, the NBCM shall be required to immediately report such transaction (s) with valid reason thereof to the Company.

However, such rejected/un-affirmed transactions shall be settled by the initiated Broker CM in accordance with the Regulations and these Procedures.

3.3.6.2 Affirmation/Rejection Process of Non-Exchange Transaction for Margin Financing and Reversal of Margin Financing

- (a) Counter CM shall not be allowed to edit the details of the Non-Exchange transaction for Margin Financing or Reversal of Margin Financing posted by the initiating CM
- (b) Counter CM shall be required to affirm or reject the Non-Exchange transaction for Margin Financing or Reversal of Margin Financing within specified time as per Designated Time Schedule on the Transaction Day
- (c) As the Margin Financing transaction will be at the Margin Financing System Price of the Security on Margin Financing transaction date and Reversal of Margin financing transaction will be at the Margin Financing System Price of such Security on Reversal of Margin Financing transaction date, therefore, Counter CMs to such transaction are required to handle Mark-to-Market outside the NCSS.

3.3.7 Eligibility Criteria of Securities for Non-Exchange Transactions

3.3.7.1 BTB & IDS Modules

- (a) The Company shall determine the list of securities to be eligible for Non-Exchange transactions through BTB module and IDS module of NCSS based on the following criterions:
 - (i) Non-Exchange transactions through BTB module will be allowed in the securities which will be approved by the Board from time to time.
 - (ii) Non-Exchange transactions through IDS module will be allowed:
 - a. For the purpose of IDS on CFS and CFS(R) transactions, securities which are eligible for CFS Market at any Exchange.
 - b. For the purpose of IDS on Regular Market Trades, in all NCSS eligible securities as contained in 2.4.1.1; and
 - c. For the purpose of IDS on Future Market Transactions, securities which are eligible for Future Market at any Exchange.

(b) For the purposes of (a) (ii) of 3.3.7.1., the Company shall immediately revise the list of securities eligible for Non-Exchange transactions through IDS on receiving a notification from any Exchange for the revision of the list of securities eligible for CFS Market and/or Future Market Contract at that Exchange. However, prior notification on the subject from the respective Exchange will be required. Further, the Company shall give prompt notification to all concerned for revision in the said list.

3.3.7.2 **Margin Financing Module**

- (a) The Company shall determine the list of securities to be eligible for Non-Exchange transactions through Margin Financing module which are on the approved List of Securities for Margin Trading & Margin Financing of any of three Stock Exchanges.
- (b) On receipt of notification from any Stock Exchange for addition of a security for Margin Financing, the Company shall immediately add such security in the list of Securities eligible for Non-Exchange transactions through Margin Financing module.
- (c) On receipt of notification for deletion of any Security from the approved List of Securities for Margin Trading & Margin Financing from all those Stock Exchange where such Security was on the approved list, the Company shall delete such security in the list of Securities eligible for non-Exchange transactions through Margin Financing module after giving 5 Business Days notice to all CMs and the Exchanges.

3.3.8 **Margin Financing Position**

- (a) On affirmation of a Non-Exchange transaction by Financier CM for Margin Financing, the NCSS shall maintain and update Security-wise Financier's Position of the CM who is buyer to such transaction and Security-wise Finantee's Positions of the CM who is seller to that transaction for particular transaction date, with counter-party to each other.
- (b) The system will segregate Finantee or Financier positions of the CMs against their respective locations (i.e., K for KSE, L for LSE and I for ISE). On saving of initiation request of a Non-Exchange transaction by a Broker CM who is a Finantee for reversal of Margin Financing, the NCSS shall reduce and update financier's position of the CM who is seller to such transaction and finantee position of the CM who is buyer to that transaction in a particular security with counter-party to each other.

3.3.9 **Data Transmission Mechanism for affirmed Margin Financing Transactions to the relevant Stock Exchange**

On each Trade Date, broker CM-side details of affirmed Margin Financing transactions and / or Reversal of Margin Financing transactions in the securities which are eligible for Non-Exchange transactions through Margin Financing module on NCSS and counter-party of such transactions is a Bank or DFI, shall be provided to the relevant Exchange of which such broker CM is a member, for the risk management purposes of the said Exchange, on the mechanism agreed between the Company and the relevant Exchange from time to time.

Details of such transactions shall include the following information:

- (a) Transaction ID
- (b) Transaction date & time

- (c) System Identifier (KSE (K) /LSE (L) /ISE (I))
- (d) CM's Trader code (Seller or Buyer)
- (e) Security Symbol
- (f) Volume
- (g) Transaction Price
- (h) Market Type
- (i) Settlement Type
- (j) Module Type (MFN or MFR)
- (k) Seq

3.3.10 Margin Financing transaction Confirmation Process

The Company shall send Margin Financing and Reversal of Margin Financing Transactions Confirmation, on the prescribed format, to the relevant Exchanges on each Trade Date by the Designated Time. This confirmation shall include the summary of Margin Financing transactions and Reversal of Margin Financing transactions executed on NCSS duly signed by the authorized signatories and sent by personal delivery, facsimile and/or electronic communication, provided that requirement of signature of authorised signatories will not be applicable in case of electronic communication. Following further requirements shall apply:

- (a) Where no confirmation shall have delivered to the Exchange within the time prescribed in the Designated Time Schedule, it will be assumed by the Exchange that no Margin Financing transactions and Reversal of Margin Financing transactions have been executed by its brokers, who are CMs of the Company, in the NCSS eligible securities;
- (b) In case of discrepancy in such transactions due to network failure, database crash or for any other technical reason, the Company may adopt a process of transaction feed based on transaction feed file, trade fax and similar other data.

3.4 Activities on SD minus 1

3.4.7 Netting Process for a CM to Settle his Settlement Obligations on NCSS falling due on the same Settlement Date

3.4.7.1 During End of Day process on the Settlement Date minus 1, NCSS shall:

- (a) net off the security obligations of a CM against his buy and sell trades/transactions in a Security in any market other than CFS transactions of a CFS Financier CM of which Settlement Date is same, to arrive at his net receive or deliver security obligation (quantity) in that Security and the CM shall be required to settle a single net deliver or net receive security obligation in that Security pursuant to one or more Balance Order delivery/receipt instructions on the Settlement Date; and /or
- (b) net off the security obligations of a CFS Financier CM against his buy and sell transactions in a Security of which Settlement Date is same, to arrive at his net receive or deliver security obligation (quantity) in that Security and the CFS Financier CM shall be required to settle a single net deliver or net receive security obligation in that Security pursuant to one or more Balance Order delivery/receipt instructions on the Settlement Date.

3.4.7.2 During the prep-run process for the Settlement Date, NCSS shall:

- (a) net off the cash obligations of a CM against his buy and sell trades/transactions in all Securities in any market other than CFS transactions of a CFS Financier CM and marked-to-market collection / distribution amount of Cash Settled Futures Contracts of which Settlement Date is same, to arrive at a single net pay or receive money obligation; and / or
- (b) net off the cash obligations of a CFS Financier CM against his buy and sell transactions in all Securities of which Settlement Date is same, to arrive at a single net pay or receive money obligation.

The above mentioned cash obligations shall be settled on the Settlement Date

3.4.8 Netting Process for a CM to Settle his Settlement Obligations on NCSS falling due on different Settlement Date in Sequence

- 3.4.8.1 During End of Day process on next Settlement Date-1, NCSS shall net off the security obligations of a CM against his buy and sell trades/transactions in a Security of which Settlement Date was postponed with his buy and sell trades/transactions of next Settlement Date, to arrive at such his net receive or net deliver security obligation (quantity) in that Security and the CM shall be required to settle a single net deliver or net receive security obligation in that Security pursuant to one or more Balance Order delivery/receipt instructions on the Settlement Date.
- 3.4.8.2 During the prep-run process for next Settlement Date, NCSS shall net off the cash obligations of a CM against his buy and sell trades/transactions in all Securities of which Settlement Date was postponed, with his all buy and sell trades/transaction in all Securities of next Settlement Date, to arrive at a single net pay or receive money obligation. This net money obligation shall be settled on the Settlement Date.

3.4.9 Balance Order Multilateral Cross Exchange Netting Process

- 3.4.9.1 Where Security obligations against buy and sell Exchange trades and Exchange transactions and Non-Exchange Transactions of a CM fall due for settlement on same Settlement Date, then during Day End Process, as per Designated Time Schedule, Balance Orders netting process shall generate Security-wise Balance Orders for net selling CMs and net buying CMs to settle their net deliver security obligations and net receive security obligations as per following netting mechanism:
 - (a) Firstly, NCSS will calculate Security-wise net deliver or receive security obligations of the CMs based on Exchange trades and Exchange transactions and Non-Exchange transactions of their respective traders (Exchange memberships with same title aligned with such CM).
 - (b) Secondly, NCSS will generate Balance Orders by matching the Security-wise net deliver security obligations of selling CMs with receive security obligations of buying CMs of the same location.
 - (c) Thirdly, NCSS will generate Balance Orders by matching Security-wise net-balance deliver security obligations of selling CMs with net-

balance receive security obligations of buying CMs of the different locations.

3.5 Activities on Settlement Date

3.5.7 Settlement Reports

3.5.7.1 For settlement under Balance Order multilateral netting on T+1 or T+2 basis, NCSS shall produce settlement reports by the specified time in the evening of the last Business Day, as per the Designated Time Scheme, before the Settlement Date i.e., on SD minus 1 which shall be available to the CMs through NCSS during the specified time in the morning of the Settlement Date as per the Designated Time Schedule. The settlement report shall include the following information for each CM:

- (a) Settlement Date
- (b) Security symbol
- (c) Balance of securities to be settled with indication of net buy or net sell
- (d) Net money amount (payable or receivable)
- (e) Average Trade Price
- (f) Delivering CM Id

3.5.8 Securities Settlement - Balance Order

3.5.8.1 During prep run process on each Settlement Date, Security wise provisional debit / credit amount at actual average trading price for each Balance Order shall be entered by NCSS in net receiving / delivering CMs money accounts in NCSS, assuming that they will settle their obligations for the day within the specified time as per Designated Time Schedule.

3.5.8.2 Settlement of Book-entry Securities - Normal Delivery Time

- 4 For settlement of book-entry securities, NCSS shall provide "BO Book-entry Delivery Screen" to CMs showing the list of all delivery instructions with the option to search Security wise Balance Order delivery instructions.
- 5 To execute delivery obligations of Balance Order delivery instructions, the CMs shall be required to move Securities to their Main Account in CDS. For tendering deliveries, a CM shall be required to select the individual delivery orders on BO Book-entry Delivery Screen. Upon posting, Securities shall be automatically transferred from delivering CM's Main Account to receiving CM's Main Account, in multiples of marketable lots under blocked status.
- 6 NCSS shall allow opening of BO Book-entry Delivery Screen more than once within specified time, as per Designated Time Schedule, to make the outstanding deliveries. NCSS shall also allow making of partial deliveries by entering the available quantity in multiples of marketable lots in the relevant field.
- 7 After the end of normal delivery time under the Designated Time Schedule Mid-Day process shall be run to record:

3.3.9 debiting of the money account in NCSS with ***BO Settlement Short Reverse Amount*** for the number of Securities undelivered; and

3.3.9 unblocking of Securities received by CMs with net credit balance in the current settlement.

3.5.8.3 Settlement of Book-entry Securities - Extended Delivery Time

After the Mid-Day process run, the CMs shall be provided with additional time to deliver their remaining Securities, if any. Where the deliveries are made during the extended delivery time as per the Designated Time Schedule, the delivering CM's money account shall be credited in the next Settlement Date's Pay & Collect.

3.5.9 Unblocking of Securities

3.5.9.1 Securities shall be received by CMs in blocked status, that is to say, the delivered Securities shall not be available to the CMs unless the blockage on these Securities is removed. Securities shall be unblocked through following process:

- 1 for CMs having money receivables (CRs) from the Company on the current Settlement Date and who have tendered all their deliver security obligations or their money receivables (CRs) are greater than or equal to BO Settlement Short Reverse Amount for the number of securities undelivered, all blocked securities delivered to such CMs shall be unblocked at the Designated Times as per the Designated Time Schedule;
- 2 for CMs who have paid money payable (DR) to the Company as per Provisional Collect Report on the current Settlement Date and tendered all their deliver security obligations, all blocked securities delivered to such CMs shall be unblocked at the Designated Times as per the Designated Time Schedule;
- 3 for CMs having net money receivable (CR) from the Company as per Final Pay Report on the current Settlement Date, all blocked securities delivered to such CMs shall be unblocked immediately after run of Additional Collect procedures for non-deliveries at the Designated Time as per the Designated Time Schedule;
- 4 for CMs having net money payable (DR) to the Company as per Additional Collect Report on the current Settlement Date and all blocked securities delivered to such CMs shall be unblocked upon receipt of confirmation of full additional payment from the Designated Branch of Settling Bank as per the Designated Time Schedule; and
- 5 for CMs who have discharged all their final settlement obligations of the current Settlement Date, all blocked securities delivered to such CMs during Extended Delivery Timings shall be unblocked after run of Additional Collect Procedures on the Designated Time as per the Designated Time Schedule.

3.5.10 Final Non/Short Delivery

In case of non delivery or short delivery even after the extended delivery time as per the Designated Time Schedule, the relevant Balance Order shall be marked as failed and the Company shall initiate Buy-in process in accordance with these Procedures.

3.5.11 Retrieval of Blocked Securities

In case of partial or nil payment confirmation by a Settling Bank against its customer CM(s) money obligations, the Securities delivered to such CM(s) shall remain under blocked status and shall be retrieved and transferred to the NCC-Retrieval Account with CDC. Status of such securities will be finalized in accordance with these Procedures.

3.6 Pay & Collect

3.6.7 Pay & Collect Reports

3.6.7.1 **Purchase & Sale Summary Report generated on Trade day:**

CMs can view their provisional settlement obligations through this report. This report shall cover settlement obligations on account of all Exchange trades, Exchange transaction and Non-Exchange transactions of the CMs.

3.6.7.2 **Provisional Collect Report:**

Shall be a snap shot of the provisional debits to the CMs for the current Settlement Date and taken immediately after Pre-run process-run: This report shall be available to all Designated Branches of Settling Bank for their customer CMs. This report, in addition to settlement obligations, may include required adjustments, such as squaring-up differences, allocation of losses on account of defaulting CM, if any, fees and charges and any other amounts such as collection of marked-to-market losses and profits as the case may be for Cash Settled Futures Contracts to be collected from or paid to CMs.

3.6.7.3 **First Payment Report:**

Shall be a snap shot of the net credits to the CMs who have tendered their all deliveries for the current Settlement Date and taken during Midday process run as per the Designated Time Schedule: This report shall be available to all Designated Branches of Settling Bank for their customer CMs. This report shall set-out net money receivable (CR) by all those CMs who have tendered their all deliveries till the run of said snap shot and may include required adjustments, such as squaring-up differences, allocation of losses on account of defaulting CM, if any, fees and charges and any other amounts such as collection of marked-to-market losses and profits as the case may be for Cash Settled Futures Contracts to be collected from or paid to CMs.

3.6.7.4 **Additional Collect Report:**

Shall be the snap shot of additional collections after run of BO Default Debit Procedure of the Mid-day procedures for the current Settlement Date. This report shall be available to all Designated Branches of Settling Banks for their customer CMs. This report shall set out the additional collect amounts arising due to non-delivery of the required Securities including any unpaid amounts from the Provisional Collections of that Settlement Date. This report may include required adjustments, such as debits due to non-delivery, squaring-up differences, allocation of losses on account of defaulting CM, if any, fees and charges and any other amounts such as collection of marked-to-market losses and profits as the case may be for Cash Settled Futures Contracts to be collected from or paid to CMs.

3.6.7.5 **Final Payment Report:**

Shall be snap shot of remaining net credits to the CMs for the current Settlement Date and taken after run of BO Default Debit Procedure of the Mid-day Procedures as per the Designated Time Schedule: This report shall be available to all Designated Branches of Settling Banks for their customer CMs. This report shall set out final money receivable (CR) by CMs from the Company excluding CMs who are paid through First Payment Report. This report may include required adjustments, such as debits due to non-delivery, squaring-up differences, allocation of losses on account of defaulting CM, if any, fees and charges and any other amounts such as collection of marked-to market losses and profits as the case may be for Cash Settled Futures Contracts to be collected from or paid to CMs.

3.6.7.6 **Cash Available Detail Report:**

Generated on the Settlement Date after run of BO Default Debit Procedure of the Mid-Day procedures: This shall be the final money obligations report for the CMs after run of BO Default Debit Procedure for debiting CMs' money account against non-delivery, if any.

3.6.7.7 **Cash Available Summary Report:**

Generated on Settlement Date after Mid-Day Process-run for intra movements of funds between different Designated Branches of a Settling Bank: This Report shall reflect the Company's final fund positions at Designated Branches of the Settling Banks for the current Settlement Date.

3.6.8 Collections of CMs' money obligation (DR) in Settling Bank own records and confirmation through NCSS Collect Screens

3.6.8.1 On the basis of Provisional Collect Report on Settlement Date, each Designated Branch of Settling Banks shall be required to debit its customer CMs' settling accounts with the provisional amounts and credit the Company's settling account with the same amounts within Designated Time as per Designated Time Schedule.

3.6.8.2 If the required amount is not available in a customer CM's settling account, the Designated Branch of the Settling Bank shall be required to debit such customer CM's settling account with the available amount and credit the Company's settling account with the same.

3.6.8.3 On the basis of collections as per Provisional Collect Report, the Designated Branch of the relevant Settling Bank shall be required to confirm collections (either fully or partially) through Provisional Collect screen on NCSS within Designated Time as per Designated Time Schedule.

This confirmation process will also update Provisional Collect Report on real time basis.

3.6.8.4 After Bo Default Debit Procedure of the Midday Procedure, on the basis of Additional Collect Report each Designated Branch of the Settling Banks shall be required to debit its customer CMs' settling accounts with the additional amounts and credit the Company's settling account with the same amount within Designated Time as per Designated Time Schedule.

- 3.6.8.5 If the required amount is not available in a customer CM's settling account after Mid-day process run, the Designated Branch of the Settling Banks shall be required to debit its customer CM's settling account with the available amount and credit the Company's settling account with such amount.
- 3.6.8.6 On the basis of collections as per Additional Collect Report, the Designated Branch of the relevant Settling Bank shall be required to confirm collections (either fully or partially) through Additional Collect screen on NCSS within Designated Time as per Designated Time Schedule.

This confirmation process will also update Additional Collect Report on real time basis.

3.6.9 Manual Debit/Credit in Accordance with Pay and Collect Report

- 3.6.9.1 Where due to any reason whatsoever, a Settling Bank is unable to access NCSS, such Settling Bank shall inform such non-accessibility to the Company in writing, duly signed by its authorised signatories. Upon receipt of such an intimation, or an intimation to the same effect otherwise, as the case may be, the Company shall provide all related reports, duly signed by the authorized signatories of the Company, on the basis of which the Designated Branch of the Settling Bank shall be required to debit the concerned CMs' settling accounts and credit the Company's settling account. The Designated Branch of the Settling Bank shall be required to perform this task within the designated time as per the Designated Time Schedule, and confirm in writing to the Company that it has debited all the CMs' settling accounts and credited the Company's settling account in accordance with the details/reports provided by the Company.
- 3.6.9.2 After receipt of debit confirmation, in accordance with the Designated Time Schedule, the Company shall provide to the Designated Branch a report of the CMs, duly signed by the authorised signatories of the Company, whose settling accounts are to be credited and the Company's settling account is to be debited by the Designated Branch of the Settling Bank. On the basis of the said report, the Designated Branch shall credit the concerned CMs' settling accounts with the amounts mentioned against their names and debit the Company's settling account and confirm in writing to the Company that it has credited all the concerned CMs' settling accounts in accordance with the report provided by the Company.
- 3.6.9.3 Upon receipt of both the confirmations from a Settling Bank, the Company shall enter debits/credits in the Pay and Collect screen of each Designated Branch of the Settling Bank.

3.6.10 Inter/ Intra Settling Bank Fund Management

3.6.10.1 Inter-Settling Bank Fund Transfer

- (a) By the specific time mentioned in the Designated Time Schedule, the Company shall issue fund transfer instrument drawn on the Main Contact Branch of a Settling Bank having net surplus collection on overall basis (all Designated Branches of the Settling Bank) in Company's settling accounts. Such fund transfer instrument shall be delivered to the Main Contact Branch of a Settling Bank having net short collection as referred to in (b) below of this Clause.
- (b) On receipt of fund transfer instrument by the Main Contact Branch of the Settling Bank with net short collection on overall basis (all Designated Branches of such Settling Bank) in the Company's settling accounts, such Main Contact Branch shall handover the fund transfer instrument to a clearing agency, such as NIFT.
- (c) Upon clearance of fund transfer instrument presented by the clearing agency, the Main Contact Branch of the Settling Bank having net surplus collection shall confirm the clearance of fund transfer instrument to the counter Settling Bank which shall immediately credits the Company's settling account with the Main Contract Branch of that Settling Bank with the same amount.

3.6.10.2 **Intra-Settling Bank Fund Movements**

- (a) The Company's settling accounts maintained with all Designated Branches of a Settling Bank, other than the Main Contact Branch, shall be used as transit accounts. At the day end of such Settling Bank, any surplus funds held in such transit accounts shall be moved to the settling account of the Company in the Main Contact Branch of the Settling Bank.
- (b) Intra-Settling Bank (between the Main Contact Branch and other Designated Branches of a Settling Bank) funds movement shall be the responsibility of the Main Contact Branch of the Settling Bank at no cost to the Company.
- (c) All Designated Branches of a Settling Bank shall provide to the Company bank statements of the Company's settling accounts for reconciliation and record purpose within specified time mentioned in the Designated Time Schedule through their proprietary online System or through original authenticated hard copies.

3.6.11 **Payment to CMs' having receivable (CR) from the Company in Settling Bank own records and confirmation through NCSS Pay Screens**

- 3.6.11.1 On completion of collections from CMs as per Provisional Collect Report and completion of Inter-Bank fund transfers, the Company shall issue credit instructions signed by the authorized signatory (ies) of the Company's settling accounts to all Designated Branches of the Settling Banks for release of payments to CMs having credit balances as per First Payment Report.
Each Designated Branch of the Settling Banks shall be required to credit its customer CMs' settling accounts with the First Payment amounts and debit the Company's settling account with the same amount within Designated Time as per Designated Time Schedule.

- 3.6.11.2 Such release of payment shall be made to all CMs as per First Payment Report and confirmed the same through NCSS First Payment Screen within the Designated Time as per Designated Time Schedule.
- 3.6.11.3 After run of BO Default Debit Procedure of the Midday Procedures, the Company shall issue another credit instructions signed by the authorized signatory (ies) of the Company's settling accounts to all Designated Branches of the Settling Banks for release of payments to CMs having credit balances as per Final Payment Report.
Each Designated Branch of the Settling Banks shall be required to credit its customer CMs' settling accounts with the Final Payment amounts and debit the Company's settling account with the same amount within Designated Time as per Designated Time Schedule.
- 3.6.11.4 Such release of payment shall be made to all CMs as per Final Payment Report and confirmed the same through NCSS Final Payment screen within the Designated Time as per Designated Time Schedule.
- 3.6.11.5 The Company shall issue credit instructions to all Designated Branches of a Settling Bank through fax transmission and handover the originals to the Main Contact Branch of the respective Settling Bank.
- 3.6.11.6 In case of short collections on a Settlement Date, the Company may hold credits to CMs or may release instructions to the Settling Banks for release of partial credits to CMs.

3.7 Unique Identification Numbers (UIN)

Introduction

National Clearing Company of Pakistan Limited (the Company) will provide a platform through which the Broker Clearing Members (BCM) will provide to the Company the Client UIN Registration Details for onwards transmission to their respective stock exchanges.

The BCM would access the UIN Registration Screen and fill in the fields therein at least one business day prior to initiating trading of such client in the exchange. Currently, the following information in respect of the Clients accounts forms part of the UIN Registration Details:

- CM ID
- Trader ID
- Client Code
- Location (Karachi / Lahore / Islamabad)
- Client Name
- Client Type
- UIN
- Status
- Joint Account Holder(s) name (if required)
- Joint Account Holder(s) UIN (if required)
- Inter-Exchange Eligible (Initiating Clearing Member)
- Inter-Exchange Eligible Client

- Employee Details* if any (in accordance with the General Regulations of Stock Exchanges pertaining to Trading by Employees)

* employee of a brokerage house shall not allow to trade through other brokerage houses of any Exchange.

3.7.1 UIN REGISTRATION SCREEN

Clearing Member will access the UIN Registration Screen in NCSS, within the time described in the NCSS Designated Time Schedule (DTS), to enter Client UIN Registration Details as mentioned above and any other information required from time to time as part of Clients UIN Registration Details.

3.7.2 PROCEDURES FOR NEW UIN REGISTRATIONS

- a) The following procedures shall be applicable to the BCM for registering the UINs:
 - i) A BCM desirous of entering the UIN Registration Details of Client Type “Individual Pakistani Citizen” in the UIN Setup Screen shall enter the UIN number of such client(s). If the entered UIN exists in the UINs Database for individuals, the name of such client will automatically appear in the name field. In the event where such UIN does not exist in the relevant UINs Database, the BCM will enter the complete name of such client and the record(s) will be transmitted to the Company through automated process in NCSS. The Company shall, after verification, approve such record(s). Where the record(s) so transmitted are not verified, the Company shall reject them. For this verification purpose, the on-line system from National Database Registration Authority (NADRA) has already been secured.
 - ii) A BCM desirous of entering the UIN Registration Details of Client Type “Individual foreigner / overseas Pakistani citizens / Non-Pakistanis residing in Pakistan” in the UIN Setup Screen, shall enter the UIN numbers of such client(s). If the desired UIN exists in the relevant UINs Database, the name of such client will appear automatically in the name field. However, if such UIN does not exist in the relevant UINs Database, the BCM will enter the complete name of such client(s) and the record(s) will be transmitted to the Company through automated process in NCSS. The BCM shall also submit to the Company copy(ies) of supporting documentary evidence issued by relevant authorized body to such client(s), duly attested by the BCM. The Company may, however, reject any such record(s) at its sole discretion.
 - iii) A BCM desirous of entering the UIN Registration Details of Client Type “Corporate (local or foreign)” in the UIN Setup Screen shall select the relevant corporate sub-category and search the name of client from the UINs Database. If the desired name exists in the relevant UINs Database, the BCM will select the name and the UIN of such client will appear automatically. If the desired name does not exist in the relevant UINs Database, the BCM will

submit to the Company supporting documentary evidence issued by the relevant authorized body to such clients duly attested by the BCM. The Company, after review shall incorporate such information in the UINs Database after which the BCM shall select such client from the UINs Database and register the same. The Company may, however, reject any such record(s) at its sole discretion and such information shall not be included in the UINs Database.

However, UIN of individual broker will not be available in the Registration Details of Client Type "Corporate", as the same is available in the UIN Database being the CNIC number for Individual Pakistani Citizen.

- iv) The BCM shall be solely responsible for ensuring the correctness and completeness of the UIN Registration Details of their clients entered through UIN Registration Screen in NCSS. The BCM will be required to obtain from and maintain the documentary evidence of UIN for each of his client. The Company may ask any BCM to provide such documentary evidence of the UIN for any client entered in the UIN Registration Screen. The Company may reject such evidence at its sole discretion for any reason what-so-ever.
 - v) Any modification in the UIN Registration Details of any client once entered shall not be allowed in the system. Once the Client Code is issued by a BCM, the same Client Code (either closed) will not be assigned to another client of the same CM ID and Trader ID.
 - vi) The detailed mechanism to enter Client UIN Registration Details by the BCM or any modifications thereto shall be notified by the Company from time to time.
- b) The following procedures shall be applicable to Central Depository Company (CDC) for registering UINs:
- i) The CDC will access the UINs Database for assigning UIN to its account holders. Where the required UIN Registration Details exist in the UINs Database, the CDC will create the UINs of its account holders based on the pre-existing UIN Registration Details. Where the required UIN Registration Details do not exist in the UINs Database, the CDC will then submit such registration details to the Company for assigning UINs to the account holders of the CDC. However, if such registration details required additional documentary support for assigning UINs to the account holders of the CDC, the Company will ask the CDC for the provision of such documentary support for any of the account holders as required under (i), (ii) or (iii) of (a) above. The Company, after review, shall incorporate such information in the UINs Database. The Company may, however, reject any such record(s) at its sole discretion and such information shall not be included in the UINs Database.
 - ii) The CDC shall be solely responsible to ensure the correctness and completeness of the UIN Registration Details provided to the Company.

- c) The following procedures shall be applicable to National Commodity Exchange Limited (NCEL) for registering UINs:
- i) For the purpose of registering UINs in the case of non-individuals only, the NCEL will access the necessary information from the UINs Database such as name, UIN and type.
 - ii) The NCEL shall transmit the UIN details for all client types i.e. (i) Individual Pakistani Citizen, (ii) Individual foreigner / overseas Pakistani citizens / Non-Pakistanis residing in Pakistan and (iii) Corporate (local or foreign) to the Company through an interface which has already been provided by the NCEL. The Company on its part will receive such UIN details through a mechanism agreed between the Company and NCEL from time to time.
 - iii) Such received records will then be verified by the Company from its UINs Database. Where the required UIN details exist in the UINs Database, the Company will mark their status as “Approved” with each record. Accordingly, such approved records shall be transmitted back to the NCEL through above interface.

Provided that where UIN details related to (i) Computerized National Identity Card Number (CNIC) (ii) National Identity Card for Overseas Pakistanis (NICOP) and (iii) Pakistan Origin Card (POC) do not exist in the UINs Database, the Company shall verify the same through the terminal provided by the NADRA.

- iv) Where the required UIN details do not exist in the UINs Database and in NADRA system, the Company will mark their status as “Rejected”. Accordingly, such rejected records along with the reason(s) for rejection shall be transmitted to the NCEL through above interface. The NCEL will then submit necessary UIN details to the Company. However, if such details required additional documentary support, the Company will ask the NCEL for the provision of such documentary support for any of the UIN entered by the NCEL as required under (i), (ii) or (iii) of (a) above. The Company, after review, shall incorporate such information in its UINs Database. The Company may, however, reject any such record(s) at its sole discretion and such information shall not be included in the UINs Database.
- v) The NCEL shall be solely responsible for ensuring the correctness and completeness of the UIN Registration Details provided to the Company.

3.7.3 Trading through Brokers of Other Exchanges

Trade(s) may be initiated by Brokers of one exchange through the Brokers of another exchange for the purpose of their own / proprietary trade(s) or on behalf of their Clients.

Trades initiated by Individual Brokers:

Where trades are initiated by an Individual Broker of one exchange through the Broker(s) of another exchange(s) for its own trades; the executing broker(s) will

register the UIN of the initiating broker. The UIN of the initiating broker will be the Computerized National Identity Card Number (CNIC) issued by the NADRA.

Where trades are initiated by an Individual Broker of one exchange through the Broker(s) of another exchange(s) on behalf of its Client(s); the following process for registering UIN for Inter-Exchange trades shall be followed:

- i) New client code can be assigned by the CM to the client eligible for Inter Exchange by using UIN Registration Screen of NCSS.
- ii) Existing clients of any member can be updated by the Broker Clearing Member (BCM) to enable the client for inter-exchange trade. However, once enabled, the same client can not be removed from inter-exchange eligibility.
- iii) UIN Mapping for Inter Exchange shall be made available for trading by the Company one day prior to the next trading day.
- iv) Once enabled, Inter-Exchange client shall not be removed from Inter-Exchange eligibility as the result of that in order to disable the Inter-Exchange clients, the said records needs to be closed.
- v) Joint Holders can not be defined where the Inter-Exchange eligible (Initiating Clearing Member) is marked. In case if the joint holders have already been defined in the UIN setup screen and Inter-Exchange Eligible (Initiating Clearing Member) is marked, the joint holder related information shall be reset to empty state and disabled.
- vi) Only one option either Inter-Exchange Client or Inter-Exchange Eligible (Initiating Clearing Member) shall be allowed to enable.
- vii) Existing UIN record shall not be available for enabling of Inter-Exchange Eligible (Initiating Clearing Member) for this purpose executing Clearing Member should therefore assign a new Client Code.

Trades initiated by Corporate Brokers:

Where trades are initiated by a Corporate Broker of one exchange through the Broker(s) of another exchange(s) for its own trades; the executing broker(s) will register the UIN of the initiating broker. The UIN of the initiating broker will be the Company Registration Number of the initiating broker issued by the SECP.

Where trades are initiated by a Corporate Broker of one exchange through the Broker(s) of another exchange(s) on behalf of its Client(s); the aforementioned process for the registration of UIN for Inter-Exchange trades shall be followed.

3.7.4 UINs ISSUED BY THE COMPANY

Pursuant to UIN Definition (viii), (ix) and (x) in the NCSS Regulation clause 2.8, the Company may issue the UINs to the Non-Individuals under the following scheme(s):

- a) For mutual funds/modarabas, the Company will issue the UIN based on the Asset Management Company's (AMC)/Modaraba Management Company's (MMC) incorporation number and a suffix of 1 onwards for the number of funds/modarabas that the AMC/MMC has floated. For example, if AMC's incorporation number is 5645675 and the AMC has floated 5 funds the number given will be: 5645675-01 for the first fund, 5645675-02 for the second fund and so on. For funds which are incorporated companies, the respective incorporation number of such fund will be used as UIN. It shall be the duty of the AMC/MMC to lodge a request with the Company for the issuance of UIN for its funds/modarabas
- b) Where the registration numbers issued to the foreign entities by their authorities contain numerical characters only i.e. they do not contain any alpha character prefix or suffix then in order to avoid a situation whereby a similar number to some other foreign entity is assigned by its registration authority, the Company may assign the UIN with eh appropriate prefix or suffix attached to such number. For example, the UIN of Arab Venture Corporation registered in Marshall Islands with registration number 19515 will be: AVC19515MI
- c) In case of trusts, foundations, gratuity funds, provident funds, corporate societies etc. where the registration number contains only numerical characters, the UIN will be "Abbreviation of name of organization" "year of formation" abbreviation "PNF" for pension fund, "PF" for provident fund, "GF" for gratuity fund, for others any appropriate abbreviation. For example, in case of NWFP Pension Fund I, the UIN will be: NWFP1999PNF1

If a body corporate has been created under an Act/Ordinance promulgated by the Government, the UIN will be "Abbreviation of the name of the organization, the year of the Act/Ordinance. For example, the UIN for Industrial Development Bank of Pakistan established under an Ordinance of 1961 would be as follows: IDBP1961Ord.

- d) Unique Identification Number will be based on the Asset Management Company's / Modaraba Management Company's incorporation number (CUIN) and the number of fund/modarabas with suffix of "SF (No. of Sub Fund) for example, if AMC's incorporation number is 5645675 and the Pension Fund (fund # 5) has floated sub fund the number given will be: *5645675-05-SF1* for the first sub fund, *5645675-02-SF2* for the second fund and so on.

3.7.5 Transmission Mechanism

The Client UIN Registration Details of a Clearing Member as received from the Clearing Member(s) will be available to and accessible by the Stock Exchange(s) for the purpose for which it is entitled to have such details under the applicable law, rules and regulations. The Exchange(s) will be entitled to obtain the details as per the

mechanism agreed between the Company and the Stock Exchange(s) from time to time, subject to the Stock Exchange maintaining complete confidentiality and not to use such details for any purpose other the purpose for which the details were made available.

3.8 Cash Settled Futures Contracts

3.8.1 Cash Settled Futures Contracts

- (a) On each Trade Date of the contract period, marked-to-market collection / distribution amount of Cash Settled Futures Contracts of the CMs in the companies to be traded under Cash Settled Futures Contracts shall be received on NCSS from the respective Exchanges immediately after the trading hours as per the mechanism agreed between the Company and Exchanges from time by time for the settlement in NCSS according to their Regulations governing Cash Settled Futures Contracts.
- (b) Marked-to-market collection/distribution amounts shall be verified with the relevant Stock Exchange systems. After validation/verification process, such amounts shall be reflected in the money debit/credit report in NCSS.

3.8.2 Collection of marked-to-market losses

The net amount of marked-to-market losses entered in the money account of a CM on a Trade Date shall be included in the Pay & Collect Report of that date and collected on T+0 basis from the settling account of the CM with his Settling Bank.

3.8.3 Disbursement of Profits

The net amount of marked-to-market profits entered in the money account of a CM on a Trade Date shall be included in the Pay & Collect Report of the following Trade Date and disbursed on T+1 basis from the settling account of the CM with his Settling Bank subject to Regulations and clause 3.8.4. below.

3.8.4 Shortfall

Notwithstanding anything to the contrary contained in the Regulations or these Procedures, where no amount of the marked-to-market loss is collected from the settling account of a CM, or only a part of such amount is collected, the Company will act as per the advice of the relevant Exchange.

Chapter 4 SQUARING-UP PROCESS

4.1 When Securities Bought-in or Sold-out

4.1.1 NCSS live Securities may be bought-in or sold-out on failure by a CM to comply with NCSS Regulations and/or these Procedures as applicable to delivery or payment:

- (a) Buying-in may be effected on failure by a CM to deliver securities (fully or partially) on the Settlement Date by the Designated Time, or any extension granted in the Designated Time pursuant to the NCSS Regulations.
- (b) Selling-out may be effected on failure by a CM to pay money obligation on the Settlement Date by the Designated Time, or any extension granted in the Designated Time pursuant to the NCSS Regulations.

4.1.2 Cross Square-up

- (a) These square-up procedures are also applicable to the CM who is delivery defaulter (net seller) in a current settlement but was delivery receiver (net buyer) in the previous settlement(s) and has not received the delivery due to delay in Buying-in as per clause 4.5.
- (b) The delivery receiving CM, who has not received the deliveries on previous settlement(s) due to squaring-up, can adjust his receivable deliveries against his square-up sale.

4.2 Notices of Buying-in or Selling-out to the Relevant Exchange

4.2.1 In case of Delivery Default:

On the basis of Delivery Default Report to be generated as per the Designated Time Schedule, the Company shall immediately notify to the relevant Exchange (as defined below) the details of the securities required to be squared-up through its Buying-in market. Provided that in case of delivery default of a CM before one day prior to Book Closure date, no square-up process will be initiated and such failed delivery will be closed out on the same settlement day. Provided that if such delivery default occurred before one day prior to Book Closure date no square-up process will be initiated and such failed delivery will be closed out on the same settlement day:

The term “relevant Exchange” wherever used in this Chapter means the Exchange of the City (Karachi, Lahore or Islamabad) of which the defaulting CM is a member. In case the defaulting CM is a member of more than one Exchange, the relevant Exchange shall be the most liquid Exchange among the Exchanges of which such CM is a member. Provided that in case of non-broker CM, the relevant Exchange shall be the Karachi Stock Exchange: if the Security required to be squared-up is not listed on the Karachi Stock Exchange, the relevant Exchange shall be the Lahore or Islamabad Stock Exchange in that order. Further provided that in case of Non-Exchange Transactions in a Security which is not

listed on the Exchange of which the defaulting CM is a member, the relevant Exchange shall be the Exchange which is the most liquid Exchange in that Security.

4.2.2 In case of Money Default:

Upon receipt of confirmation from a Settling Bank advising non or short collection of money from any CM as per these Procedures, the Company shall notify to the relevant Exchange the details of security-wise unsettled net buy or net sell positions after allowing netting-off unsecured Balance Orders of the settlement date on which such CM defaults and outstanding security-wise positions of subsequent settlement dates, required to be closed-out/squared-up by such Exchange.

Provided that where a CM is also a CFS Financier CM, upon receipt of confirmation from a Settling Bank advising non or short collection of money from such CM, as per these Procedures, pursuant to either his trade/transactions or CFS transactions as a CFS Financier CM the Company shall notify to the relevant Exchange the details of security-wise unsettled net buy or net sell positions after allowing netting-off unsecured Balance Orders of the settlement date on which such CM defaults and outstanding security-wise positions of subsequent settlement dates, required to be closed-out/squared-up by such Exchange.

The relevant Exchange shall initiate the squaring-up process within the time frame set out in or determined under the squaring-up procedures of the Exchange.

4.3 Eligibility to Bid and Offer by Buyer or Seller

Any Exchange member who is also a CM (excluding a delivery or money defaulting CM) shall be permitted to make a bid or offer in squaring-up process.

4.4 Actions on Completion of Squaring-Up (Even in Part)

4.4.1 In case of Buying-in:

Upon completion of squaring-up (even in part) the relevant Exchange shall provide squaring up results to the Company immediately after close of the squaring-up market of the relevant Exchange. The Company shall proceed as under:

(a) **Security Settlement:**

Upon receipt of squared-up Securities in “NCC-Squaring-Up Account” in CDS, the Company shall deliver the squared-up securities to the Account of the delivery receiving CM in CDS as soon as practically possible immediately after such securities are received in the NCC-Squaring-Up Account but not later than the next Business Day.

In case the squared-up securities of a particular scrip is less than the required securities notified by the Company for squaring-up, the Company will deliver squared-up securities to delivery receiving CMs’

CDS accounts on pro-rata basis rounded off to applicable Marketable Lot subject to settlement dates priority..

(b) **Money Settlement:**

Upon receipt of squaring-up results and squared-up Securities as above stated, the Company shall pass the following adjustments into NCSS affecting next Settlement Date Pay & Collect:

Credit the selling squaring-up CM with the amount calculated at squared-up price.

Debit / credit the delivery defaulting CM with the difference of the withheld amount (i.e. the amount which was debited to his money account as a consequence of his delivery default) and the amount determined on the basis of the lowest of the prices offered by the CMs who participated in the squaring-up process, including the CMs who committed to square-up but defaulted and the actual squaring-up CM.

4.4.2 In case of Selling-out:

Upon completion of squaring-up (even in part) the relevant Exchange shall provide the squaring-up results to the Company immediately after close of the squaring-up market of the relevant Exchange. The Company shall proceed as under:

(a) **Money Settlement:**

Upon receipt of squaring-up results, the money obligations of buying squaring-up CM and money defaulting CM shall be settled by adjustment into NCSS Pay & Collect on the same day of squaring-up but not later than the next Settlement Date Pay & Collect timing, as under:

- (1) debit the buyer squaring-up CM of squared-up Securities with the amount calculated at the squared-up price.
- (2) debit the money defaulting CM with the excess of the total amount in default over the amount determined on the basis of the highest of the bid prices offered by the CMs who participated in the squaring-up process, including the CMs who committed to square-up but defaulted and the actual squaring-up CM.
- (3) credit the money defaulting CM with the excess of the amount determined on the basis of the highest of the bid prices offered by the CMs who participated in the squaring-up process, including the CMs who committed to square-up but defaulted and the actual squaring-up CM over the total amount in default.

Payments to the Company of the debits under (1) and (2) (a) may instead of adjustment in to NCSS are made through pay order/demand draft/telegraphic transfer (TT).

(b) **Security Settlement:**

Upon confirmation by the Settling Bank of collection of funds from the buying squaring-up CM, the Company shall deliver the squared-up securities in unblocked status to the buying CM in his Account with CDS on the same day, or as soon as practicably possible thereafter.

4.5 Delays in Buying-in:

- 4.5.1 In case the relevant Exchange informs the Company that the squaring-up on any defaulted delivery, either in partial or full, is not affected within the time frame set-out in or determined under the squaring-up procedures of such Exchange on the squaring-up day, the Company may accept defaulted delivery from delivery defaulting CM(s) provided that reason given in writing by the delivery defaulting CM is acceptable to the Company.

However, in case the squaring-up is notified to the relevant Exchange for Buying-in, the Company may accept defaulted delivery from delivery defaulting CM until the relevant Exchange has initiated squaring-up process on such delivery provided that reason given in writing by the delivery defaulting CM is acceptable to the Company and defaulted delivery to be squared-up can be cancelled by the relevant Exchange.

- 4.5.2 If the buying-in of any securities is not affected within ONE (1) Business Day or till the book closure start date, whichever comes earlier, the Company shall close out the short deliveries at the Closed-out Price of such securities. The Closed-out Price will be the higher of the following:

- (i) Highest price recorded in the Security in the relevant Exchange during the period starting from Settlement Date minus ONE (1) and ending with the end of the said ONE (1) Business Day period, or
- (ii) The maximum price at which the Securities could be squared-up in the squaring-up market of the relevant Exchange.

Provided that where no square up- process is initiated on the delivery failure on the settlement day prior to Book Closure date as mentioned in 4.2.1 above, the close out price will be the highest price, recorded in the Security in the relevant Exchange during the period starting from Settlement Date minus ONE (1) and ending with the end of the said settlement date prior to Book Closure date. In such case, the following proceeds shall be credited to the concerned buyer CM:

- For corporate entitlements due to cash dividend, the Company shall collect dividend amount from the delivery defaulter CM; and
- For corporate entitlements due to stock dividend, the Company shall collect 5% penalty of ex-price on the quantity of such stock dividend.

The Company shall pass the following adjustments in to NCSS affecting the next Settlement Date Pay & Collect:

- (i) credit the delivery receiving CM with the amount calculated as above in this Clause; and
- (ii) debit the delivery defaulting CM with the difference of the withheld amount (i.e. the amount which was debited to his money account as a consequence of his delivery default) and the amount credited to the delivery receiving CM.

4.6 Squared-up Delivery Default

4.6.1 Securities Bought-in but undelivered:

Securities bought-in and not received within sixty (60) minutes of completion of squaring-up process may be again bought-in for delivery within sixty (60) minutes without further notice to the CM causing such further buying-in and so on, and any losses accruing shall be paid by every CM causing further buying-in. The term “losses” as used in the preceding sentence shall mean the excess of the amount determined on the basis of the further price committed for squaring-up over the amount determined on the basis of the price which was committed by a CM causing further buying-in. The losses caused by every successive CM causing further buying-in shall be determined by the above formula.

Subject to Clause 4.6.1 above, the provision of Clause 4.4.1 shall mutates mutandis apply to all cases of further buying-in and recovery of losses.

4.6.2 Securities Sold-out but unpaid:

The Company may again sell-out the relevant Securities on the same day of default, or as soon as practicably possible thereafter, without further notice and any losses accruing shall be paid by every CM causing further selling-out. The term “losses” as used in the preceding sentence shall mean the excess of the amount determined on the basis of the price which was committed by a CM causing further selling-out over the amount calculated on the basis of the further selling-out price. Losses caused by every successive CM causing further selling-out shall be determined by the above formula.

Subject to clause 4.6.3 above, the provisions of clause 4.4.2 shall mutates mutandis apply to all cases of further selling-out and recovery of losses.

4.7 Profit arising from Selling-out

- 4.7.1 The CM on whose account the selling-out is effected will, notwithstanding that he is in default, is entitled to profit which may arise by the selling-out process.

Chapter 5 FI-Margining

Risk Management of Non-Broker Clearing Members on the Affirmed Institutional Delivery System Non-Exchange Transactions Based on Ready & CFS Market

5.1 Purpose and Scope

Since the Institutional Delivery System (IDS) facilitates Non-Exchange transactions, affirmed by the Non-Broker Clearing Members (NBCM) for direct Settlement with the Company. It has been envisaged that RMS should be managed by the Company.

However, the said RMS shall not be applicable for the IDS transactions based on Future Market Contract transactions. The Company shall only perform the settlement of such IDS transactions.

Accordingly, in order to mitigate the risk arising out of IDS transactions affirmed by NBCMs, the Company shall collect Exposure Margins and Mark-to-Market (MTM) Losses from its NBCMs on their unsettled positions of affirmed IDS transactions based on Ready Market trades and CFS Market transactions.

5.2 Initiation and Affirmation of IDS Transactions based on Ready Market Trades & CFS Market Transactions

With respect to the Exchange trades, where Broker Clearing Members (BCMs) execute the trade on behalf of FIs, such trades are received in NCSS, whereby such trades are automatically converted into initiated IDS transactions in NCSS on the basis of specific UIN, pre tagged with all FIs. Such initiated IDS transactions are available on real time basis to FIs for affirmation of their trades & transactions

5.3 Exposure Margins of Non Broker Clearing Members (NBCMs)

The Exposure Margins of NBCMs shall be calculated by the Company as follows:

5.3.1 Calculation of Exposure

Once the IDS transactions have been affirmed by the NBCMs on NCSS, the Company shall compute the Exposure of each NBCM as per the mechanism defined in the NCSS Regulations.

The Company shall determine the Exposure of the NBCMs by applying netting mechanism whereby netting of open positions shall not be allowed across the affirmed IDS transactions based on Exchange trades or Exchange transactions in the Ready Market and CFS Market. The Exposure Margins shall be calculated by Value at Risk (VaR) based method as per the following netting mechanism:

5.3.1.1 Within Ready Market & CFS Market

The netting mechanism which shall be applicable within the Ready Market & CFS Market is stated below:

- Netting shall only be allowed between buy and sell position in the same scrip on the same day.
- Netting shall not be allowed between buy and sell positions of different scrips on the same day.
- Netting shall not be allowed across Exchanges.
- Netting shall not be allowed across settlement periods.
- Netting shall not be allowed on IDS affirmed transactions between Ready & CFS market.

Provided, where IDS transactions are affirmed by CFS Financier Clearing Members on NCSS, the Exposure should be deposited by such CM against the Exposure Margins in favor of the Company, till the settlement of such IDS transactions. However such Exposure Margins shall be released by the Company after the settlement of affirmed IDS transactions.

Further provided that the CFS Financier Clearing Members shall not pay any Exposure Margins on their open CFS position i.e. (unsettle 2nd ticket sell position)

5.3.2 Computation of Exposure Margins

The Company shall compute Exposure Margins on the Exposure of NBCMs in accordance with the Value-at-Risk (VaR) based Margins stipulated for each scrip on daily basis and shall become applicable from the following Business Day.

5.3.2.1 Value-at-Risk (VaR) Based Margining System

5.3.2.1.1 Introduction

VaR is defined as the maximum amount of money that can be lost on a portfolio over a given period of time, with a given level of confidence. VaR provides an accurate statistical estimate of the maximum probable loss on a portfolio when Markets are behaving normally.

VaR is typically calculated for one day time period known as the holding period and is stipulated for each scrip. Margin rates shall be revised on daily basis and shall become applicable from the following Business morning. These Margins should be made available on the Company's website for viewing and download. The Margins for scrips should be applied to the outstanding positions of each NBCM in compliance with the "Determination of Exposure" as defined in NCSS Regulations to calculate the Margin required to be deposited by each NBCM with respect to each scrip on affirmed IDS transactions.

5.3.2.1.2 Calculation of VaR Margins

VaR Margins shall be calculated by a specific system which works on the basis of following three methods:

1. Variance/ Covariance,
2. Historical/filtered historical simulations and

3. Exponentially weighted moving averages (EWMA).

Using aforementioned VaR model, Exposure Margins shall be calculated for each Security based on that scrip's price volatility and the number of days of price risk coverage required and worst case margin. The number of day's coverage is dependent on the relative liquidity of the Security.

5.4 Computation of Mark-to-Market Losses

The Company shall compute Mark-to-Market (MTM) Losses on the un-settled net positions for a day of NBCMs due to difference between transaction price of the unsettled positions in each scrip and the Closing Price of such scrip till Settlement date.

The Company shall compute MTM Losses of each NBCM as per the mechanism defined in the NCSS Regulations governing "Determination of MTM Losses of NBCM" to arrive at such MTM Losses.

MTM Losses of Non Broker Clearing Members shall not be calculated on the basis of netting of profit and losses across affirmed IDS transaction. Instead they shall be calculated on the basis of closing price, which are based on the Exchange trades and/or Exchange transactions in the Ready Market and the CFS Market. The Non Broker Clearing Member shall pay MTM losses on such affirmed IDS transactions to the Company as stated below:

5.4.1 Within Ready Market & CFS Market

The MTM losses and profit shall be netted across Securities and not across settlement periods. Non Broker Clearing Members shall deposit their MTM losses to the Company on daily basis till the complete settlement of obligation on the relevant Settlement Date. After the settlement, MTM Losses shall be released by the Company.

Provided that the CFS Financier Clearing Members shall not pay any MTM losses on their open CFS positions i.e. (unsettle 2nd ticket sell positions)

5.5 Collateral Requirements against Exposure Margins and MTM Losses

The Company shall accept Collateral from NBCMs on account of their Exposure Margins and/or MTM Losses on affirmed IDS transactions. The Collateral shall be collected in the following forms:

- Cash
- Securities
- Eligible Term Finance Certificates (TFC)
- Bank Guarantee
- Irrevocable Undertaking

5.5.1 Cash as Collateral

The NBCMs may deposit cash as Collateral against Exposure Margins and MTM Losses. The NBCMs may view the "Demand of Payment Report" available on NCSS and deposit cash in the account of the Company maintained in the Designated Branch of the Settling Banks where

the NBCMs shall also have a Designated Settling Bank Account, as per Designated Time Schedule (DTS).

After depositing the amount, the posted deposit slip (duly signed & verified by the Settling Banks) shall be submitted to the Company on the same date. The value of cash deposit shall be entered through the Cash Entry interface available in Collateral Management System (CMS) by the Company.

The Company shall distribute among the relevant NBCMs, the return earned from the Settling Banks where the Cash has been deposited by such NBCMs against their Exposure Margins and MTM Losses. Provided that such return shall be restricted only to the rates of return offered by such Settling Banks to the Company subject to the service charges set out by the Company from time to time. Such rates of return along with the said service charges shall be disclosed to NBCMs by the Company from time to time.

5.5.2 Securities / Eligible Term Finance Certificates (TFCs) as Collateral

The NBCMs may also deposit Eligible Securities and eligible TFCs as Collateral against Exposure Margins and MTM Losses. All Securities/ eligible TFCs shall be accepted for deposit, against Exposure Margins and MTM losses, which are declared eligible by the Board duly approved by the Commission.

NBCMs shall submit their Securities/ eligible TFCs for pledging through eCDS in favor of the Company against their Exposure Margins and MTM losses. After pledging the Securities/ eligible TFCs, NBCMs may verify that by accessing "Securities Collateral Report" through NCSS which shall give the detailed description of the pledged securities deposited in favor of the Company.

5.5.2.1 Valuation of Eligible Securities

In order to categorize Collateral effectively and as opposed to the current practice which only considers turnover and Earning per Share (EPS) of the scrip for ranking of Eligible Securities against deposit, all Securities should be categorized on measures of liquidity and volatility.

1. In view of the above, impact cost analysis should be conducted. Impact cost analysis shall be based on VaR based Margin buckets. Company shall update the Haircuts applicable on daily Closing Rates, in Ready Market. The Company shall also place updated Haircut rates on the Company's website for the immediate reference of NBCMs on daily basis.
2. In order to calculate MTM Losses on the scrip, the Company shall ascertain value of scrip deposited against Exposure Margins and MTM Losses to maintain the required demand of Exposure Margin and MTM Losses. NBCMs shall be required to top up the short fall in the deposited Securities against their Exposure Margins and MTM Losses based on the current day's Closing Price.

These Eligible Securities are categorized into three broad groups:

I. Group 1

II. Group 2

III. Group 3

- Group 1 shall consist of stocks which have been traded in KSE on at least 80% of the days in the previous 6 months and whose impact cost is less than or equal to 1%.
- Group 2 shall consist of stocks which have been traded in KSE at least 80% of the days in the previous 6 months and impact cost is greater than 1% and less than 2%.
- The remaining stocks don't fall into group 1 or 2 shall be classified as Group 3.

5.5.2.2 Valuation of Eligible Term Finance Certificates (TFCs)

The listed eligible TFCs cannot be valued at the rates available on the quotations of the Stock Exchange on which the TFCs are listed. Listed TFCs are not actively traded on the Exchanges; therefore their prices are not reflective of their realizable value. Further, the effect of periodic redemption is not incorporated in the price which shall result in the over valuation of eligible TFCs.

However, the listed eligible TFCs are traded actively in the money market and broker quotes are available. The Company shall value the submitted eligible TFCs on an average basis by obtaining the rates from atleast three to five brokers.

Considering the circumstances the Company shall apply following Haircuts on the basis of the credit ratings of the eligible TFCs:

	Credit Rating	Haircut
Listed Term Finance Certificate	AA	20%
	A	30%

5.5.2.3 Pledging of Securities/ Eligible Term Finance Certificates (TFCs)

Pledge refers to the commitment of Securities/ eligible TFCs to serve as Collateral. In order to avail the facility of pledging of Securities/ eligible TFCs, NBCMs need to follow certain criteria defined by the Company such as, to open Pledgee Account in eCDS and to have Pledge Group ID. However, pledging of Eligible Securities in CDS CFS blocked account is not allowed to the NBCMs.

5.5.2.3.1 Pledgee Accounts in CDS

The Company shall also open pledgee account in eCDS for pledging of Securities/ eligible TFCs by the NBCMs in favor of the Company against the Exposure Margins and MTM Losses for their affirmed IDS transactions based on Ready Market Trades and CFS Market Transactions. However, NBCMs are not allowed to pledge securities from their CDS CFS Blocked account.

5.5.2.3.2 Pledgee Group Ids

The Company shall open pledgee group Ids for each NBCM for respective Market types. The NBCMs shall create pledge of Securities/ eligible TFCs from their respective CDS accounts with the Company's pledgee accounts through pledge group Ids.

In order to get the respective pledgee group Id, the member shall first send the written request to the Company on their company's letter head. In response to that, Company shall issue the pledgee group Id to the respective NBCM.

5.5.2.3.3 On-line Updation of Pledged Securities

The CDC shall provide live interface of eCDS to the Company, whereby upon pledging of securities by NBCMs, the Company shall receive the details of such pledged securities into Collateral Management System (CMS) through said live interface.

5.5.3 Bank Guarantee as Collateral

NBCMs may also deposit Bank Guarantee, on the Company's prescribed format issued by the approved banks having acceptable eligibility criteria as stipulated in the Regulations, to the Company for the fulfilment of their Collateral requirement against their Exposure Margins and MTM Losses.

The Company shall process the Bank Guarantee on the date of submission and shall make deposit entry in the respective NBCM's account in the CMS on the next working day. However, in the mean time NBCMs should have to meet their demand against Exposure Margins and MTM Losses through other means of Collateral as per the NCSS Regulations.

The NBCMs shall notify the Company fifteen Business Days prior to the expiry of the submitted Bank Guarantee. Accordingly the Company shall take into account the values of Bank Guarantee up to seven Business Days prior to its expiry date and notify the same to the respective NBCMs.

5.5.4 Irrevocable Undertaking as Collateral

NBCMs that are eligible as per NCSS Regulations may also place Irrevocable Undertaking on the Company's prescribed format. Irrevocable Undertaking is only applicable for Commercial Banks/Development Financial Institutions ("DFIs") having credit rating of AA and higher. Upon receipt of Irrevocable Undertaking, the Company shall make deposit entry, to the extent of amount of Irrevocable Undertaking in the respective NBCM's account in the system.

5.6 Collateral Management System

The Company shall maintain Collateral Management System (CMS) for the valuation of Cash, Securities/ eligible TFCs, Bank Guarantee and Irrevocable Undertaking.

To monitor the NBCMs overall Exposure on real time basis, to keep track of the gains and losses in each scrip and to allow the NBCMs to place Margins with the Company, a comprehensive Collateral Management System (CMS) is placed. This system shall access the adequacy of the Collateral requirements of NBCMs against Exposure Margins and MTM Losses

5.6.1 Process of Cash Deposit against Exposure Demand

Demand of Payment Report shall be available on NCSS as per the DTS whereby NBCMs can check the demand of their respective Exposure. If the Demand Exposure is found Short / Long, NBCMs may Deposit/Release Cash from the Company.

When the NBCMs deposits Collateral in the form of Cash, the value of Cash deposit shall be entered through the Cash Entry screen available in CMS. Following information would be required; to enter aforementioned Collateral in the form of Cash by the Company (FI Code, Date Received, Cheque Amount, Bank Code & Name and Cheque Number).

5.6.1.1 Process of Releasing Cash Deposited against Exposure

- a) NBCMs shall require to initiate request (on the prescribed format and duly signed by the authorized person) to the Company for release of Cash deposited against Exposure Margins and MTM Losses.
- b) Upon receipt of release request, the Company shall first release the Cash in the account of NBCM in CMS.
- c) The Company shall then, validate the current Collateral of such NBCM against Exposure Margins and MTM Losses requirement.
- d) In case of excessive Collateral;

The Company shall release Cash on the same Settlement Date by issuing the Cheque in the name of NBCM

- e) In case of deficiency in the required Collateral;
 - (i) The Company shall reject the release request of Cash and deposit the Cash in the account of such NBCM in CMS.
 - (ii) The rejected request(s) shall not be re-processed and the NBCMs shall submit fresh release request once the initial request is rejected

5.6.2 Process of Pledging of Securities / Eligible Term Finance Certificates (TFCs) against Exposure Demand

Securities Collateral Report shall be available on NCSS as per DTS whereby NBCMs can check the demand of their respective Exposure. If the Demand Exposure is found Short / Long, NBCMs may Deposit / Release their Eligible Securities.

NBCMs may deposit Collateral by pledging Eligible Securities in favor of the Company. NBCMs shall enter Eligible Securities for pledging through eCDS live interface which shall update the CMS accordingly; when such Eligible Securities are successfully pledged. The updated information related to pledged Securities shall be available in "Auto CDC Deposit / Release Shares" screen in CMS. The information which shall be updated in "Auto CDC Deposit / Release Shares" screen in CMS includes the following:

Symbol, Counter, CDC Transaction No., Transaction Date, Realized Quantity, Rejected Quantity, Member Code, Deposit/ Release, CDC Pledgee ID.

The NBCMs may also deposit Collateral by pledging eligible TFCs. Such eligible TFCs shall be accepted on the basis of the credit ratings assigned to them by the credit rating agencies. The rating of the instrument shall be considered and no weightage shall be given to the rating of the issuer. Minimum credit rating required to render the eligible TFCs acceptable as Collateral are "A" and "AA". Provided that, such eligible TFCs shall also be declared as CDS Eligible Securities by the Central Depository Company of Pakistan limited (CDC). Following procedure is required to be followed by the NBCMs for depositing TFCs as Collateral:

- a) The NBCM shall submit a request to the Company for depositing the eligible TFCs in the prescribed format.
- b) At the time of submitting the request to the Company the NBCM shall provide the rating details, unredeemed value of the eligible TFCs and the remaining maturity period, duly supported by documentary evidence. Eligible TFCs having atleast one year maturity period shall be accepted as Collateral.
- c) After verification of all the details the eligible TFCs shall be valued at the rates available from the Broker.
- d) The Company shall process the eligible TFCs on the date of submission and shall intimate the acceptability of such submitted eligible TFCs to the NBCMs on the next working day. Thereafter, the NBCMs shall be eligible to pledge such eligible TFCs in favor of the Company against the Exposure Margins and MTM Losses. However, in the meantime NBCMs should have to meet their demand against Exposure Margins and MTM Losses through other means of Collateral as per the NCSS Regulations.

5.6.2.1 Process of Releasing Pledged Securities / Eligible Term Finance Certificates (TFCs) against Exposure

- a) NBCMs shall require to initiate request (on the prescribed format and duly signed by the authorized person) to the Company for release of pledged Securities / eligible TFCs deposited against Exposure Margins and MTM Losses.
- b) Upon receipt of release request, the Company shall first release the pledged Securities / eligible TFCs in the account of NBCM in CMS.
- c) The Company shall then, validate the current pledged Securities / eligible TFCs of such NBCM against Exposure Margins and MTM Losses requirement.
- d) In case of excessive Collateral;

The Company shall release pledged Securities / eligible TFCs from the respective pledgee accounts in the NBCMs pledge group Ids.

- e) In case of deficiency in the required Collateral;
- (iii) The Company shall reject the release request of pledged Securities / eligible TFCs and deposit the pledged Securities / eligible TFCs in the account of such NBCM in CMS.
 - (iv) The rejected request(s) shall not be re-processed and the NBCMs shall submit fresh release request once the initial request is rejected

5.6.3 Process of Release of Bank Guarantee against Exposure Demand

Bank Guarantee submitted by NBCMs shall be retained by the Company till its expiry date. However, NBCMs may withdraw their Bank Guarantee before the expiry date by giving seven Business Days prior notice to the Company. In case of withdrawal of Bank Guarantee, the NBCMs should make necessary arrangements for the provision of other means of Collateral such as Cash & Pledging of Eligible Securities/TFCs.

5.6.4 Process of Release of Irrevocable Undertaking Against Exposure Demand

The NBCMs may withdraw their irrevocable undertaking by giving seven Business Days prior notice to the Company. However, in such case the NBCM, as a bank/development financial institution (“DFI”), should have to deposit Collateral against Exposure Margins and MTM losses, in order to fulfil its obligations by other means of Collaterals such as Cash, Securities/ eligible TFCs and Bank Guarantee.

5.7 Conversion Table in NCSS

NBCMs operate separate CM IDs and Trader IDs in NCSS. One is for the affirmation of IDS transactions based on Regular market trades and the second is for the affirmation of IDS transactions based on CFS market transactions as a financier. However, the Exposure Margins and MTM Losses of NBCMs shall be calculated by the Company collectively for affirmed IDS transactions from both Trader IDs. For this purpose, the Company shall maintain a conversion table in NCSS and generate an ID to align both the Trader IDs of NBCMs. All IDS transactions affirmed by NBCMs with their existing CM ID and Trader ID shall be tagged with the ID given by the Company in the conversion table to arrive at combine Exposure Margins and MTM Losses. The Collateral deposited by NBCMs with different accounts shall also be valued in CMS collectively.

5.8 Risk Management Reports on NCSS

5.8.1 Regular Exposure Margin and MTM Brief Report

NBCMs may view the brief information of the Exposure, Exposure Margins and MTM Losses on the basis of their affirmed IDS transactions on Regular market trades. This report shall provide date-wise information of scrips.

5.8.2 CFS Financier Brief Report

NBCMs may view the brief information of the Exposure, Exposure Margins and MTM Losses on the basis of their affirmed IDS transactions on CFS market transactions as a financier. This report shall provide date-wise information of scrips.

5.8.3 Securities Collateral Report

NBCMs may view the actual and acceptable quantity of shares deposited as Collateral through the report. This report shall also cover the information of market rate, market value and Margin value of securities deposited as Collateral.

5.8.4 Demand of Payment Report

NBCMs may view the net payable amount after the adjustment of Collateral against the total demand generated on the Exposure Margins and MTM Losses of NBCMs. This report shall also communicate the date and time of which the net payable demand need to be deposited to the Company by NBCMs.

5.9 In Case of Failure by NBCM to Meet Net Demand

Collateral against Exposure Margins and MTM Losses shall be accepted either in the form of cash, Eligible Securities / eligible TFCs, Bank Guarantee and Irrevocable Undertaking. NBCMs shall be required to view the “Demand of Payment Report” on NCSS and deposit the net payable amount on the same day in favor of the Company as per DTS. In case of non-compliance, in fulfilment of Exposure Margins and MTM losses obligations, the Company shall take necessary action in accordance with NCSS Regulations.

5.10 Data Transmission Mechanism for IDS Transactions to the Relevant Exchanges

On each Trade Date, details of Broker Clearing Member (BCM) related to IDS transactions affirmed by the NBCMs shall be provided to the relevant Exchanges, of which such BCM is a member, for the risk management purposes of the said Exchanges. Provided that, details of BCM shall be made available, of which the Exposure Margins and MTM Losses have been duly deposited by such NBCMs with the Company. The said details shall be provided to the Exchanges as per the mechanism agreed between the Company and the relevant Exchanges from time to time.

5.11 Exposure Drop-out Mechanism

Once the IDS transactions are settled by the NBCMs on the Settlement Date, the Company shall calculate the Exposure Margins and MTM Losses and drop-out the Exposure collected on the Trade Date, of which the settlement has been done by NBCMs. By this process, the system shall calculate the fresh positions and update the relevant reports accordingly. This process shall not be executed partially for a specific NBCM. Once the positions are calculated on the specified date(s), system shall adjust the positions for all the NBCMs accordingly.

CHAPTER 6 CONTINUOUS FUNDING SYSTEM (CFS) Mk II

6.1 Purpose and Scope

Subject to the Regulations pertaining to CFS Mk-II as prescribed in the National Clearing Company of Pakistan Limited Regulations 2003 (“the Regulations”), the procedures contained herein shall be applicable to all CFS Mk-II Participants. These Procedures shall cover the following broad areas of the operations of CFS Mk-II:

1. Setting up of CFS Mk-II Participants (Authorized Financiers and Finances), Settling Banks and Securities in CFS Mk-II System;
2. Eligibility Criteria for CFS Mk-II Securities;
3. Risk Management activities in respect of CFS Mk-II Transactions and CFS Mk-II (R) Transactions including collection and maintenance of margins from CFS Mk-II Participants;
4. Administrative activities connected with CFS Mk-II operations; and
5. Generation of reports in respect of CFS Mk-II operations.

6.2 Admission of CFS Mk-II Participants

6.2.1 Eligibility Criteria for an Authorized Financier

Authorized Financier(AF) shall be admitted by the Company in accordance with the Eligibility Criteria as set out in the Regulations pertaining to the admission to CFS Mk-II Market as AF.

6.2.2 Process of Application

A period of up to three (3) Business Days may be taken by the Company, after receipt of Admission Form, Authorized Financier Agreement and any other documents prescribed by the Company from time to time together with the security deposit and annual fee (security deposit and annual fee shall only be applicable to Non-Broker Authorised Financier), to complete the process of AF admission, unless the Agreement and/or other documents are found to be defective.

The Company shall have the right to reject any application for admission as AF if the Agreement / documents / details shall be found to be incorrect or incomplete. The Company shall act in accordance with the relevant Regulations prior to rejecting an application for admission as AF.

6.2.3 Eligible Finances for CFS Mk-II

All Broker Clearing Members shall be eligible Finances in the CFS Mk-II Market provided that the Company, while considering applications, shall ensure that such Broker Clearing Member comply with the conditions and requirements as set out in the Regulations for admission as Financee to the

CFS Mk-II Market and have duly signed an addendum to the existing clearing member agreement with the Company

6.2.4 Title and ID

A Clearing Member shall be admitted to CFS Mk-II with same title as that of his Clearing Account in NCSS.

CFS Mk-II Transactions and CFS Mk-II (R) Transactions of a broker (i.e. a member of a Stock Exchange) executed through the CFS Mk-II Portal shall be identified and processed based on his trader Id used by the respective Exchange.

CFS Mk-II Transactions and CFS Mk-II (R) Transactions of a non-broker executed through the CFS Mk-II Portal shall be identified and processed based on his unique Id issued by the Company.

The settling account (bank account) of CFS Mk-II Participant with any Designated Branch of a Settling Bank shall be the bank account for the purposes of collection of cash margins from such Participant, except where otherwise permitted by the Company.

6.3 Settling Banks for CFS Mk-II Market

Settling Banks and their Designated Branches, approved for the purposes of settlement through NCSS, shall be Settling Banks for CFS Mk-II Transactions.

A Designated Branch of a Settling Bank shall carry out collection of cash margins in respect of those CFS Mk-II Participants who shall have established or maintained settling accounts with such branch.

The Company shall use its existing settling accounts maintained with Designated Branches of Settling Banks for collection of cash margins from CFS Mk-II Participants.

6.4 Securities

6.4.1 Eligibility Criteria for Securities

Following is the eligibility criteria for Category “A” securities for CFS Mk-II Market:

1. Companies that have average daily Impact Cost of less than 1%, based on daily Impact Cost on an order size of Rs. 500,000, during the review period.
2. Companies that have traded on more than 90% of the trading days during the review period.

3. Companies having average daily turnover of more than 250,000 shares during the review period.
4. Companies that have market price above par in at least 50% days of the review period.
5. Companies that have free float of more than 20% of issued capital or 45 million free float shares.
6. Operating profit before tax in each of the last two years of operations.
7. Newly listed companies that have free float capitalization of above Rs. 1 billion.
8. Securities of Mutual Funds and Brokerage Houses shall not be eligible.
9. Companies that do not have negative opinion in Auditor's report on the Companies Financial Statements (last audited report).
10. Companies that are not subject to any investigation by any regulatory body.
11. Companies not on the defaulter counter and have no pending inquiry against them by the authorities.

Following is the eligibility criteria for Category "B" securities for CFS Mk-II Market:

1. Companies that have average daily Impact Cost of less than 1.5%, based on daily Impact Cost on an order size of Rs. 500,000, during the review period.
2. Companies that have traded on more than 90% of the trading days during the review period.
3. Companies having average daily turnover of more than 150,000 shares during the review period.
4. Companies that have market price above par in at least 50% days of the review period.
5. Companies that have free float of more than 20% of issued capital or 40 million free float shares.
6. Operating profit before tax in each of the last two years of operations.
7. Securities of Mutual Funds and Brokerage Houses shall not be eligible.
8. Companies that do not have negative opinion in Auditor's report on the Companies Financial Statements (last audited report).
9. Companies that are not subject to any investigation by any regulatory body.
10. Companies not on the defaulter counter and have no pending inquiry against them by the authorities.
11. The market-wide, member-wide and client-wide position limits for Category "B" shall be reduced to 50% of the normal position.

6.4.2 Selection of Securities

The Company in consultation with Stock Exchanges shall select the securities that are eligible to be declared as CFS Mk-II Eligible Securities for the purpose of CFS Mk-II Market in accordance with the eligibility criteria described in these Procedures. The list of the securities so selected shall be submitted to the Board for its review. After having Board's review

such list of securities shall be submitted to the Commission for its approval. Upon receipt of the Commission's approval, such securities shall be declared as CFS Mk-II Eligible Securities by the Company.

6.4.3 Procedure for Review and Implementation of Securities

The list of CFS Mk-II Eligible Securities shall be reviewed by the Company on every six months and such review shall be undertaken before the end of such duration. In consequence of any additions and/or deletions to the existing list, the Company will give at least 30 days prior notice to the CFS Mk-II Participants for introduction of incoming and phasing out of outgoing CFS Mk-II Eligible Securities. After expiry of the said notice period, CFS Mk II positions in the outgoing securities shall be frozen and will be available only for release for the purposes of settlement or squaring-up. Any CFS Mk-II Contract relating to outgoing securities shall not be rolled over and any unreleased position on the expiry of notice period shall be forced released on its respective maturity of 22 working days.

For selection of CFS Mk-II Eligible Securities the Company shall be entitled to obtain all relevant information and particulars about all listed securities from the Stock Exchanges.

List of CFS Mk-II Eligible Securities shall be available on the Company's website.

6.5 Trading in CFS Mk-II Market

6.5.1 CFS Mk- II Portal

CFS Mk-II Transactions shall take place through CFS Mk-II Portal. The Company will make available CFS Mk-II Portal to all CFS Mk-II Participants.

The CFS Mk-II Market will run parallel to the Ready Market and will remain available for the entire Ready Market trading period. The Company shall notify Designated Time Schedule (DTS) of CFS Mk-II Market and CFS Mk-II release session to the market participants.

The Chief Executive Officer of the Company shall have the power to extend the CFS Mk-II Market timings and release session in consultation with the stock exchanges.

6.5.2 Undisclosed Trading

Trading in the CFS Mk-II Market will be carried out on undisclosed basis thereby all CFS Mk-II Contracts shall be facilitated by the Company by acting as CFS Mk-II Facilitation Agent for the respective CFS Mk-II Participants, which are underlying parties to a CFS Mk-II Contract. Hence,

CFS Mk-II Participants will not be able to access the identity of the underlying counter-party to any of the CFS Mk-II Contracts.

6.5.3 Display of Offers and Bids

All Offers and Bids for the CFS Mk-II Transactions shall be displayed on the CFS Mk-II Portal and shall specify the following:

	Offer		Bid
(i)	CFS Mk-II ID of the Authorized Financier;	(i)	Trader ID of the CFS Mk-II Financee;
(ii)	UIN Details filled in the UIN Registration Screen of NCSS;	(ii)	UIN Details filled in the UIN Registration Screen of NCSS;
(iii)	CFS Mk-II Eligible Securities that the Authorized Financier intends to finance;	(iii)	CFS Mk-II Eligible Securities in respect of which Financee intends to obtain finance;
(iv)	Number to shares that the Authorized Financier intends to finance;	(iv)	Number to shares for which Financee intends to obtain finance; and
(v)	The applicable rate of return; and	(v)	The applicable rate of return;
(vi)	Broker Code of any Broker Clearing Member, if the Offer is made by a Non-Broker Authorized Financier.		<i>Provided that the information relating to (i) and (ii) above shall not be displayed to the CFS Mk-II Participants.</i>
	<i>Provided that the information relating to (i), (ii) and (vi) above shall not be displayed to the CFS Mk-II Participants.</i>		

CFS Mk-II Transaction will be executed when an Offer is matched with a Bid or vice versa. The system will simultaneously generate a CFS Mk-II (R) Transaction.

A Broker Authorized Financier shall be allowed to carry out CFS Mk-II Transactions on its own behalf as well as on behalf of its clients, while a Non-Broker Authorized Financier shall be allowed to carry out only proprietary transactions.

6.5.4 UIN Mapping

It shall be mandatory upon the CFS Mk-II Participants to mention their respective proprietary/client codes, as the case may be, for the purposes of UIN mapping, while executing CFS Mk-II Transactions on their own behalf and/or on behalf of their clients.

6.5.5 Revocation of Offers and Bids

CFS Mk-II Participants will be allowed to modify or cancel any Offers or Bids placed by them respectively in the CFS Mk-II Market before the same are matched and executed. However, once executed, a CFS Mk-II Transaction will be irrevocable.

6.5.6 Cancellation / Modification of CFS Mk-II Transactions

Neither the Finanee nor the Authorised Financier will be allowed to modify and/or cancel any part of a CFS Mk-II Transaction and CFS MK-II (R) Transaction.

6.5.7 Suspension of Security in CFS Mk-II Market

A CFS Eligible Security shall remain suspended in the CFS Mk-II Market during its Spot Period as notified by the stock exchange(s). Therefore financing in such security shall not be available in the CFS Mk-II Market during the Spot Period. Similarly, option to release CFS Mk-II (R) Transactions shall not be available to Finanees during the Spot Period. The system shall freeze all open positions in that security, as at the close of business day, immediately preceding the commencement of Spot Period.

However, after the completion of the Spot Period, financing in such security shall resume and the same shall be available in the CFS Mk II Market for placement of funds and release.

6.5.8 Prerequisite for CFS Facility

CFS Mk-II facility shall only be available against purchases in Ready Market on the day that the CFS Mk-II facility is availed. Therefore, matching of a Bid with an Offer shall be subject to the condition that the Finanee making such Bid has an underlying long position in the Ready market at that time on that day. However, the above requirement of having such an underlying long position in the Ready market shall not be applicable where such CFS Mk-II Contract is merely for the purpose of rolling-over an existing CFS Mk-II Contract, either full or in part.

6.5.9 Roll Over

The CFS MK II facility shall be available for a maximum period of 22 working days at the option of the Finanee. Finance may release its open CFS MK-II transaction at any time prior to the Maturity Date. Roll-over in a CFS Mk-II Contract, by entering into a fresh Contract, shall be allowed during the entire CFS MK-II Contract period. However, during the Spot Period CFS MK-II Participants shall not be allowed to enter into CF SMK-II Contract.

6.5.10 Forced Release

All unreleased CFS MK II Contracts shall be forced released on the Maturity Date (23rd Business Day). However, Finanee may have an option to roll over such forced released transactions on such Maturity date.

6.6 Settlement of CFS Mk-II Transactions

Each CFS Mk-II Transaction and CFS Mk-II (R) Transaction shall be settled in the NCSS in accordance with the NCCPL Regulations and the NCSS Procedures under Balance Order mechanism on T+2 basis.

Each Authorized Financier shall open and maintain a separate CFS Account in CDC in its name for placing and keeping CFS Financed shares in Blocked status. Each Authorized Financier shall ensure that after settlement of CFS Mk-II Transactions, CFS Mk-II proprietary Securities are properly kept in its House Account in Blocked status. Moreover, Each Broker Authorized Financier shall also ensure that after settlement of CFS Mk-II Transactions, CFS Mk-II Securities, financed by its clients, are properly delivered into Sub-Accounts of respective clients in Blocked status.

All outstanding CFS Mk-II Transactions and CFS Mk-II (R) Transactions shall be binding upon the CFS Mk-II Participants until settled in accordance with NCCPL Regulations and NCSS Procedures.

6.7 CFS Mk-II Financing

6.7.1 Financing Commitment

It is mandatory upon each Authorized Financier to commit amount of funding for the CFS Mk-II Market. Such financing commitment shall be stated in the Authorized Financier Agreement. The Financier shall be bound to provide the amount of Financing Commitment to the CFS Mk-II Market all the time. The Financing Commitment shall be irrevocable except as expressly provided otherwise in NCCPL Regulations and these Procedures.

6.7.2 Minimum Amount of Financing Commitment

The minimum amount of Financing Commitment specified for Authorized Financiers is tabulated below:

CFS Mk-II Participant	Minimum Financing Commitment (Rs.)
Non-Broker Authorised Financier (NBAF)	200,000,000/-
Broker Authorized Financier (BAF)	10,000,000/-

6.7.3 Cancellation of Financing Commitment

Cancellation of Financing Commitment shall not be allowed except by giving a written notice to the Company by the Authorized Financier. Such notice shall be served to the company at least ninety (90) days before the effective date of cancellation. Ninety (90) days period shall be commenced from the date of receipt of notice by the Company from the Authorized Financier. Reduction in the Financing Commitment below the minimum specified amount shall not be allowed.

Any CFS Mk-II Contracts arising from acceptance of Offers of such Authorized Financier during the notice period referred to in above paragraph shall not be affected by such cancellation.

6.7.4 Additional Financing and its Withdrawal

The Authorized Financier may provide financing in addition to its Financing Commitment. Authorized Financier can withdraw additional financing at any time before a CFS Mk-II Transaction is executed. Further, Authorized financier may withdraw additional financing either upon maturity of the CFS Mk-II Contract or even earlier if CFS Mk-II (R) Transaction is released by the Finantee prior to Maturity Date.

6.7.5 Rate of Return on CFS Mk-II Financing

The rate of return on CFS Mk-II financing shall be determined by the market forces on the basis of demand and supply. Since there will be no fixed floor or ceiling rate in the CFS Mk-II market, an Authorised Financier may, at its discretion, make the CFS Mk-II financing available at any rate of return in any CFS Mk-II Eligible Security (ies). However, the Company shall monitor the Financing Commitment of the CFS Mk-II Authorized Financiers on the basis of provisioning of financing to the CFS Mk-II market at a e, floor of KIBOR (prevailing at the close of immediately preceding working day) plus 4% in order to ascertain the under utilisation penalty in terms of the provisions of the Regulations.

KIBOR means the daily average of one-month Karachi Interbank Offered Rate (Ask Side) as published on Reuters Page KIBOR or as published by the Financial Market Association of Pakistan in case the Reuters page is unavailable.

6.7.6 Penalty for Under-utilization

The Authorised Financier shall make reasonable efforts to ensure that its Financing Commitment is fully utilized by the CFS Mk-II Market. Financing Commitment of an Authorized Financier shall be considered to be utilized, during a given month, if either of the following conditions is fulfilled:

- i) The average Available Commitment during such month was equal to or less than 10%;

OR

- ii) the Offers for the entire Available Commitment of such Authorised Financier remained available at the floor rate prescribed in Regulation 7.5.4 (Cost of Funding) or lower during the entire month.

In case of non-compliance of the above, each Authorised Financier shall pay to the Company on a monthly basis a penalty equal to 2% of the average Available Commitment during such month.

6.8 Risk Management

The Company shall manage the risk of CFS Mk-II Participants in accordance with provisions of NCCPL Regulations and these Procedures in respect of CFS Mk-II Transactions and CFS Mk-II (R) Transactions carried out by CFS Mk-II Participants in order to monitor and mitigate the risks arising out of such CFS Mk-II Transactions.

The key areas of the Risk Management regime of the Company are:

- Capital Adequacy Requirement (applicable on Finanee only)
- Exposure Margins
- Marked-to-Market Losses
- Special Margins (required from Finanee only)
- Position Limits on CFS Mk-II Participants

The Company may implement additional risk management procedures / prescribe additional margins to further strengthen its risk management regime with the prior approval of the Commission from time to time

6.8.1 Capital Adequacy Requirement – Finanees

The aggregate Exposure of each CFS Mk-II Finanee, (including outstanding Positions on the Ready market, the Futures market and the CFS Mk-II market) shall not exceed 25 times of its net capital balance. The stock exchanges shall ensure compliance of the above requirement in respect of their brokers.

The aggregate Exposure of each Finanee in respect of CFS Mk-II Market shall not exceed 15 times of its net capital balance. Every CFS Mk-II Finanee shall submit the certificate of net capital balance to the Company, from a practicing Chartered Accountant, along-with the amount of net capital balance to be allocated to the CFS Mk-II. Any revision to this assigned portion shall also be intimated to the Company in writing by the Finanee. The Company shall incorporate the amount of Net Capital Balance allocated to the Company in CFS Mk-II System for monitoring capital adequacy of such CFS Mk-II Finanee. The Company shall allow capital adequacy limit in the CFS Mk-II Market on the basis of such allocated amount of net capital balance.

The Company shall monitor the net capital balance of each Finanee on a pre-trade basis at order level. The CFS Mk-II System will not allow any

Finanee to enhance its Exposure over and above the prescribed capital adequacy limit and will accordingly reject such orders.

It shall be responsibility of the Finanee to communicate the amount of net capital balance and capital adequacy allocated to CFS Mk-II Market simultaneously without any delay to the concerned stock exchange(s) so as to update their risk management systems and to enable them to monitor the capital adequacy in other markets (Ready, Futures etc.) based on the adjusted capital adequacy.

6.8.2 Calculations of Exposures and Marked-to-Market Losses on CFS Mk-II Contracts

CFS Mk-II Contract means a combination of a CFS Mk-II Transaction and a CFS Mk-II (R) Transaction. For the purposes of Risk Management regime of CFS Mk-II Market, the Risk Management Systems of the Company shall take into account the following:

6.8.2.1 CFS Mk-II Authorized Financier

For CFS Mk-II Authorized Financier, only CFS Mk-II Transaction i.e. “1st Ticket Buy” shall be taken into account for the purposes of Risk Management.

CFS Mk-II (R) Transaction i.e. “2nd Ticket Sell” shall not be considered for risk management of Authorized Financier since after the settlement of CFS Mk-II Transaction CFS financed shares are placed in the CDS CFS Account of the Authorized Financier in Blocked status.

6.8.2.2 CFS Mk-II Finanee

For CFS Mk-II Finanee, only unreleased CFS Mk-II (R) Transaction i.e. “unreleased 2nd Ticket Buy” shall be taken into account for the purposes of Risk Management.

CFS Mk-II Transaction i.e. “1st Ticket Sell” and CFS Mk-II (R) Transaction (after release) shall be taken into account by respective stock exchange for the purposes of risk management.

6.8.2.3 Exclusion of CFS Mk-II Contracts

The Company shall calculate Exposures and Marked-to-Market Losses and margins there-against on a daily basis at the end of trading day after the close of CFS Mk-II Market. In this respect the system shall ignore all CFS Mk-II Transactions and CFS Mk-II (R) Transactions due for settlement on that day while calculating Exposures, Mark-to-Market Losses and margins there-against.

6.8.3 Exposure and Exposure Margins

CFS Mk-II Market Contracts carried out in CFS Mk-II Market in any CFS Mk-II Eligible Security shall be subject to margin requirements as prescribed in NCCPL Regulations and these Procedures. The Company shall determine the client-wise (based on UIN) and security-wise Exposure of each CFS Mk-II Participant, at any point in time, by applying the netting mechanism as prescribed by the NCCPL Regulations and these Procedures.

While determining Exposure of a CFS Mk-II Participant, netting shall not be allowed:

- Across Clients
- Across different CFS Mk-II Eligible Securities
- Across settlement dates
- Across Contract Periods
- Between Exposure of Authorized Financier and Finantee
- Across Markets
- Across Stock Exchanges

The Company shall calculate Value-at-Risk (VaR) based Exposure Margins for each CFS Mk II Security by applying VaR Estimates calculated by the RiskMeter® at the end of each trading day. The Exposure margins so calculated shall be deposited by CFS Mk II Participants in the approved forms of collaterals (Refer Annexure 1) within the time specified in the DTS for that purposes.

Margin rates based on VaR Estimates shall be calculated by the RiskMeter® at the end of each trading day. Such rates shall be applicable on Exposures in CFS Mk-II Market for the next trading day.

6.8.3.1 Deposit of Exposure Margin by Authorized Financier

Authorized Financier shall deposit Exposure Margins in respect of CFS Mk-II Transaction with the Company on the day the same is executed. The margins will be held till CFS Mk-II Transaction is settled by the Authorized Financier.

After settlement and deposit of CFS Mk-II Financed Securities in CFS Account of the Authorized Financier in Blocked status, such Authorized Financier shall not be required to pay Exposure Margin on the corresponding CFS Mk-II (R) Transaction. Therefore, Exposure Margin shall be released to the Authorized Financier upon submission of release request to the Company by such Financier.

6.8.3.2 Deposit of Exposure Margin by Finantee

CFS Mk-II facility is available to Finantees against purchases in Ready Market i.e. a CFS Mk-II Transaction is executed subject to fulfilment of the condition that the Finantee has an underlying long position in the Ready

Market. As per risk management regime of Stock Exchanges, brokers are required to deposit exposure margins with the Stock Exchange in respect of their Ready Market trades.

However, Exposure Margins shall be applicable on CFS Mk-II Contract immediately when a Ready Market purchase is financed on CFS Mk-II Market. Therefore, when a CFS Mk-II Contract is executed in respect of a Ready Market purchase, margins on such Ready Market purchase, held by a Stock Exchange, shall be deemed to be the margin of the Company on such CFS Mk-II Contract.

Upon settlement of the CFS Mk-II Transaction, the Exposure Margins held by the stock Exchange, shall remain applicable on CFS Mk-II (R) Transaction till settlement date, unless there is a corresponding sale in the Ready Market on the same day of release, of the same client in the same security with the same settlement date, in which case no margins will be held.

Accordingly, Collaterals deposited with a Stock Exchange to cover Exposure Margins in respect of Ready Market trades will be accepted as Exposure Margins to cover Exposure of the Finantee in the CFS Mk-II Market. Such Stock Exchange shall confirm to the Company, in accordance with the procedure agreed between the Stock Exchanges and the Company, that the Collaterals deposited with the Stock Exchange are retained by such Stock Exchange under first and paramount lien of the Company.

6.8.4 Marked-to-Market Losses

The Company shall calculate Marked-to-Market Losses (or profit) at the end of each trading day. Marked-to-Market Losses shall be calculated on transaction to transaction basis, separately for each CFS Mk-II Participant, for each client (based on UIN), for each CFS Mk-II Eligible Security on the basis of the Closing Prices. While determining the Marked-to-Market Losses payable by a CFS Mk-II Participant, netting shall only be permissible across transactions in different securities for the same UIN, in the same settlement date.

Save as specifically provided above, no other netting such as across clients, across securities, across settlement dates, across contract periods, between Marked-to-Market Losses of Authorized Financier and Finantee, across markets, across stock exchanges etc. shall be allowed whatsoever.

Marked-to-Market Losses so calculated shall be deposited by CFS Mk-II Participants in the approved form of collaterals (Refer Annexure 1) within the time specified in the DTS for that purpose.

6.8.4.1 Payment of Marked-to-Market Losses by Authorized Financier

Authorized Financier shall deposit Marked-to-Market Losses in respect of CFS Mk-II Transaction with the Company on the day the same is executed. Authorized Financier will continue to pay Marked-to-Market Losses until CFS Mk-II Transaction is settled. Accordingly, Marked-to-Market Losses will be held by the Company till settlement of CFS Mk-II Transaction.

After settlement and deposit of CFS Mk-II Financed Securities in CFS Account of the Authorized Financier in Blocked status, such Authorized Financier shall not be required to pay Marked-to-Market Losses on the corresponding CFS Mk-II (R) Transaction. Therefore, Marked-to-Market Losses shall be released to the Authorized Financier upon submission of release request to the Company by such Financier.

6.8.4.2 Payment of Marked-to-Market Losses by Finanee to NCCPL

Finanee shall deposit Marked-to-Market Losses in respect of CFS Mk-II (R) Transaction (unreleased 2nd Ticket Buy Transaction) with the Company on the day the same is executed. Finanee will continue to pay Marked-to-Market Losses until CFS Mk-II (R) Transaction is released. Accordingly, Marked-to-Market Losses will be held by the Company till release of CFS Mk-II (R) Transaction. Thereafter, Marked-to-Market Losses shall be released to the Finanee upon submission of release request to the Company by such Finanee.

6.8.4.3 Payment of Marked-to-Market Losses by Finanee to Stock Exchange

CFS Mk-II Finanee shall deposit Marked-to-Market Losses in respect of CFS Mk-II Transaction (1st Ticket Sell) with the relevant Stock Exchange on the day the same is executed. Moreover, Finanee shall deposit Marked-to-Market Losses in respect of CFS Mk-II (R) Transaction (2nd Ticket Buy) with the relevant Stock Exchange on the day the same is released. Finanee will continue to pay Marked-to-Market Losses until CFS Mk-II Transaction and/or CFS Mk-II (R) Transaction, as the case may be, is settled.

Exposure Margins and Market-to-Market Losses collected from CFS Mk-II Finanees, as mentioned herein above, will be held by the concerned Stock Exchange till the settlement of CFS Mk-II Transaction and CFS Mk-II (R) Transaction.

The Stock Exchange shall calculate Exposures and Marked-to-Market Losses and collect Margins there-against as per its Regulations and Procedures.

Exposure Margins and Marked-to-Market Losses deposited by a CFS Mk-II Finanee with the Stock Exchange(s) must be kept separately, segregated from the Ready Market and the Futures Market margins by such Stock

Exchange(s), since in the event of default, such CFS Mk-II related margins will be utilized for the benefit of CFS Mk-II Participants only.

6.8.5 Special Margin – Required from Financee

The obligation to pay Special Margin is in addition to the obligations to pay Exposure Margin and Marked-to-Market Losses. Special Margin shall be payable by the Financee on a daily basis only where the average transaction price of a CFS Financee's proprietary position or its client's position in a CFS Mk-II Eligible Security in CFS Mk-II Market is different from 26 weeks moving average price of that CFS Mk-II Eligible Security in the Ready Market.

In case where the average transaction price of a CFS Financee's proprietary position or its client's position in a CFS Mk-II Eligible Security in CFS Mk-II Market exceeds the 26 weeks moving average price of that CFS Mk-II Eligible Security in the Ready Market by more than 10% then Special Margin shall be payable equal to the difference between average Transaction Price of the gross buy position of that client and 26 weeks moving average price of that CFS Mk-II Eligible Security in the Ready Market.

Special Margin shall be calculated at the end of each trading day. Special Margin shall be deposited by CFS Mk-II Financee in the approved form of collaterals (Refer Annexure 1) within the time specified in the DTS for that purpose.

Financee will continue to pay Special Margin until CFS Mk-II (R) Transaction is released. Accordingly, Special Margin will be held by the Company till release of CFS Mk-II (R) Transaction. Thereafter, Special Margin shall be released to the Financee upon submission of release request to the Company by such Financee.

6.8.6 Forms of Collaterals

The Company shall accept Collateral from CF MK II Participants on account of their Exposure Margins, MTM Losses and Special Margins on CFS Mk-II Transactions and CFS Mk-II (R) Transactions. The Collateral shall be collected in the following forms:

- Cash
- Margin Eligible Securities
- Eligible Listed Term Finance Certificates (TFCs)
- Bank Guarantee
- Irrevocable Undertaking
- Treasury Bills ("T-Bills") and Pakistan Investment Bonds ("PIBs")

6.8.6.1 Cash

Where cash, as Collateral, is applicable against the demand of Exposure Margin, Marked-to-Market Losses and Special Margin, the CFS Mk-II Participants shall deposit cash in favor of Company as per the Demand Notice generated on daily basis by the Company. . The Company shall collect such cash margins through its Pay & Collect module by providing additional and exclusive automated collection window to the respective settling bank branch of the concerned CFS Mk-II Participants as per the time set out in DTS. The CFS Mk-II Participant shall ensure the availability of sufficient amount in their respective Designated Branch of the Settling Bank on proactive basis. Accordingly, the Designated Branch of the Settling Bank shall debit the settling account of the CFS Mk-II Participant by the required amount within the DTS.

The value of cash deposit shall be entered, by the Company, in the account of concerned CFS Mk-II Participant through the Cash entry interface, maintained in the Risk Management System of CFS Mk-II.

The Company shall distribute among the relevant CFS Mk-II Participants the return earned from the Settling Banks where the Cash has been deposited by such CFS Mk-II Participants against their Exposure Margin, Marked-to-Market Losses and Special Margin. Provided that such return shall be restricted only to the rates of return offered by such Settling Banks to the Company and subject to the service charges set out by the Company from time to time.

6.8.6.2 Margin Eligible Securities

Where applicable, the CFS MK II Participants may deposit Margin Eligible Securities as Collateral in order to satisfy their Exposure Margin requirements.

The Board, with the prior approval of the Commission, shall declare the Margin Eligible Securities acceptable as Collateral against Exposure Margin. A list of Margin Eligible Securities, which shall be eligible for deposit with the Company as Collateral, shall be prepared and reviewed by the Company on quarterly basis.

Following shall be the eligibility criteria for the aforementioned Margin Eligible Securities:

1. Securities have been traded atleast 80% of the trading days during the review period of last 6 months;
2. Average impact cost of securities will not be greater than 2% as calculated based on daily impact costs of the review period of last 6 months;

3. Average daily trading volume of securities in the ready market selected based on the above criteria will not be less than 0.5% of its free float or 100000 shares, which ever is lower;
4. The following haircuts will be applicable on the Margin Eligible Securities based on the above criteria:

For all book entry securities having formal listing history of more than 6 months

VaR based Margin Buckets	Haircut Applicable on Daily Closing Rate in the Ready Market
00.00%≤VAR <12.5%	15.00%
12.50%≤VAR <15.0%	17.5%
15.0%≤VAR <20.0%	22.5%
20.0%≤VAR <25.0%	27.5%
25.0%≤VAR <30.0%	32.5%
30.0%≤VAR <40.0%	42.5%
40.0%≤VAR	60.00%

For all new listed securities having formal listing history of 6 months:

VAR=25%(fixed till completion of 6 months period)	32.5%
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Provided that where a CFS MK-II Participant is a listed company and its issued securities are included in the list of Margin Eligible securities, CFS MK-II Participant shall not be allowed to deposit its own issued securities as Collateral to secure its Exposure Margin.

Where a Broker Authorized Financier pledges Margin Eligible Securities in favor of the Company from Sub-Accounts of its clients, such Broker Authorized Financier shall ensure that it has obtained authorization from such clients in this respect in accordance with relevant Regulations and Procedures of CDC.

A Broker Authorized Financier shall be entitled to pledge its proprietary CFS Mk-II Financed Securities held in Blocked status to meet its Exposure Margin requirements with the Company. Such Broker Authorized Financier shall be required to deposit with the Company, exposure on all outstanding CFS Mk-II Contracts with respect to such pledged CFS Mk-II Financed Securities.

Broker Authorized Financiers creating such pledges shall ensure that these pledges are released before the commencement of Spot Period in respect of the pledged CFS Mk-II Financed Securities and such Broker Authorized Financiers shall meet their margin requirements with the Company, with other securities acceptable to the Company in accordance with NCCPL Regulations and these Procedures. In case of a Broker Authorized Financier's failure to release the pledges as aforesaid, such Broker

Authorized Financier shall be liable to pay a penalty as specified by the Company from time to time

6.8.6.2.1 Ceiling on Acceptability of a Margin Eligible Security

The Company shall not accept any Margin Eligible Security as Exposure Margin if acceptance of Margin Eligible Security taken together with the margins already held will exceed CFS Mk II Participant wide and/or market wide limits of deposit of such Margin Eligible Security as prescribed below:

VAR Based Margin Percentages	Maximum No. of Margin Eligible Security that may be deposited by a CFS Mk-II Participant
$0 \leq x < 20\%$	1% of Free Float
$x > 20\%$	0.25% of Free Float

A maximum limit per scrip, as a percentage of free float, shall apply to all scrip's deposited as security i.e. margin held by the company cannot exceed 25% of free float of such scrip.

6.8.6.3 Eligible Listed Term Finance Certificates (TFCs)

The CFS Mk-II Participants may deposit Eligible TFCs as Collateral in order to satisfy their Exposure Margin requirements.

A TFC shall acceptable as Collateral against Exposure Margins if it fulfills the following conditions:

- TFC is declared as CDS Eligible Securities by the Central Depository Company of Pakistan limited (CDC);
- TFC is listed on any stock exchange;
- Credit rating of TFC is "A" and above. Such rating should be assigned by an approved credit rating agency. In this regard, rating of the instrument (TFC) shall be considered and no weightage shall be given to the rating of the issuer;
- Remaining maturity period of TFC is at-least one year.

Provided that where a CFS Mk-II Participant has issued a listed TFC which is acceptable as Collateral against Exposure Margin, such CFS Mk-II Participant shall not be allowed to deposit its own issued TFC as Collateral to secure its Exposure Margin.

6.8.6.4 Pledge Account with Central Depository Company ("CDC")

The Company shall maintain a Pledge Account with CDC as Eligible Pledgee for pledging of Margin Eligible Securities and Eligible TFCs in favour of the Company by the CFS Mk-II Financiers. CFS Mk-II Financiers shall pledge Margin Eligible Securities and Eligible TFCs in favour of the Company through such Pledge Account.

The Company shall issue pledgee group Ids for each CFS Mk-II Financier for CFS Mk-II Market. The CFS Mk-II financiers shall create pledge of Margin Eligible Securities and Eligible TFCs from their respective CDC Accounts in favour of the Company's Pledgee Account through pledgee group Ids.

6.8.6.5 On-line Updation of Pledged Margin Eligible Securities and TFCs

The CDC shall provide live interface of eCDS to the CFS Mk-II System, whereby upon pledging of securities by CFS Mk-II Financiers, the Company shall receive the details of such pledged Margin Eligible Securities and TFCs into Risk Management System of CFS Mk-II through said live interface. Accordingly, accounts of concerned CFS Mk-II Financiers, maintained in the CFS Mk-II Risk Management System, shall be updated on real time basis, when such Margin Eligible Securities and TFCs are successfully pledged.

6.8.6.6 Bank Guarantee

The CFS Mk-II Participants may deposit bank guarantees in the form prescribed by the Company in order to fulfil their Collateral requirements against their Exposure Margins, Mark-to-Market Losses and Special Margins.

The Company may accept bank guarantees issued by a bank if:

- a. it is duly licensed to carry on banking business in Pakistan under the Banking Companies Ordinance, 1962 (LVII of 1962), or, being a statutory corporation, it is otherwise entitled to carry on banking business under the law by which it is created;
- b. it has a minimum of an Investment Grade rating issued by Moody's and/or Standard & Poor or a minimum rating of AA issued by a credit rating company licensed by the Commission.; and
- c. it has a bank branch located in Karachi which is acceptable to the Company as such bank's main contact branch;

6.8.6.7 Irrevocable Undertaking

Irrevocable Undertakings in the form prescribed by the Company may be deposited by Non Broker Authorized Financiers with the Company to satisfy their Collateral requirements against Exposure Margins and Mark-To-Market Losses, provided that such Irrevocable Undertakings shall be accepted only from the following Non Broker Authorized Financier:

- Non-Broker Authorized Financiers as are Banks/Development Financial Institutions ("DFIs") having minimum credit rating of AA; and
- Any other public sector entity, controlled by the Government of Pakistan, approved by the Board from time to time.

6.8.7 Valuation of Collaterals

Collaterals shall be valued in the following manner:

6.8.7.1 Margin Eligible Securities

Margin Eligible Securities shall be valued at the prevailing market price during the day. However, after the close of Ready Market, the same shall be valued at Closing Price of that security. The value of a Margin Eligible Security shall be discounted by applying applicable Haircut.

Haircuts applicable to each Margin Eligible Security calculated by the RiskMeter at the end of each trading day. The Haircuts so calculated shall be applicable for the next trading day.

6.8.7.2 Term Finance Certificates (TFCs)

TFCs shall be valued on a weekly basis by obtaining rates from the official website of Mutual Funds Association of Pakistan (MUFAP). The company shall obtain the rates of TFCs posted by MUFAP on its website as on the last Business Day of the week. Accordingly, the Company shall update the value of TFCs, pledged by the AF, on the first Business Day of the following week.

The value of TFCs shall be discounted by applying following Haircuts, based on the credit rating of individual TFC:

Credit Rating	Haircut
AA	20%
A	30%

6.8.7.3 Treasury Bills (“T-Bills”) and Pakistan Investment Bonds (“PIBs”)

T-Bills and PIBs shall be valued at the daily market value based on the Financial Market Association data provided to Reuters.

6.8.8 Position Limits

Position of CFS Mk-II-Participants in a CFS Mk-II Eligible Security shall not exceed the following:

Market wide position limit	40% of free-float of the security
Member wide position limit	10% of the above-mentioned market wide position limit for each security
Client wide position limit	5% of the above-mentioned market wide position limit for each security. Client position will be universal and determined on UIN basis

Each Financee's Position in a CFS Mk-II Eligible Security at any point in time shall comprise all outstanding (unreleased) CFS Mk-II (R) Transactions. CFS Mk-II (R) Transaction, once released, shall not be considered in the calculation of position limits as prescribed above.

6.8.9 Withdrawal or Release of Collaterals

Following processes shall be followed for withdrawal/release of Collaterals:

6.8.9.1 Process of Releasing Cash

CFS Mk-II Participants shall initiate request (on the prescribed format and duly signed by the authorized person) to the Company for release of Cash deposited with the Company as Margin. The Company shall analyze cash margin requirement of the concerned CFS Mk-II Participant and the actual cash deposited with the Company by such CFS Mk-II Participant. In case of surplus Collateral, the Company shall release Cash by issuing Cheque in the name of such CFS Mk-II Participant. However, in case of deficiency in the required Collateral, the Company shall reject the cash release request and intimate the concerned CFS Mk-II Participant accordingly.

In case where cash release request is initiated by a CFS Mk-II Participant from Lahore and Islamabad locations, the Company may transmit credit instructions to the concerned Designated Branch of Settlement Bank.

6.8.9.2 Process of Releasing Margin Eligible Securities and TFCs

AF shall initiate request (on the prescribed format and duly signed by the authorized person) to the Company for release of Margin Eligible Securities and/or TFCs deposited with the Company as Collateral. The Company shall analyze Exposure Margin requirement of the concerned AF and the actual securities deposited with the Company by such AF. In case of surplus Collateral, the Company shall release Margin Eligible Securities and/or TFCs through eCDS. However, in case of deficiency in the required Collateral, the Company shall reject the release request and intimate the concerned AF accordingly.

6.8.9.3 Process of Releasing Bank Guarantee

Bank Guarantee submitted by CFS Mk-II Participants shall be retained by the Company till its expiry date. However, CFS Mk-II Participants may withdraw their Bank Guarantee before the expiry date by giving seven Business Days prior notice to the Company. In case of withdrawal of Bank Guarantee, the CFS Mk-II Participants shall deposit other approved forms of Collaterals to fulfill their margin requirements.

6.8.9.4 Process of Releasing Irrevocable Undertaking

The Non-Broker Authorized Financier, being a Bank/Development Financial Institution (“DFI”) and any other public sector entity, controlled by the Government of Pakistan, approved by the Board from time to time, may withdraw its Irrevocable Undertaking by giving seven Business Days prior notice to the Company. However, in such case the Non-Broker Authorized Financier shall deposit other approved forms of Collaterals to fulfill its Collateral requirements.

6.8.10 Risk Management Reports on CFS Mk-II System

Following Risk management related reports are available to CFS Mk-II Participants on CFS Mk-II System:

6.8.10.1 CFS Mk-II Finanee Brief Report

CFS Mk-II Finanee may view the brief information of the Exposure, Exposure Margins, Marked-to-Market Losses and Special Margins in CFS Mk-II Market.

6.8.10.2 CFS Mk-II Financier Brief Report

CFS Mk-II Financiers may view the brief information of the Exposure, Exposure Margins and MTM Losses in CFS Mk-II Market.

6.8.10.3 Demand of Payment Report

CFS Mk-II Participants may view the net payable amount to the Company in respect of Exposure Margins, Marked-to-Market Losses and Special Margins in CFS Mk-II Market.

6.8.11 Failure to Deposit Margins by CFS Mk-II Participant

Where a CFS Mk-II Participant fails to deposit Collaterals against Exposure Margins, Mark to Market Losses and where applicable Special Margins, the Company shall take necessary action in accordance with Regulations.

ANNEXURE 1

Form of Margin/ Marked to Market Losses/ Special Margin Deposits

1. Margining Regime for Financees

A. During the period commencing from April 07, 2008 to June 30, 2008

Market	Margins	Mark to Market Losses	Special Margin
CFS Mk - II Market	Initial Exposure Margins shall be collected 100% in the form of any acceptable Collateral as provided for in the Regulations.	100% in the form of Cash. Whereas, Collateral deposited in the form of bank guarantee shall be considered as equivalent to cash.	100% in the form of Cash. Whereas, Collateral deposited in the form of bank guarantee shall be considered as equivalent to cash.

B. Effective from July 01, 2008

Market	Exposure Margins	Mark to Market Losses	Special Margin																	
CFS Mk-II Market	Initial Exposure Margins shall be collected as per the following rule:	100% in Cash. Whereas, Collateral deposited in the form of bank guarantee shall be considered as equivalent to cash.	100% in Cash. Whereas, Collateral deposited in the form of bank guarantee shall be considered as equivalent to cash.																	
	<table border="1"> <thead> <tr> <th rowspan="2">Financing in CFS Mk-II Market</th> <th colspan="2">*Margins</th> </tr> <tr> <th>Approved Collateral</th> <th>Cash as Collateral</th> </tr> </thead> <tbody> <tr> <td>Upto Rs 85 billion</td> <td>100% in any of approved form of Collateral</td> <td>Nil</td> </tr> <tr> <td>Exceeding Rs. 85 billion up to Rs.100 billion</td> <td>90% in any of approved form of Collateral</td> <td>10 % in the form of cash</td> </tr> <tr> <td>Exceeding Rs. 100 billion up to Rs.125 billion</td> <td>80% in any of approved form of Collateral</td> <td>20 % in the form of cash</td> </tr> <tr> <td>Exceeding</td> <td>65% in any</td> <td>35 % in the</td> </tr> </tbody> </table>			Financing in CFS Mk-II Market	*Margins		Approved Collateral	Cash as Collateral	Upto Rs 85 billion	100% in any of approved form of Collateral	Nil	Exceeding Rs. 85 billion up to Rs.100 billion	90% in any of approved form of Collateral	10 % in the form of cash	Exceeding Rs. 100 billion up to Rs.125 billion	80% in any of approved form of Collateral	20 % in the form of cash	Exceeding	65% in any	35 % in the
	Financing in CFS Mk-II Market				*Margins															
				Approved Collateral	Cash as Collateral															
	Upto Rs 85 billion			100% in any of approved form of Collateral	Nil															
Exceeding Rs. 85 billion up to Rs.100 billion	90% in any of approved form of Collateral	10 % in the form of cash																		
Exceeding Rs. 100 billion up to Rs.125 billion	80% in any of approved form of Collateral	20 % in the form of cash																		
Exceeding	65% in any	35 % in the																		

	Rs. 125 billion up to Rs.150 billion	of approved form of Collateral	form of cash		
	Exceeding Rs.150 billion	50% in any of approved form of Collateral	50 % in the form of cash		

***Notes:**

A. Where any of the abovementioned financing limits of the CFS Mk-II Market is exceeded then the respective cash margin requirement becomes applicable and shall remain enforced irrespective of the fact that financing in the CFS Mk-II Market has reduced below that limit subsequently at any point of time.

B. Whereas Collateral deposited in the form of bank guarantee shall be considered as equivalent to cash.

2. Margining Regime for Authorized Financiers

Market	Exposure Margins	Mark to Market Losses
CFS Mk-II Market	Initial Exposure Margins shall be collected 100% in the form of any acceptable Collateral as provided for in the Regulations.	100% in Cash. Whereas, Collateral deposited in the form of bank guarantee and / or irrevocable undertaking (where applicable) shall be considered as equivalent to cash.

Chapter 7 Processing Corporate Actions Pertaining to CFS Financed Securities

7.1 Purpose and Scope

Under the CFS transactions the financier is not the beneficial owner of the securities instead the securities are held as Collateral against the financing provided to the beneficial owner of the securities (finanee).

Any entitlements on such shares arising due to corporate action should accrue to the beneficial owner of the securities (finanee) and not to the financier. Pursuant to recent commandments in CFS regulations promulgated by Karachi Stock Exchange (KSE), the CFS transactions are no longer allowed to be forced released before the Book Closure (BC) Date. CFS Financed securities are held by the financier in their CFS Blocked Account maintained with Central Depository Company (CDC). The entitlements on all such shares are received by the financier and later on they are transferred to the finanee manually through Stock Exchanges. This practice required cumbersome manual work and resulted in creating risk in the recovery of the entitlements from the financier to the finanee

Due to the mentioned reason an automatic mechanism is being introduced whereby entitlements shall be directly delivered to the respective rightful beneficiary(ies).

7.2 Application of the Mechanism

The mechanism shall be applicable to the following entitlements:

- General Meetings
- Cash Dividend
- Stock Dividend
- Rights

The mechanism shall not be applicable for the following corporate actions:

- Mergers
- De-mergers
- Split
- Consolidation, etc.

For such corporate actions, CFS trades shall be required to be forced released before the start of BC period.

7.3 Assigned Responsibilities

7.3.1 Stock Exchange (SE)

It shall be the responsibility of Stock Exchange to ensure that all the CFS trades remains locked from SPOT trading date till the Book Closure (BC) Date. During the aforementioned period, CFS release or open market CFS session shall not be allowed for securities traded on SPOT basis.

Exchange shall ensure to provide the trade data to the Company, based on the Company's UIN database which has been provided to Exchange by the Company on daily basis.

7.3.2 National Clearing Company (NCC)

The Company shall be responsible to provide CDC with the data comprising of the financier and finantee UIN related information along with the security and volume of shares involved in the CFS transactions. Information related to the financiers and finantees shall be provided by the Company to CDC atleast one business day prior to the commencement of BC period:

- CM ID
- UIN (Both for Financier and Finantee)
- UIN Type (Both for Financier and Finantee)
- Security Symbol
- Stock Exchange Location
- Volume

7.3.3 Central Depository Company (CDC)

CDCPL shall be responsible for further transfer of CFS Financed Securities from the financier to the finantee on the basis aforementioned information provided by the Company through an agreed upload mechanism under these procedures.

7.3.4 Clearing Members (CM)

It shall be mandatory for CFS finantee to open and maintain CDS House / Sub Account (as applicable), in order to avail the financing facility from CFS Market. It shall be the responsibility of the Clearing Member (CM) to use correct UIN while executing proprietary trades, inter exchange trades and trades on behalf of clients and also ensure that the CFS Finantee shall use same UIN in NCSS UIN database as well in CDS House / Sub-Account.

In case of automated handling of Corporate action of CFS Financed Securities, the Inter-Exchange trade information shall be processed based on the UIN of the initiating CM instead of client(s) of such initiating CM.

7.4 Upload Mechanism

User generates the required file containing the UIN information of (financier and finantees) to be uploaded to CDS through an available interface provided by the CDC. In case an error is found by CDS in the Uploaded file, CDS shall provide a downloadable file (Error Report) that shall contain the details of the errors found. Such erroneous record(s) shall be processed manually where applicable

On the basis of such uploaded file, CDC executes automatic movement of securities in accordance with their Regulations and Procedures.

7.5 CFS Open Position Report

Clearing Members may view the information related to buy and sell position of Exchange and Non-Exchange Transactions, Net BO obligation, Net Open Position (After Settlement) and Open CFS Position through CFS Open Position Report.

7.6 Exceptions

The automatic transfer shall not be executed if:

- UIN of Financer or Financee mismatches with CDS Account details.
- Shares are pledged from a Financer's account.
- There is any restriction for the movement of securities on either side (Financee or Financer) by any Regulatory authority.
- Shares are parked in Main account instead of respective account such as Sub Account or House Account of Financer.

In all such cases entitlement shall be issued / credited into financier account.

Chapter 8 FEE & CHARGES

8.1 Fees & Charges

- 8.1.1 The Company shall charge and recover fees and charges as per the Fees, Charges and Security Deposit Schedule notified by the Company from time to time in terms of the NCSS Regulations.

8.2 Fees and Charges Calculations – (Day end procedure)

- 8.2.1 Fees and charges calculation shall be one of the End of Day process and billing reports will be updated on that basis.

8.3 Billing & Calculation Procedure for Fees and Charges

- 8.3.1 The billing report as of the end of a month covering the fees and charges incurred by and/or payable by a CM for that month will be available to such CM on the first Business Day of the next month as per the Designated Time Scheme. The total amount of each such billing report for a month will be collected through Pay & Collect on the 5th Settlement Date of the next month.

8.4 Withholding Tax

- 8.4.1 To the extent and if legally required, CMs shall withhold tax from the monthly fees and charges payments to the Company and these will be debited to the CMs settling accounts with Settling Banks net of tax.
- 8.4.2 Where withholding tax is applicable and is withheld as per clause 5.4.1, CMs will deposit the tax amount in the State Bank of Pakistan within the period stipulated in the laws and shall provide to the Company paid tax challans not later than 15th day of every month.

8.5 Bill Adjustment in respect of Fees and Charges

- 8.5.1 Billing adjustment functionality will be used to debit / credit any incorrect entries made by mistake in the monthly billing reports. Such debits/credits shall be made with the approval of the Chief Executive Officer of the Company or of an officer designated for this purpose by the Chief Executive Officer.
- 8.5.2 The Company designated staff will fill out Bill Adjustment form, which shall contain following information:
- (a) CM ID
 - (b) CM Name
 - (c) Amount in figures
 - (d) Amount in words
 - (e) Indication whether adjustment is debit or credit
- 8.5.3 The Company designated staff will enter the details recorded on the Bill Adjustment Form into NCSS using Bill Adjustment functionality, and billing reports will be updated on that basis.

8.6 Reports

8.6.1 Billing Reports: Following billing reports shall be available in Fee & Billing section of Reports.

(a) **Billing Invoice Report:**

This report shall be available to the Company designated staff and CMs. CMs can view their fee and charges wise details calculated as of the preceding Business Day through this report. It can be generated on any Business Day during business hours as per the Designated Time Schedule.

(b) **Billing Statement:**

This report shall be available to the Company designated staff and CMs. CMs can view their transaction wise detail of fee and/or charges as of the preceding Business Day. It can be generated on any Business Day during business hours as per the Designated Time Schedule.

Chapter 9 GENERAL

9.1 Interpretation & Terminologies

9.1.1 The terms and definition used in these Procedures and not defined herein shall have the same meaning as set out in the NCSS Regulations. In case of any conflict as to the meaning or interpretation of any terms between these Procedures and the NCSS Regulations, the definitions set out in and the interpretation made, in accordance with the provisions of the NCSS Regulations shall prevail.

9.2 Correspondence & Inquiries

9.2.1 All correspondence / inquires shall be addressed to/made with the Customer Support Service Desk.

9.3 Operations and Service Schedule

9.3.1 Processing & Services

9.3.1.1 NCSS Business hours shall be as set out in the most current Designated Time Schedule. Execution of all NCSS operations as prescribed or described in these Procedures are subject to availability of the NCSS in accordance with the time frame defined in the Designated Time Schedule subject to revision from time to time.

9.3.1.2 Settlement activities shall not be performed on or in case of the following:

- (a) Public Holidays.
- (b) Bank Holidays.
- (c) Closure of any one or more Exchange(s).
- (d) Closure or non-availability of clearing services by any one or more Settling Bank(s) or their Designated Branches.
- (e) Any other reason determined by the Company.

9.4 Holiday Calendar and Clearing Calendar

9.4.1 Holiday Calendar

Calendar for all gazetted public and bank holidays shall be available through NCSS.

9.4.2 Clearing and Settlement Calendar

- (a) The Company shall be authorized to define Clearing and Settlement Calendar which shall be available through NCSS.
- (b) If necessary, the Company may revise the dates and days of the Clearing and Settlement Calendar any time. The Company may also revise Clearing and Settlement Calendar at the request of Exchange(s) due to any reason acceptable to the Company. However, in such case, the Company must receive the request one Business Day before the Trade Date at all Exchanges.
- (c) In case any settlement is postponed or operations of NCSS are closed down due to Force Majeure or other events beyond the control of the Company, the settlement of that day will take place on the next Business Day not affected by Force Majeure or other events described above or by any on going effects of the same.

- (d) In case the Company decide to postpone or defer its settlement date for whatsoever reason, an adequate notice and announcement shall be given to all Clearing Members, the Exchanges and Settling Banks.

9.5 Reports and Statements

9.5.1 Availability

- (a) Relevant Reports and statements mentioned in these Procedures shall be available to CMs and, where relevant, to Settling Banks. Users of NCSS can obtain/ print these reports directly from their authenticated terminals.
- (b) Complete details, formats and procedures to obtain these reports shall be available in NCSS User Manual.

9.6 Contact Details

1. The Company's Details

National Clearing Company of Pakistan Limited

8th Floor, Karachi Stock Exchange Building,

Stock Exchange Road

Karachi - 74000, Pakistan

Tel: 2460811-19 Fax (92-21) 2460827

Website: www.nccpl.com.pk

Email: info@nccpl.pk

2. Contact Persons

NCCPL Contact Information

Sr. #	Contact Person	Designation	Telephone No.	Ext #	Direct No.
Karachi Office					
1	Mohammad Lukman	Chief Executive Officer	2460811-19	100, 101	2460820-23
2	Badiuddin Akber	Head of Operation	2460811-19	220	2460822
3	Imran Ahmed Khan	Chief Financial Officer, Company Secretary, & Admin	2460811-19	401	2460865
4	Abdus Sami Khan	Chief Information Officer	2460811-19	301	2460824
5	Kashif Alam Khan	Chief Internal Auditor	4302362-69	202	
6	Mohammad Irfan	Assistant General Manager Operations	2460811-19	230	2460824
6	Mohammad Asif	Manager Operations	2460811-19	203	
7	Rehan Saif	Manager Operations	2460811-19	223	
Customer Support Services			2460811-19	213- 214	

Islamabad Office

Customer Support Services

051-111-111-900

Rana Mohammad Shahid Saleem	Deputy Manager - CSS - Islamabad Office	-----	107	051-2829272
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Lahore Office

Customer Support Services

042-111-111-900

Waheed Zafar Qureshi	Deputy Manager - CSS - Lahore Office	-----	-----	042-6316030
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