

## CHAPTER 7A

## SECURITIES LENDING AND BORROWING

### 7A.1. Definitions

When used in this Chapter of these Regulations and, where applicable, in the Procedures, the following expressions shall, unless the context requires otherwise, have the meanings herein specified below:

Accelerated Maturity Date	means, in respect of SLB Contract, any Business Day prior to the Maturity Date on which a Borrower initiates a SLB(R)Transaction
Applicant	means an NCC Participant who has applied to the Company for admission as a Lender and/or Borrower.
Bid	means a quotation displayed on the SLB Portal by a Borrower to borrow the SLB Eligible Security.
Borrowed Securities	means the SLB Eligible Securities which are delivered to the Borrower by the Lender pursuant to a SLB Transaction.
Borrower	means an NCC Participant, who meets the eligibility criteria as stipulated in the Rules and these Regulations and has been admitted by the Company as a Borrower under this Chapter of these Regulations to borrow SLB Eligible Securities from the SLB Market.
KIBOR	means the daily average of one-month Karachi Interbank Offered Rate (Ask Side) as published on Reuters page KIBR or as published by the Financial Markets Association of Pakistan in case the Reuters page is unavailable.
Lender	means an NCC Participant, who meets the eligibility criteria as stipulated in the Rules and these Regulations and has been admitted by the Company as a Lender under this Chapter of these Regulations to lend SLB Eligible Securities through the SLB Market.
Maturity Date	means, in respect of SLB Contract, the twenty-third (23rd) Business Day from the SLB Transaction Date on which the NCSS will automatically initiate a SLB (R) Transaction before the opening of business, which shall be settled in accordance with the NCSS Procedures.
Offer	means a quotation displayed on the SLB Portal by a Lender for lending the SLB Eligible Security.

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Premium	means the amount payable by the Borrower as a return on the Borrowed Securities under a SLB Contract.
Risk Meter	means a computer application as applicable in Karachi Stock Exchange for calculation of VaR margins.
Rules	means the Securities (Leveraged Markets and Pledging) Rules, 2011.
Security Deposit	means the security deposit to be maintained by SLB Participants with the Company under these Regulations.
Securities Lending and Borrowing (SLB)	means lending and borrowing of SLB Eligible Securities by the SLB Participants through the platform provided by the Company, in the capacity of an authorized intermediary, as provided in Chapter V of the Rules
SLB Contract	means a contract between the Lender and the Borrower for lending and borrowing of SLB Eligible Securities which is a combination of a SLB Transaction and a SLB (R) Transaction, wherein SLB (R) Transaction will either be initiated on the Maturity Date automatically or on the Accelerated Maturity Date upon the initiation of the Borrower.
SLB Contract Price	means the product of applicable Premium specified in the Bid, the SLB Transaction Value and SLB Contract Period.
SLB Contract Period	means the period lapsed from (and including) the SLB Transaction Date until and including the SLB (R) Transaction Date.  <i>Explanation:</i> if the SLB (R) Transaction Date is same as the SLB Transaction Date, the SLB Contract Period shall be one day.
SLB (R) Transaction Date	means, in respect of SLB Contract, any Business Day on which an SLB (R) Transaction is initiated.
SLB Eligible Securities	means the securities prescribed and notified by the Company from time to time under 7A.3.2 for lending and borrowing through the SLB Market.
SLB Market	means the market for lending and borrowing in respect of SLB Eligible Securities through SLB Transactions and incidental transactions thereof, pursuant to this Chapter of these

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Regulations.

SLB Spot Market	means the market for lending and borrowing of SLB Eligible Securities through SLB Transactions for the purpose of making delivery of securities on behalf of a Clearing Member (other than a Lender) where such Clearing Member has defaulted on his delivery obligations under the Balance Order Settlement System. However, in such market, the Company may borrow the SLB Eligible Securities on behalf of the delivery defaulter Clearing Member, of ready market seller, upon receipt of written request, to the extent of undelivered securities on or before NCSS Settlement Date within Designated Time Schedule. For the purpose of such borrowing by the Company, such delivery defaulted Clearing Member shall be the underlying Borrower of such SLB Transaction and shall also be held responsible for the corresponding settlement of SLB (R) Transaction.
SLB System	means a system provided by the Company in the capacity of an authorized intermediary, to SLB Participants for lending and borrowing in SLB Eligible Securities in an undisclosed manner through SLB Portal in accordance with these Regulations.
SLB Portal	means an automated portal provided by the Company to SLB Participants for the purpose of the SLB Market and accessible through their interface with computer system.
SLB Software	means all systems and application programmes relevant to the operation of the SLB System including all computer software maintained and used by the Company for the purposes of the SLB System (other than software used by a SLB Participant to communicate with the Company in relation to the SLB System ).
SLB Participant	means a Lender or Borrower as the case may be.
SLB ID	means the code allocated by the Company to Lender and/or Borrower.
SLB Transaction	means a transaction between the Lender and the Borrower pursuant to execution of an SLB Contract for the purpose of lending and borrowing of SLB Eligible Securities against the agreed rate of return and is received in NCSS as a locked-in contract for clearing and settlement through NCSS.
SLB Transaction Date	means the date on which an Offer and Bid is matched to form a SLB Transaction is initiated.

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- SLB (R) Transaction means a release transaction for the return of Borrowed Securities by the Borrower to the Lender on the maturity date or Accelerated Maturity Date.
- SLB Transaction Value means the amount of SLB Transaction, calculated at the immediate preceding price of a SLB Eligible Security in the Ready Market at the time of the execution of SLB Transaction.
- Special Margins means the margins as prescribed under Regulation 7A.5.5 (*Special Margins required from the Borrower*) of these Regulations.
- Spot Period means the trading periods prior to the commencement of book closure date, as notified by the stock exchange(s) from time to time.

## 7A.2. Admission and Eligibility Criteria for SLB Participants

### 7A.2.1 Eligibility Criteria for SLB Participant

A Clearing Member will be eligible to apply to the Company for admission as Lender and/or Borrower if such Clearing Member fulfills the criteria as laid down in Chapter V of the Rules and, in case of :

- (i) a Broker Clearing Member, fulfills the capital adequacy requirements specified in Regulation 7A.5.1;
- (ii) a banking company within the meaning of the Banking Companies Ordinance, 1962 (LVII of 1962), it has been allocated minimum short-term credit rating of A3;
- (iii) a financial institution to which Section 3A of the Banking Companies Ordinance, 1962 (LVII of 1962) is applicable, it has been allocated minimum short-term credit rating of A3;
- (iv) an investment finance company licensed by the Commission to provide investment finance services, it has been allocated minimum management quality rating of AM3 minus;
- (v) any other corporate entity about which the Board (subject to final approval by the Commission) is satisfied that it has a good financial standing, has the capability to satisfy the requirements of these Regulations and is otherwise a fit and proper person to be admitted as a SLB Participant;

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## 7A.2.2 Admission / Refusal to Admission of SLB Participant

1. The Company may admit an Applicant as a Lender and /or Borrower by a written notice issued to such Applicant, subject to the fulfillment of registration requirement and documentation as prescribed in Rule 25 of the Rules:
2. The Company may refuse an Applicant from admission as SLB Participant after providing an opportunity of hearing by a written notice issued to such Applicant.

## 7A.2.3 Annual Fee

Each Non-Broker Clearing Member admitted as SLB Participant shall pay an annual fee to the Company as specified in the Schedule of Fee, before the commencement of each calendar year. The payment shall be made in such account as may be designated by the Company for such purpose from time to time.

## 7A.2.4 Restriction, Suspension or Termination of SLB Participant

The Company shall impose restriction on a SLB Participant or suspend or terminate admission of a SLB Participant in accordance with the provisions of Rules. However, in the event that a SLB Participant is suspended or terminated as a Clearing Member pursuant to these Regulations, such SLB Participant shall also stand suspended or terminated as SLB Participant automatically without any further action being taken on the part of the Company. The Company shall immediately notify the same to the relevant Stock Exchange and CDC for suspension or termination of membership of the stock exchange and restriction of access in CDS respectively in accordance with the respective regulations.

## 7A.2.5 SLB Participant's Warranties and Indemnities

A SLB Participant supplying any information to the Company in pursuance of any obligation of the SLB Participant under these Regulations and the Procedures shall:

- (a) be deemed to have warranted to the Company that the information supplied is complete, true and correct and nothing has been omitted which will make such information misleading; and
- (b) indemnify the Company if any losses, damages, costs or expenses are suffered or incurred by the Company as a result of any inaccuracy contained in or omission from the information supplied by the SLB Participant or such information being misleading.

## 7A.3 SLB Eligible Securities

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## 7A.3.1 Eligibility Declaration

The Company shall select the securities that are eligible to be declared as SLB Eligible Securities for the purpose of SLB Market in accordance with the eligibility criteria described in Regulation 7A.3.2 and such other criteria as may be prescribed by the Company from time to time with prior approval of the Commission. The list of the securities so selected shall be declared by the Company as SLB Eligible Securities.

## 7A.3.2 Eligibility Criteria

1. Security has been traded at least 80% of the trading days during the review period of last 6 months.
2. Average Impact Cost of the security will not be greater than 2% as calculated based on daily Impact Costs of the review period of last 6 months.
3. Average Daily Traded Volume of security during review period of last six months in the Ready Market selected based on above criteria will not be less than 0.5% of its Free Float or 100,000 shares, whichever is lower.
4. The security is in book entry form.
5. The issuer of security is not placed on the defaulter's counter of the Exchange

## 7A.3.3 Interim Review

The satisfaction of criteria described in clauses 1 through 3 of Regulation 7A.3.2 (Eligibility Criteria) above are subject to 45 days review and any security which does not meet any of these criteria shall be excluded from the list of SLB Eligible Securities after giving notice of 30 days to NCC Participants.

## 7A.3.4 Eligibility Review

The list of SLB Eligible Securities will be reviewed by the Company every six months and such review shall be undertaken before the end of such duration and shall be based upon the data of last six months made available by the relevant Stock Exchange. In consequence of any additions and/or deletions to the existing list, the Company will give at least 30 days prior notice to the NCC Participants for introduction of incoming and phasing out of outgoing SLB Eligible Securities. After expiry of the said notice period, SLB positions in the outgoing securities shall be frozen and will be available only for release for the purposes of settlement or squaring-up. Any unreleased position in an SLB Contract on the expiry of notice period relating to outgoing securities shall stand released on its respective Maturity Date(s) or Accelerated Maturity Date(s).

## 7A.4. SLB Contracts and Settlement

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### 7A.4.1 SLB Portal

SLB Portal will be made available by the Company to all SLB Participants.

### 7A.4.2 Undisclosed Trading

All SLB Contracts shall be facilitated by the Company by acting as an authorized intermediary for the respective SLB Participants, which are underlying parties to a SLB Contract. SLB Participants will not be able to access the identity of the underlying counter-party to any of the SLB Contracts.

### 7A.4.3 Procedure

1. All Offers and Bids for the SLB Transactions will be displayed directly on the SLB Portal.
2. An Offer shall specify the following:
  - (i) SLB Eligible Securities that the Lender intends to lend;
  - (ii) The applicable rate of Premium;
  - (iii) SLB ID of the Lender and UIN details of its client where securities of such client are being used; and
  - (iv) UIN Registration Details filled in the UIN Registration Screen of NCSS.

Provided that the information relating to (iii) and (iv) above shall not be displayed on the SLB Portal.

1. A Bid shall specify the following:
  - (i) SLB Eligible Securities that the Borrower intends to borrow;
  - (ii) The applicable rate of Premium;
  - (iii) Trader ID of the Borrower; and
  - (iv) UIN Registration Details filled in the UIN Registration Screen of NCSS

Provided that the information relating to (iii) and (iv) above shall not be displayed on the SLB Portal.;

4. The execution of a SLB Transaction will be confirmed when an Offer is matched with a Bid or *vice versa*. Once confirmed, an SLB Transaction shall be irrevocable except as provided in these Regulations and simultaneously a SLB(R) Transaction shall be generated by the SLB System.

### 7A.4.4 Revocation of Offers and Bids

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SLB Participants will be allowed to modify or cancel any Offers or Bids placed by them respectively in the SLB Market before the same are matched.

### 7A.4.5 Irrevocability of SLB / SLB (R) Transactions

Neither the Lender nor the Borrower will be allowed to modify and/or cancel any part of SLB Transaction or SLB (R) Transaction.

### 7A.4.6 SLB Participants shall not be allowed to lend and borrow the same SLB Eligible Security for the same client or for proprietary position until settlement of existing SLB Contract in such SLB Eligible Security. No SLB Participant shall further lend any Borrowed Securities.

### 7A.4.7 Settlement Mechanism

The SLB Transactions and SLB (R) Transactions shall be settled under Balance Order System as prescribed in these Regulations and the Procedures as follows:

- i) in the case of SLB Transaction, the Borrower shall be obliged to pay the SLB Transaction Value to the Company and the Lender shall be obliged to deliver the Borrowed Securities. However, 50% of such SLB Transaction Value shall be paid to the Lender by the Company.

Provided that, in case where SLB Transaction executed in SLB Spot Market, the Borrower shall be obliged to pay the SLB Transaction Value to the Company and the Lender shall be obliged to deliver the Borrowed Securities to the CDC account of the Company, within the time specified by the Company from time to time. Accordingly, the Company shall transfer such Borrowed Securities to the respective CDC main, house and sub-accounts, as the case may be, of the buyer Clearing Members. In such case, 50% of that SLB Transaction Value shall be paid to the Lender by the Company.

- ii) in the case of SLB (R) Transaction, generated either on the basis of SLB Transactions in SLB Market or SLB Spot Market as the case may be,:
  - a. the Borrower shall deliver the SLB Securities and the Company shall pay the remaining amount of SLB Transaction Value to the Borrower after adjusting SLB Contract Price, provided that where SLB Contract Price exceeds the SLB Transaction Value, the Borrower shall pay such excess amount to the Company in accordance with the procedures; and

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- b. the Lender shall pay 50% of the SLB Transaction Value to the Company and the Company shall deliver the Borrowed Securities along with the adjusted SLB Contract Price to the Lender in accordance with the procedures.

### 7A.4.8 Forced Release

All SLB Contracts shall be force released on the working day before the start of a Spot Period relating to the SLB Eligible Security.

### 7A.4.9 Functions of the Company

Subject to Regulation 7A.4.10, the Company in its role as the authorized intermediary shall act as a common agent of SLB Participants for settlement of the SLB Contracts between the SLB Participants and for delivering securities to and receiving securities from and for receiving or paying any amounts payable to or payable by such SLB Participants in connection with any of the SLB Contracts and to do all things necessary or proper for carrying out the foregoing purposes in accordance with these Regulations without incurring any liability or obligations as a principal.

### 7A.4.10 Liability of Company

1. The only obligation of the Company with regard to the settlement of the SLB Transactions and SLB (R) Transactions shall be to facilitate the delivery and payment in respect of such transactions between the SLB Participants in accordance with these Regulations. Each SLB Participant acknowledges and confirms that the Company shall not be responsible for:
  - (a) the title, ownership, genuineness, regularity or validity of any security or any other documents or instrument passing through the NCSS;
  - (b) the execution, genuineness, validity, enforceability or sufficiency of any agreement or any other document relating thereto;
  - (c) the collectability of amounts payable in respect of SLB Contracts;
  - (d) the financial condition of any SLB Participant;
  - (e) the performance and observance by SLB Participants of their obligations under the agreements or any other documents executed between them in respect of SLB System; or
  - (f) the accuracy of any statements (whether written or oral) made by a SLB Participant in or in connection with any agreement or documents in respect of SLB Contracts.

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2. Each SLB Participant confirms to the Company that it has made its own independent investigation and assessment of the risk involved in connection with its participation in the SLB System and has not relied on any information provided to it by the Company in connection with the SLB System; and
3. The Company's obligation to make payments and to deliver securities to SLB Participants under these Regulations is conditional upon it receiving the applicable payment or securities and none of the SLB Participants shall have any recourse to the Company if the Company has not received the corresponding payment or securities. The Company shall not have any obligation to pay any amount or deliver any securities except to the extent that the Company has received such corresponding payment, it being acknowledged and agreed by the SLB Participants that the credit risk assumed by the SLB Participants in relation to their participation in the SLB System is that of the SLB Participants.

### 7.4.11 Liability of the SLB Participants

All outstanding SLB Transactions and SLB (R) Transactions shall be binding upon the SLB Participants until settled in accordance with these Regulations.

### 7A.4.12 Transaction Costs

All SLB Participants shall pay prevailing transaction costs to the Company in accordance with Fees, Charges and Security Deposit Schedule for all transactions relating to SLB Contracts.

### 7A.4.13 Cost of Lending

The applicable rate of Premium on SLB Transactions shall be determined by the matching of Offer and Bids. Such rate, however, shall not be greater than one month KIBOR (prevailing at the close of immediately preceding working day) plus 8% per annum.

## **7A.5. Risk Management**

### 7A.5.1 Capital Adequacy Requirements

1. The minimum net capital balance for SLB Participants which are Broker Clearing Members shall be the higher of the amount prescribed in Section 3(b) of the Securities and Exchange Rules, 1971 or any other amount as may be specified by the relevant Stock Exchange from time to time.

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2. The aggregate Exposure of each SLB Participant who is a Broker Clearing Member, (including outstanding Positions on all Markets and the SLB market) shall not exceed 25 times of its net capital balance.
3. The aggregate Exposure of each SLB Participant who is a Broker Clearing Member in respect of SLB Market shall not exceed 5 times of its net capital balance.
4. The Company shall monitor the net capital balance of each SLB Participant who is a Broker Clearing Member on a pre-trade basis.

### 7A.5.2 Separate Markets

All Markets are separate Markets and accordingly, no netting shall be allowed between and/or among these Markets.

### 7A.5.3 Approved Collaterals

Cash shall be the only acceptable collateral against any margin and Marked-to-Market Losses requirement under these Regulations.

### 7A.5.4 Exposure and Margins

1. Security-wise and client-wise exposure of each SLB Participant will be calculated by the Company at any point in time, subject to the applicable netting rules as prescribed by these Regulations.
2. All trades in any SLB Eligible Security shall be subject to the margin requirements prescribed in these Regulations or such other additional margins as the Company may prescribe from time to time in addition hereto, with the prior permission of the Commission.
3. The VaR based margins for each SLB Eligible Security shall be calculated by the Company applying VaR Estimates calculated by the Risk Meter at the end of each trading day.
4. The SLB Participants shall deposit exposure margins in respect of their SLB Transaction on the day that the same is executed. Upon settlement of the SLB Transaction, the VaR based exposure margins shall be collected from the Borrower till settlement of SLB (R) Transaction. However, 50% of the SLB Transaction Value held by the Company on the Borrowed Securities shall be treated as exposure margin of the respective Lenders till settlement of SLB (R) Transaction.

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5. (a) The exposure margins shall be deposited by a SLB Participant within such time as may be determined by the Company from time to time but in no case later than the opening of trade on the next trading day.
  - (b) Exposure margins deposited by a SLB Participant under these Regulations must be kept separate by the Company, segregated from margins of all other Markets. Such SLB related margins will be utilized for the benefit of SLB Participants only in the event of default.
6. Margins payable by a SLB Participant under these Regulations will be accepted by the Company only in the form of cash.
7. No netting such as across Markets, across clients, across different SLB Eligible Securities, across Settlement Dates or between exposure as Borrower and Lender shall be allowed whatsoever, to any SLB Participant.

### 7A.5.5 Marked-to-Market Losses

1. Marked-to-Market Loss shall be calculated, separately for each SLB Eligible Security, for each SLB Participant on the basis of the Closing Price.
2. The obligation of the SLB Participants to deposit their respective Marked-to-Market Losses shall commence from the SLB Transaction Date and shall continue till such time that SLB Transaction is settled. Thereafter, Marked-to-Market Losses shall be collected from the SLB Participants on SLB (R) Transaction till the settlement date of such SLB (R) Transaction. However where Marked-to-Market Losses are payable by a Lender, such Lender shall pay such Marked-to-Market Losses on 50% of the SLB Transaction Value.
3. Marked-to-Market Losses shall be deposited by each SLB Participant with the Company before such time as may be specified by the Company or at the end of each trading day but not later than prior to opening of trading on the next day.
4. While determining the Marked-to-Market Losses payable by SLB Participants, no netting such as across clients, across Markets, across contract periods, across securities, across Settlement Dates etc shall be allowed whatsoever.
5. Deposit against Marked-to-Market Losses will be accepted by the Company in the form of cash only.

### 7A.5.6 Special Margin required from Borrower

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1. Special Margin shall be payable on daily basis only where the average transaction price of the Borrower's proprietary position or his client's position in a SLB Eligible Security in SLB Market is different from 26 weeks moving average price of that SLB Eligible Security in the Ready Market.
2. In case where the average transaction price of a Borrower's proprietary position or his client's position in a SLB Eligible Security in SLB Market is less than the 26 weeks moving average price of that SLB Eligible Security in the ready market by more than 10% then special margins shall be payable equal to the difference between average transaction price of the gross sell position of such Borrower (including proprietary and client positions) and 26 weeks moving average price of that SLB Eligible Security in the ready market.

### 7A.5.7 Position Limits

1. Position of SLB Participants shall not exceed the following:

<b>Market wide position limit</b>	20% of free-float for each SLB Eligible Security
<b>Member wide position limit</b>	2% of free-float of the SLB Eligible Security
<b>Client wide position limit</b>	0.5% of free-float of the SLB Eligible Security. Client position will be universal and determined on UIN basis.

2. Each SLB Participant's Position in a SLB Eligible Security at any point in time shall comprise of all outstanding SLB (R) Transactions.

### 7A.5.8 Lien on Deposits

The monies, SLB Eligible Securities and other assets deposited by a SLB Participant by way of exposure margins, Special Margins and Marked-to-Market Losses under these Regulations shall be subject to a first and paramount lien and pledge of the Company, with a right of sale and set off in each case in accordance with these Regulations, for any sum due to the Company by such SLB Participant and for the proper and punctual performance of such SLB Participant's engagements, obligations and liabilities arising out of or incidental to any SLB Contract and other contracts made subject to these Regulations or anything done in pursuance thereof.

### 7A.5.9 Obligation of SLB Participant to collect margins from their clients

1. SLB Participants taking exposure in SLB Market under these Regulations shall collect margins from their respective clients in accordance with the rates prescribed by the Company based on VaR estimates. Such prescribed margins

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shall be the minimum margins that must be collected by the SLB Participants from their respective clients while taking exposure on behalf of such client.

2. The collection of any type of margin by a SLB Participant from its client(s) shall be the sole responsibility of such SLB Participant; nevertheless any failure of the client to pay such margin shall not affect the obligation of the SLB Participant to pay such margin to the Company.

### 7A.5.10 Withdrawal or Release of Collateral

On submission by a SLB Participant of written request, duly signed by an authorized person, the Company may release any Collateral held against the Collateral requirement of such SLB Participant, provided that such release of Collateral shall not create any deficiency in the value of the Collateral required to be deposited by such SLB Participant with the Company in terms of this Chapter.

### 7A.5.11 Suspension/Default

Where a SLB Participant fails to deposit any margin, Marked-to-Market Losses or special margin as provided in these Regulations or fails to comply with any other requirement of these Regulations, the Company shall initiate default proceedings against such SLB Participant in accordance with these Regulations.

Where a SLB Participant fails to deposit Collaterals against exposure margins and Marked-to-Market Losses and where applicable, Special Margins, and fails to settle SLB Transaction and SLB (R) Transaction, as the case may be, or fails to comply with any other requirement(s) of these Regulations, the Company shall initiate default proceedings in accordance with the provisions of Chapter 13 (Money Default Management) and other relevant provisions of these Regulations and Procedures.

## CHAPTER 7B

## MARGIN FINANCING SYSTEM

### 7.B1 Definitions inception

#### 7.B1.1 Definitions

When used in this Chapter of these Regulations and, where applicable, in the Procedures, the following expressions shall, unless the context requires otherwise, have the meanings herein specified below:

Application Form		means the application form prescribed and made available by the Company from time to time, for admission of a Clearing Member as a Margin Financier in the MF Market under these Regulations.
Applicant		means a Clearing Member who has applied to the Company for admission as a Margin Financier.
Blocked Status		means where any MF Eligible Securities are delivered to the CDC account of a Margin Financier in such status that the same cannot be dealt with by the Margin Financier.
Broker Margin Financier		means a Broker Clearing Member of the NCSS who has been admitted as a Margin Financier by the Company under these Regulations. Such Broker Clearing Member can provide financing in accordance with the Rules.
Financing Participation Ratio ("FPR")	Ratio	means the ratio between the minimum equity participation required to be paid by the Margin Finantee for the purchase of each MF Eligible Security and the MF Transaction Value. For this purpose, the minimum equity participation for each MF Transaction shall be 25% of MF Transaction Value or VaR Estimate of the relevant MF Eligible Security, whichever is higher.
KIBOR		means the daily average of one-month Karachi Interbank Offered Rate (Ask Side) as published on Reuters page KIBR or as published by the Financial Markets Association of Pakistan in case the Reuters page is unavailable.
MF Contract Period		means the period agreed among the MF Participants before execution of MF Transactions.
MF Eligible Securities		means the Securities declared by the Company as such pursuant to Regulation 7B.3.1.1 (Eligibility Declaration).
MF Market		means the market for offering and availing financing in respect of MF Eligible Securities through MF Transactions and incidental transactions thereof, pursuant to this Chapter of these Regulations.

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MF Mark-up Rate	means the applicable rate of return specified at the time of MF Transaction. The mark-up rate for this purpose shall be capped on KIBOR + 8% per annum.
MF Module	means a module provided by the Company in NCSS to MF Participants for the purpose of the initiation, affirmation and recording of MF Transactions and MF (R) Transactions in MF Eligible Securities, pursuant to this Chapter of these Regulations.
MF Participant	means a Margin Financier or a Margin Finanee as the case may be.
MF System	means a system provided by the Company in the capacity of an authorized intermediary to MF Participants for Margin Financing based on bilateral agreements between the relevant MF Participants as counter-parties and the initiation, affirmation and recording of MF Transactions and MF (R) Transactions through MF Module in accordance with these Regulations.
MF (R) Transaction	means a transaction which is effected on the MF System for the purpose of (i) return of the Margin Financed Securities and MF Transaction Value by the Margin Financier and the Margin Finanee respectively who are party to the corresponding MF Transaction or (ii) closing the MF Transaction as envisaged in paragraph 2 of Regulation 7B.3.4 or 7B.10.3.
MF Transaction	means a transaction which is effected on the MF System to partially finance the purchase of MF Eligible Securities in the ready market and is received in NCSS whereby settlement obligation relating to the relevant ready market purchase will stand transferred from the Margin Finanee to the Margin Financier to the extent of the agreed FPR.
MF Transaction Value	means the amount of financing agreed to be provided by a Margin Financier in a MF Transaction based on the applicable FPR.
Margin Finanee	means a Broker Clearing Member of the Company, who enter into MF Transaction(s).
Margin Finanee Clearing Member Agreement	means an agreement setting out the terms relating to the Margin Financing, in the form prescribed by the Company from time to time, entered into by a Broker Clearing Member and Company as a pre-condition to admission of that Broker Clearing Member as a Margin Finanee.

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Margin Financier	means a Broker Clearing Member who meets the eligibility criteria as stipulated in these Regulations and has been admitted by the Company as a Margin Financier under this Chapter of these Regulations.
Margin Financier Clearing Member Agreement	means an agreement setting out the terms relating to the Margin Financing, in the form prescribed by the Company from time to time, entered into by a Clearing Member and Company as a pre-condition to admission of that Clearing Member as a Margin Financier.
Margin Financing	means a financing facility made available by the Margin Financier to its Margin Finantee pursuant to this Chapter of these Regulations to partially finance the purchase of MF Eligible Securities in the ready market.
Margin Financed Securities	means the MF Eligible Securities the purchase whereof is partially financed by a Margin Financier pursuant to a MF Transaction.
Non-Broker Margin Financier	means a Non-Broker Clearing Member of the NCSS who has been admitted as a Margin Financier by the Company under these Regulations.
Rules	means the Securities (Leveraged Markets and Pledging) Rules, 2011.
Security Deposit	means the security deposit to be maintained by MF Participants with the Company under these Regulations.
Spot Period	means the trading periods prior to the commencement of book closure date, as notified by the stock exchange(s) from time to time.

## **7B.2. Applications for Admission and Admission Criteria for MF Participants**

### **7B.2.1 Eligibility Criteria for a Margin Financier**

A Clearing Member will be eligible to apply to the Company for admission as Trading Financier if such Clearing Member fulfills the criteria as laid down in Chapter III of the Rules and, in case of:

1. a member of a Stock Exchange, it has been admitted as Broker Clearing Member by the Company and fulfills the net capital requirements as prescribed in these regulations;
2. a banking company within the meaning of the Banking Companies Ordinance, 1962 (LVII

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of 1962) it has been allocated minimum short-term credit rating of A3 ;

3. a financial institution covered under section 3A of the Banking Companies Ordinance, 1962 (LVII of 1962) it has been allocated minimum short-term credit rating of A3 ;
4. an investment finance company licensed by the Commission to provide investment finance services, it has been allocated minimum management quality rating of AM3 minus;
5. any other Corporate entity about which the Board (subject to final approval by the Commission) is satisfied that it has a good financial standing, has the capability to satisfy the requirements of these Regulations and is otherwise fit and proper to be admitted as a Margin Financier.

### **7B.2.2 Admission/ Refusal to Admission of a Margin Financier**

1. The Company may admit an Applicant as a Margin Financier by a written notice issued to such Applicant, subject to the fulfillment of registration requirement and documentation as prescribed in Rule 9 of the Rules.
2. The Company may refuse an Applicant for admission as a Margin Financier after providing an opportunity of hearing by a written notice issued to such Applicant

### **7B.2.3 Margin Finances for Margin Financing**

All Broker Clearing Members shall be Margin Finances in the MF Module of NCSS, provided that the Company is satisfied that each such Broker Clearing Member:

1. holds a valid membership under the respective regulations, rules and procedures governing their admission to the relevant stock exchange(s);
2. has no action, pending in any court, which might materially and adversely affect such Broker Clearing Member's membership, or no such action has been initiated by the concerned stock exchange(s) or the Commission against such Broker Clearing Member;
3. is not in breach of these Regulations, any law or other regulations applicable to such Broker Clearing Member; and
4. has submitted an agreement appropriately stamped and duly executed by its authorised representative(s).

Margin Finnee may avail financing on behalf of its clients as well, against the client's ready market purchase.

### **7B.2.4 Suspension or Termination of MF Participant**

The Company shall impose restriction on a MF Participant or suspend or terminate admission of a MF Participant in accordance with the provisions of the Rules. However, in the event that a MF Participant is suspended or terminated as a Clearing Member pursuant to these Regulations, such MF Participant shall also stand suspended or terminated as MF Participant automatically without any further action being taken on the part of the Company. The Company shall immediately notify the same to the relevant Stock Exchange and CDC for suspension or termination of membership of Stock Exchange and restriction of access in CDS in accordance with the respective regulations.

### **7B.2.5 MF Participant's Warranties and Indemnities**

A MF Participant, supplying any information to the Company in pursuance of any obligation of the MF Participant under these Regulations and the Procedures, shall:

- (a) be deemed to have warranted to the Company that the information supplied is true and correct; and
- (b) indemnify the Company if any losses, damages, costs or expenses are suffered or incurred by the Company as a result of any inaccuracy contained in the information supplied by the MF Participant.

### **7B.3. MF Transactions and Settlement**

#### **7B.3.1 MF Module**

MF Module shall be made available by the Company in NCSS to all MF Participants for recording of initiation and affirmation of MF Transactions and MF (R) Transactions.

#### **7B.3.1.1 Eligibility Declaration**

The Company shall select the securities that are eligible to be declared as MF Eligible Securities for the purpose of MF Market in accordance with the eligibility criteria described in Regulation 7B.3.1.2 and based on the data made available by the relevant Stock Exchange. Securities so selected shall be declared by the Company as MF Eligible Securities.

#### **7B.3.1.2 Eligibility Criteria**

5. Security have been traded at least 70% of the trading days during the review period of last 6 months.
6. Average Impact Cost of the Securities will not be greater than 2.5% as calculated based on

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daily Impact Costs of the review period of last 6 months.

7. Average Daily Trading Volume of Security in the Ready Market selected based on above criteria will not be less than 50,000 shares.
4. The security is in book entry form.
5. The issuer of security is not placed on the defaulter's counter of the Exchange.
6. Securities of listed asset management companies, mutual funds, brokerage houses and companies whose principal activity includes short term investment/trading in securities shall not be eligible. A Finantee can not avail financing in any scrip where he is a director or sponsor or such scrip is an associated company or associated undertaking of such Finantee. Margin Financier shall not provide financing in scrip where such Margin Financier is a director or sponsor or such scrip is an associated company or associated undertaking of such Margin Financier.

### **7B.3.1.3 Interim Review**

The satisfaction of criteria described in clauses 1 through 3 of Regulation 7B.3.1.2 (Eligibility Criteria) above are subject to 45 days review and any security which does not meet any of these criteria shall be excluded from the list of MF Eligible Securities after giving notice of 60 days to NCC Participants.

### **7B.3.1.4 Eligibility Review**

This list of MF Eligible Securities will be reviewed by the Company every six months and such review shall be undertaken before the end of such duration and shall be based upon the data of last six months available at the relevant stock exchange. In consequence of any additions and/or deletions to the existing list, the Company will give at least 60 days prior notice to the NCC Participants for introduction of incoming and phasing out of outgoing MF Eligible Securities. After expiry of the said notice period, MF positions in the outgoing securities shall be frozen and will be available only for release for the purposes of settlement or squaring-up.

### **7B.3.2 Margin Financing Agreement**

1. Before execution of MF Transaction in MF Module, MF Participants shall be required to arrange the credit lines and agree terms and conditions thereof. For this purpose, MF Participants shall execute an agreement in accordance with the Rules and covering matters such as:

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- a) list of MF Eligible Securities acceptable for Margin Financing and an MF Eligible Security included in such list shall not be excluded from such list except by giving a notice of at least two weeks in advance.
  - b) FPR for each MF Eligible Security, which is acceptable to the Margin Financier;
  - c) Limit of Margin Financing Facility
  - d) MF Mark-up Rate;
  - e) MF Contract Period;
  - f) forms of acceptable Collateral for margin and MtM losses;
  - g) Default management procedures
  - h) treatment of corporate actions; and
  - i) any other matter as agreed upon between the MF Participants.
2. The Broker Margin Financiers shall only provide Margin Financing to its clients and shall be required to execute an agreement with such client on the aforementioned conditions and in accordance with the Rules.
  3. A Margin Financier shall be allowed to provide Margin Financing in MF Eligible Securities only to the extent of 5% of such MF Eligible Security's free float. Free float for this purpose shall be as determined by the Stock Exchange.
  4. The Margin Financee shall be required to execute an agreement with their client for the purposes of availing Margin Financing. Such agreement shall clearly specify that such client takes the risk that his securities may be sold by the Margin Financier, in case of any default by such Margin Financee including the default on any margin call made by the respective Margin Financier.

### **7B.3.3 MF Transaction Initiation and Affirmation Process**

1. Margin Financier will be required to define the requisite details in MF Module such as Margin Financee, maximum Margin Financing amount, MF Eligible Security(ies), FPR and any other information that may be required by the Company from time to time.
2. Margin Financing facility shall only be available against ready market net purchases on each trade date and shall be available to the MF Participants in accordance with the Designated Time Schedule. For this purpose, the Company shall calculate the member-wise, security-wise and UIN-wise (including proprietary account) net purchases from ready market trades for each trade date received on NCSS for each broker as Margin Financee. The net purchases shall not include purchases that are financed in the MT Market.
3. Based on the above net purchases calculated by the Company as provided in paragraph 2

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above, the Margin Financee may initiate MF Transaction (until affirmed by the Margin Financier, such transaction will be hereinafter referred to as “Initiated Transaction”) fully or partially in whole multiples of Marketable Lots on NCSS. Such Initiated Transactions can be initiated by the Margin Financee and transmitted to Margin Financier within Designated Time Schedule. Provided that a Broker Margin Financier cannot provide Margin Financing to any member of the same Stock Exchange, whether or not such member is a Margin Financee.

4. Upon initiation, the details of such Initiated Transaction shall be reflected on NCSS to the counter-party Margin Financier for its affirmation. However, affirmation shall be restricted up to FPR.
5. Affirming Margin Financier shall not be allowed to edit the details of an Initiated Transaction and shall have an option to affirm or reject the entire Initiated Transaction within Designated Time Schedule on the Trade Date.
6. Initiating Margin Financee can cancel an Initiated MF Transaction at any time before it is affirmed by the Margin Financier. Upon cancellation of any Initiated Transaction by the initiating Margin Financee or its rejection by the counter-party Margin Financier, NCSS shall allow generation of further MF Transactions up to limit of underlying net purchases in such MF Eligible Security.
7. Where an Initiated Transaction is neither affirmed nor rejected within the specified time as per Designated Time Schedule on the Transaction Date, NCSS shall automatically drop it from MF Module during End of Day process and such Initiated Transaction shall cease to exist.
8. The initiation and affirmation of MF Transactions shall be subject to the fulfillment of the following conditions precedent:
  - a) Credit line is available from Margin Financier along with list of MF Eligible Security(ies) and its respective FPR;
  - b) An Eligible Financier shall not finance any MF Eligible Security in excess of 5% of the free float of that MF Eligible Security.
  - c) Member-wise, security-wise and UIN-wise (including proprietary account) net purchases from ready market trades are available for such MF Eligible Security(ies);
  - d) Position limits (market-wide, member-wide, client-wide) as defined in this Chapter of these Regulations are available; and
  - e) Capital adequacy limit as defined in this Chapter of these Regulations is not being exceeded.

### **7B.3.4 Settlement of MF Transactions**

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1. Settlement Date of each MF Transaction shall be the same of the underlying purchases of MF Eligible Securities in ready market. Once the MF Transaction is affirmed by the respective counter-party Margin Financier, such MF Transactions shall be settled under Balance Order System as prescribed in these Regulations and the Procedures whereby, the Margin Financier shall be obliged to pay the affirmed MF Transaction Value on the Settlement Date. The remaining portion of the ready market purchases shall be settled by the respective Margin Finantee on the respective Settlement Date. Upon settlement, all the Margin Financed Securities shall be delivered to the CDC account of the respective Margin Financier in Blocked Status.
2. If a Margin Financier does not receive the Margin Financed Securities in its CDC account in Blocked Status on T+2 on account of default by the seller of Margin Financed Securities, the Company shall initiate squaring up process in accordance with NCSS Procedures and the Margin Financed Securities purchased through squaring process shall be transferred to the CDC account of such Margin Financier in Blocked Status on SD+1 basis. If the Company is unable to purchase the relevant Eligible Security in the squaring up process, then the Company will initiate close-out process in accordance with NCSS Procedures and shall pay to such Margin Financier and finantee the close-out amount determined in accordance with NCSS Procedures proportionately as per the FPR and such Margin Financier shall initiate an MF (R) Transaction to the extent of undelivered Eligible Securities against which the close-out has been paid as aforesaid. The Margin Finantee will have no obligation with regard to such MF (R) Transaction.

### **7B.3.5 MF (R) Transaction Initiation and Affirmation Process**

1. An MF(R) Transaction can be initiated by a Margin Finantee with his Margin Financier in whole multiples of Marketable Lots of net sales of Margin Financed Security from ready market at MF Transaction Value. For this purpose the Company shall calculate the member-wise, security-wise and UIN-wise (including proprietary account) net sales from ready market trades for each trade date received on NCSS.
2. A Margin Finantee may also initiate MF (R) Transactions without following the requirements specified in paragraph 1 above. Upon affirmation by the relevant Margin Financier, such transactions shall be settled directly between the relevant MF Participants outside the NCSS. In such case, Margin Financed Securities shall be unblocked from the Blocked Status of relevant Margin Financier and shall be transferred automatically in available status in CDC account of such Margin Finantee or sub-accounts of its clients, as the case may be.
3. Initiating Margin Finantee can cancel the initiated MF (R) Transactions at any time before it is affirmed by the counter-party Margin Financier.
4. Upon initiation of an MF (R) Transaction, the same details shall be reflected through MF Module to the counter-party Margin Financier for its affirmation. Affirming Margin

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Financier shall not be allowed to edit the details of the initiated MF(R) Transaction and shall have an option to affirm or reject the initiated MF (R) Transactions within Designated Time Schedule on the Trade Date.

5. If an initiated MF (R) Transaction is neither affirmed nor rejected within the specified time as per Designated Time Schedule on the Transaction Date, NCSS shall automatically drop it during End of Day process for further processing.
6. A Margin Financier may also initiate an MF (R) Transaction in accordance with Regulation 7B.10.3
7. The MF Contract Period for each MF Contract shall be decided by MF Participants.

### **7B.3.6 Settlement of MF (R) Transactions**

1. Settlement Date of each MF (R) Transaction as prescribed in paragraph 1 Regulation 7B.3.5 shall be the same of the underlying sale of MF Eligible Securities in ready market. Once such MF (R) Transaction is affirmed by the Margin Financier, such MF (R) Transaction shall be settled under Balance Order System as prescribed in these Regulations and the Procedures whereby, the Margin Financier shall be entitled to receive the affirmed MF Transaction Value on the Settlement Date and Margin Financed Securities shall be unblocked from the Blocked Status and transferred from the CDC account of the Margin Financier for onward delivery under Balance Order System. The mark-up accrued, at the MF Mark-up Rate, during the MF Contract Period shall be settled by MF Participants outside NCSS. Moreover, corporate actions of the Margin Financed Securities shall also be settled by the respective MF Participants in accordance with their mutual agreement outside the NCSS.
2. If the trade value of the ready market sell transaction, which is underlying transaction of an MF (R) Transaction, is less than the MF Transaction Value of such MF (R) Transaction (the "Shortfall Amount"), the Balance Order delivery movement for the Margin Financier of such MF (R) Transaction shall remain blocked until the Margin Finantee of such MF (R) Transaction has paid the Shortfall Amount to the Company. If such Margin Finantee fails to make the payment of the Shortfall Amount in accordance with the Designated Time Schedule, such MF (R) Transaction shall stand cancelled. Upon such cancellation, the respective Margin Finantee shall continue to remain responsible for and shall ensure the settlement of its entire ready market sell transactions. In case of non-fulfillment of such ready market settlement obligation by the respective Margin Finantee, the delivery default procedures in accordance with these Regulations shall be applied for the satisfaction of corresponding ready market purchasers.

### **7B.4 Functions of the Company**

Subject to Regulation 7B.5, the Company shall act as the MF Module provider for recording of MF Transactions and MF (R) Transactions between the MF Participants and for

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delivering Securities to and receiving Securities from and for receiving or paying any amounts payable to or payable by such MF Participants on account of MF Transaction Value in connection with MF Transactions and MF (R) Transactions and to perform such other functions as specified in these Regulations as are necessary or proper for carrying out the foregoing purposes without incurring any liability or obligations as principal, agent, fiduciary or trustee to any of the MF Participants or their respective clients.

### **7B.5 Liability of Company**

1. The only obligation of the Company with regard to the settlement of the MF Transactions and MF (R) Transactions shall be to facilitate the delivery and payment in respect of such transactions between the MF Participants in accordance with these Regulations. Each MF Participant acknowledges and confirms that the Company shall not be responsible for:
  - (a) the title, ownership, genuineness, regularity or validity of any security or any other documents or instrument passing through the NCSS;
  - (b) the execution, genuineness, validity, enforceability or sufficiency of any agreement or any other document relating thereto;
  - (c) the collectability of amounts payable in respect of Margin Financing;
  - (d) the financial condition of any MF Participant;
  - (e) the performance and observance by MF Participants of their obligations under the agreements or any other documents executed between them in respect of Margin Financing; or
  - (f) the accuracy of any statements (whether written or oral) made by an MF Participant in or in connection with any agreement or documents in respect of Margin Financing.
2. Each MF Participant confirms to the Company that it:-
  - (a) has made its own independent investigation and assessment of the financial condition and affairs of the concerned MF Participants in connection with its participation in the Margin Financing and has not relied on any information provided to it by the Company in connection with the Margin Financing; and
  - (b) will continue to make its own independent appraisal of the creditworthiness of the MF Participants with which it executed any MF Transaction or MF (R) Transaction.
3. The Company's obligation to make payments to MF Participants is conditional upon it receiving the applicable payment and none of the MF Participants shall have any

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recourse to the Company if the Company has not received the corresponding payment. The Company shall not have any obligation to pay any amount except to the extent that the Company has received such corresponding payment, it being acknowledged and agreed by the MF Participants that the credit risk assumed by the MF Participants in relation to their participation in the MF System is that of the MF Participants.

### **7B.6 Liability of the MF Participants**

All outstanding MF Transactions and MF (R) Transactions shall be binding upon the MF Participants until settled in accordance with these Regulations.

### **7B.7 Transaction Costs**

**7B.7.1** All MF Participants shall pay prevailing transaction costs to the Company in accordance with Fees, Charges and Security Deposit Schedule for all MF Transactions and MF (R) Transactions.

**7B.7.2** In case of any default in any settlement obligation by the Margin Financier in accordance with the provisions of the NCCPL Regulations, the respective Margin Financier shall pay penalty to the Company which shall include:

- (i) For one time default in a calendar year, 1.00 % of the value of defaulted position;
- (ii) For second time default in a calendar year, 2.00 % of the value of defaulted position; and
- (iii) For third time default in a calendar year, 4.00 % of the value of defaulted position and such Margin Financier shall be suspended for a period of three months from the of MF Market.

### **7B.8 MF Mark-up Rate**

The applicable rate of return on Margin Financing shall be determined by the MF Participants. Such rate, however, shall be capped on KIBOR (prevailing at the close of immediately preceding working day) plus 8%. However, a Margin Financier may, at its discretion, make the Margin Financing available at the rate of return below the rate specified above.

### **7B.9 Risk Management**

#### **7B.9.1 Capital Adequacy Requirements for Margin Finances:**

1. The aggregate Exposure of each Margin Finanee in all Markets including MF Transactions shall not exceed 25 times of its net capital balance.

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2. The aggregate Exposure of each Margin Finanee in respect of MF Market shall not exceed 5 times of its net capital balance.
3. Exposure to a single client shall not exceed 5% of the total permissible exposure and Exposure in single MF Eligible Security shall not exceed 20% of the total permissible exposure (5 times of net capital balance).
4. Minimum net capital balance for Broker Margin Financier:
  - (i) For Broker Clearing Member of Karachi Stock Exchange will be Rs. 20 million;
  - (ii) For Broker Clearing Member of Lahore Stock Exchange will be Rs. 8 million; and
  - (iii) For Broker Clearing Member of Islamabad Stock Exchange will be Rs. 5 million.
5. The Company shall monitor the net capital balance of each Margin Finanee, at pre-initiation of MF Transactions. The MF Module will not allow any Margin Finanee to enhance its Exposure over and above the prescribed capital adequacy limits and will accordingly reject such transactions.

### 7B.9.2 Position Limits on Margin Finanees

1. Position of Margin Finanee shall not exceed the following:

<b>Market wide position limit</b>	40% of free-float for each security
<b>Member wide position limit</b>	1% of the free-float for each security
<b>Client wide position limit</b>	0.5% of the free-float for each security. Client position will be universal and determined on UIN basis.

2. Each Margin Finanee's Position in MF Eligible Security at any point in time shall comprise of all outstanding MF (R) Transactions.

### 7B.9.3 Netting

All Markets are separate Markets and accordingly, no netting shall be allowed between and/or among these Markets.

### 7B.9.4 Exposure and Margins for MF Participants

Margins will initially apply on the Margin Financee on the ready market purchase as per the risk management requirements of the Exchanges at the time of execution of trades. However, Margin Financees, will continue to pay margins to respective Margin Financier until MF (R) Transaction is settled.

The Margin Financier shall be required to pay exposure margin on the MF Transaction Value till its settlement on T+2. Thereafter, no margins shall be required from the Margin Financier on the corresponding MF (R) Transaction, provided that Margin Financed Securities have been delivered and held in the CDC account of the Margin Financier in Blocked Status.

### **7B.9.5 Data Transmission Mechanism for Affirmed MF Transactions to the Relevant Stock Exchange**

On each Trade Date, member-wise, securities-wise and UIN-wise Margin Financee side-details of affirmed MF Transactions and / or MF (R) Transactions may be provided to the relevant Stock Exchange of which such Margin Financee is a member, for the risk management purposes of such Stock Exchange, on the mechanism agreed between the Company and the relevant Exchange from time to time in accordance with the NCSS Procedures.

### **7B.10 Suspension/Default**

**7B.10.1** Any failure, inability or refusal to fulfill a settlement obligation in respect of an MF Transaction in accordance with these Regulations by any MF Participant that is a party to such MF Transaction will result in cancellation of all MF Transactions between MF Participants who are party to such MF Transaction. Upon such cancellation, the respective Margin Financee shall continue to remain responsible for and shall ensure the settlement of its entire ready market purchases. In case of non-fulfillment of such ready market settlement obligation by the respective Margin Financee, the default procedures in accordance with these Regulations shall be applied for the satisfaction of corresponding ready market sellers. In addition to the cancellation of the MF Transactions penalties, under Regulation 7.B.7.2 of this Chapter, shall also be imposed on relevant Margin Financier who has failed to fulfill its settlement obligation in respect of an MF Transaction.

**7B.10.2** Any failure, inability or refusal to fulfill a settlement obligation in respect of an MF (R) Transaction in accordance with these Regulations by any MF Participant that is a party to such MF (R) Transaction will result in cancellation of all MF (R) Transactions between MF Participants that are party to such MF (R) Transaction and same shall be settled between the MF Participants directly outside the NCSS. However, in such case respective Margin Financee shall continue to remain responsible for and shall ensure the settlement of its corresponding ready market sell transactions. In case of non-fulfillment of such ready market settlement obligations by the respective Margin Financee, normal delivery default procedures in accordance with the Procedures shall be applied for the satisfaction of corresponding ready market buyers.

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**7B.10.3** In case of any default and/or dispute in respect of MF (R) Transactions and/or non-fulfillment of any margin call the Margin Financed Securities of the defaulting Margin Financier shall be unblocked from the Blocked Status in the CDC account of such Margin Financier on the basis of initiation of such MF (R) Transactions by such Margin Financier. In such case, Margin Financier shall indemnify and hold the Company harmless against any claims made by the Margin Financier on the ground that the Margin Financed Securities should not have been unblocked for any reason whatsoever.

### **7B.11 Margin Financing Market Information**

#### **7B.11.1 Important Statistics to be made available to the General Public**

1. Following statistics will be made available to the public on a daily basis by the Company:
  - i) Scrip wise Margin Financing value and volume and percentage of free float;
  - ii) Aggregate value and volume of financing released in the day;
  - iii) Scrip-wise Total Margin Financing availed during the day;
  - iv) Any other report that the Company and/or Commission intends to provide to the public or monitoring purposes.

#### **7B.11.2 Information to be made available to the Company**

Each Broker Margin Financier shall provide the Company, on monthly basis, information regarding Margin Financing provided to its clients out of own resources in accordance with the procedures.

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## CHAPTER 7C

## MARGIN TRADING SYSTEM

### 7C.1. Definitions

#### 7C.1.1 Definitions

When used in this Chapter of these Regulations and, where applicable, in the Procedures, the following expressions shall, unless the context requires otherwise, have the meanings herein specified below:

Accelerated Maturity Date	means, in respect of MT Contract, any Business Day prior to a Maturity Date on which a Finanee initiates a MT(R) Transaction.
Application Form	means the application form prescribed and made available by the Company from time to time, for admission of a Clearing Member as a Trading Financier in MT under these Regulations.
Applicant	means a Clearing Member who has applied to the Company for admission as a Trading Financier.
Trading Financier	means a Clearing Member, who meets the eligibility criteria as stipulated in the Rules and these Regulations and has been admitted by the Company as a Trading Financier under this Chapter of these Regulations to provide financing under Margin Trading.
Trading Financier Clearing Member Agreement	means an agreement setting out the terms relating to the provision of financing under Margin Trading, in the form prescribed by the Company from time to time, entered into by a Clearing Member and Company as a pre-condition to admission of that Clearing Member as a Trading Financier.
Bank Guarantees	means a bank guarantee that fulfills the criteria specified in Regulation 7C.6.3 ( <i>Approved Collaterals</i> ).
Bid	means a quotation displayed on the MT by a Finanee for sale of MT Eligible Securities in the MT Market.
Broker Trading Financier	means a Broker Clearing Member of the NCSS who has been admitted as a Broker Trading Financier by the Company under these Regulations.

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Concentration Margin	means the margins as prescribed under Regulation 7C.6.7 ( <i>Concentration Margins</i> ) of these Regulations.
Finanee	means a Broker Clearing Member of the Company, who enters into a MT Contract to avail the facility of Margin Trading.
Financing Participation Ratio (“FPR”)	means the ratio between the minimum equity participation required to be paid by the Finanee for the purchase of each MT Eligible Security and the MT Transaction Value. For this purpose, the minimum equity participation for each MT Transaction shall be 25% of MT Transaction Value or VaR Estimate of the relevant MT Eligible Security, whichever is higher.
Haircut	means the percentage rates on which the Margin Eligible Securities are discounted for valuation purposes at the relevant Stock Exchange.
Irrevocable Undertakings	means irrevocable undertakings that fulfill the criteria specified in Regulation 7C.6.3 ( <i>Approved Collaterals</i> ).
KIBOR	means the daily average of one-month Karachi Interbank Offered Rate (Ask Side) as published on Reuters page KIBR or as published by the Financial Markets Association of Pakistan in case the Reuters page is unavailable.
Liquidity Margins	means the liquidity margins as prescribed in the relevant regulations by the Stock Exchanges from time to time.
Margin Trading (MT)	means extension or maintenance of credit through the platform provided by the Company, in the capacity of an authorized intermediary, for the purpose of purchasing or carrying any MT Eligible Security in ready market, as provided in Chapter IV of the Rules.
MT Contract	means a contract between the Trading Financier and the Finanee for Margin Trading and which is a combination of a MT Transaction and a MT(R) Transaction, wherein one fourth quantity of the MT Transaction shall be released on each Maturity Date automatically or the entire or partial quantity of the MT Transaction shall be released on the Accelerated Maturity Date at the initiation of the Finanee.
MT Contract Price	means the product of applicable rate of return specified in the Bid, the MT Transaction Value and MT Contract Period.

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However, for the settlement of MT (R) Transaction, such MT Contract Price shall be determined after adjusting MTM Losses, and payments made on Maturity Date(s) or Accelerated Maturity date(s), as the case may be, by the Financee.

MT Contract Period	means the period lapsed from (and including) MT Transaction Date until and including the Maturity Date(s) or Accelerated Maturity Date(s) as the case may be.  <i>Explanation:</i> if the Accelerated Maturity Date is same as the date of matching of the Offer and Bid, the MT Contract Period shall be one day.
MT Eligible Securities	means the securities declared by the Company as such pursuant to Regulation 7C.3.1 ( <i>Eligibility Declaration</i> ).
MT Financed Securities	means the MT Eligible Securities financed by a Trading Financier pursuant to a MT Transaction.
MTS ID	means the code allocated by the Company to a MT Participant.
MT Market	means the market for offering and availing financing in respect of MT Eligible Securities through MT Transactions and incidental transactions thereof, pursuant to this Chapter of these Regulations
MT Participant	means a Trading Financier or Financee as the case may be.
MTS Portal	means an automated portal provided by the Company to MT Participants for the purpose of the MT Market and accessible through their interface with computer system.
MTS Protection Fund	means a fund established under this Chapter of these Regulations.
MTS Software	means all systems and application programmes relevant to the operation of the MTS including all computer software maintained and used by the Company for the purposes of the MTS (other than software used by a MT Participant to communicate with the Company in relation to the MTS ).
MT Transaction	means a transaction between Trading Financier and the

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Finanee pursuant to the execution of an MT Contract under which the Trading Financier is required to pay for the ready market purchase of the Finanee to the extent of the MT Transaction Value determined for each MT Transaction on the basis of applicable FPR. MT Transaction is effected on the MTS Portal and is received in the NCSS as a locked-in contract for clearing and settlement through the NCSS.

MT Transaction Date	means the date on which an Offer and Bid is matched to form a MT Transaction.
MT (R) Transaction	means a transaction between the Trading Financier and the Finanee pursuant to the execution of an MT Contract under which the Finanee is required to pay to the Trading Financier, on four Maturity Dates or on Accelerated Maturity Date(s), the corresponding amount of Contract Price as determined under these Regulations.
MT Transaction Value	means the amount of MT Transaction, calculated at the immediate preceding price of a security in the ready market at the time of the execution of MT Transaction based on the applicable FPR.
Margin Trading System (MTS)	means a system provided by the Company in the capacity of an authorized intermediary, to MT Participants for Margin Trading based on specific ready market purchases of MT Eligible Securities in an undisclosed manner through MTS Portal in accordance with these Regulations.
Margin Eligible Securities	means securities notified to be acceptable as Collateral pursuant to Regulation 7C.6.3 ( <i>Approved Collaterals</i> ).
Maturity Date	means, in respect of MT Contract, each of 15 <sup>th</sup> , 30 <sup>th</sup> , 45 <sup>th</sup> and 60 <sup>th</sup> calendar day of the MT Transaction Date on each of which day the MTS will automatically initiate a MT (R) Transaction for release of one fourth quantity of MT Transaction, subject to adjustment of quantity released upon Accelerated Maturity Date(s), if any, before the opening of business, which shall be settled in accordance with these Regulations.
Non-Broker Trading	means a Non Broker Clearing Member of the NCSS who has

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Financier	been granted the status of a Non-Broker Trading Financier by the Company under these Regulations.
Offer	means a quotation displayed on MTS Portal by a Trading Financier for purchase of MT Eligible Securities in the MT Market.
RiskMeter	means a computer application as applicable in Karachi Stock Exchange for calculation of VaR margins.
Rules	means the Securities (Leveraged Markets and Pledging) Rules, 2011.
Security Deposit	means the security deposit to be maintained by a MT Participant with the Company under these Regulations.
Spot Period	means the trading periods prior to the commencement of book closure date, as notified by the stock exchange(s) from time to time.
VaR	means the VaR Estimates as defined in the relevant regulations of the Karachi Stock Exchange.

### **7C.2. Eligibility Criteria for MT Participants**

#### **7C.2.1 Eligibility Criteria for a Trading Financier**

A Clearing Member will be eligible to apply to the Company for admission as Trading Financier if such Clearing Member fulfills the criteria as laid down in Chapter IV of the Rules and, in case of :

- (i) a Broker Clearing Member, fulfills the capital adequacy requirements specified in Regulation 7C.6.1;
- (ii) a banking company within the meaning of the Banking Companies Ordinance, 1962 (LVII of 1962), it has been allocated minimum short-term credit rating of A3;
- (iii) a financial institution to which Section 3A of the Banking Companies Ordinance, 1962 (LVII of 1962) is applicable, it has been allocated minimum short-term credit rating of A3;
- (iv) a collective investment scheme as defined in the Non-banking Finance Companies and Notified Entities Regulations, 2008 and categorized as equity scheme or any scheme launched for the purpose of investment in margin trading provided its constituent documents allow such scheme to provide financing for margin trading and it has been allocated minimum short-term credit rating of A3
- (v) an investment finance company licensed by the Commission to provide investment finance services, it has been allocated minimum management quality rating of AM3 minus;
- (vi) any other corporate entity about which the Board (subject to final approval by the

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Commission) is satisfied that it has a good financial standing, has the capability to satisfy the requirements of these Regulations and is otherwise fit and proper to be admitted as a Trading Financier;

### **7C.2.2 Admission/ Refusal to Admission of a Trading Financier**

1. The Company may admit an Applicant as a Trading Financier by a written notice issued to such Applicant, subject to the fulfillment of registration requirement and documentation as prescribed in Rule 17 of the Rules.
2. The Company may refuse an Applicant from admission as a Trading Financier after providing an opportunity of hearing by a written notice issued to such Applicant.

### **7C.2.3 Eligibility Criteria for a Financee**

Broker Clearing Members may be admitted as Financees in the MT Market, provided the Company is satisfied that each such Broker Clearing Member:

1. holds a valid membership under the respective regulations, rules and procedures governing their admission to the relevant stock exchange(s);
2. has no action pending in any court, which might materially and adversely affect such Broker Clearing Member's membership, or no such action has been initiated by the concerned stock exchange(s) or the Commission against such Broker Clearing Member
3. is not in breach of these Regulations, any law or other regulations applicable to such Broker Clearing Member;
4. has submitted an addendum to Clearing Member Agreement appropriately stamped and duly executed by its authorised representative(s); and
5. has fulfilled the capital adequacy requirement under Regulation 7C.6.1.

### **7C.2.4 Suspension or Termination of MT Participant**

The Company shall impose restriction on a MT Participant or suspend or terminate admission of a MT Participant in accordance with provisions of the Rules. However, in the event that a MT Participant is suspended or terminated as a Clearing Member pursuant to these Regulations, such MT Participant shall also stand suspended or terminated as MT Participant automatically without any further action being taken on the part of the Company. The Company shall immediately notify the same to the relevant Stock Exchange and CDC for suspension or termination of membership of Stock Exchange and restriction of access in CDS in accordance with the respective regulations.

## **7C.2.5 MT Participant's Warranties and Indemnities**

A MT Participant supplying any information to the Company in pursuance of any obligation of the MT Participant under these Regulations and the Procedures, shall:

- (a) be deemed to have warranted to the Company that the information supplied is complete, true and correct and nothing has been omitted which will make such information misleading; and
- (b) indemnify the Company if any losses, damages, costs or expenses are suffered or incurred by the Company as a result of any inaccuracy contained in or omission from the information supplied by the MT Participant or such information being misleading.

## **7C.3. MT Eligible Securities**

### **7C.3.1 Eligibility Declaration**

The Company shall select the securities that are eligible to be declared as MT Eligible Securities for the purpose of MT Market in accordance with the eligibility criteria described in Regulation 7C.3.2 and based on the data made available by the relevant Stock Exchange. Securities so selected shall be declared by the Company as MT Eligible Securities.

### **7C.3.2 Eligibility Criteria**

Eligibility criteria of MT Eligible Securities shall include the following:

1. Companies that during the review period have an average daily impact cost of less than 1% based on daily impact cost on an order size of Rs.500,000.
2. Companies that have traded on more than 90% of the trading days during the review period.
3. Companies that have average daily turnover of more than 500,000 shares during the review period
4. Companies that have Free Float of more than 35% of issued capital or 60 million free float shares.
5. Securities of listed asset management companies, mutual funds, brokerage houses and companies whose principal activity includes short term investment/trading in securities shall not be eligible. A Finanee can not avail financing in any scrip where he is a director or sponsor or such scrip is an associated company or associated undertaking of such Finanee. Trading Financier shall not provide financing in scrip where such Trading Financier is a director or sponsor or such scrip is an associated company or associated

undertaking of such Trading Financier.

6. Companies that do not have negative/qualified opinion in Auditor's report on the Company's most recent audited annual Financial Statements which may lead to the suspension in trading of shares of such company;
7. Companies against which any investigation/enquiry has been concluded with adverse findings of mismanagement shall not be eligible;
8. Companies not on the defaulters segment; and
9. Free float of the company must be in book-entry form on CDS.

### **7C.3.3 Interim Review**

The satisfaction of criteria described in clauses 1 through 4 of Regulation 7C.3.2 (*Eligibility Criteria*) above are subject to 45 days review and any security which does not meet any of these criteria shall be excluded from the list of MT Eligible Securities after giving notice of 60 days to NCC Participants.

### **7C.3.4 Eligibility Review**

This list of MT Eligible Securities will be reviewed by the Company every six months and such review shall be undertaken before the end of such duration and shall be based upon the data of last six months made available by the relevant Stock Exchange. In consequence of any additions and/or deletions to the existing list, the Company will give at least 60 days prior notice to the NCC Participants for introduction of incoming and phasing out of outgoing MT Eligible Securities. After expiry of the said notice period, MT positions in the outgoing securities shall be frozen and will be available only for release for the purposes of settlement or squaring-up. Any MT Contract relating to outgoing securities shall not be rolled over and any unreleased position on the expiry of notice period shall be released on its respective Maturity Date.

## **7C.4. MT Contracts and Settlement**

### **7C.4.1 MTS Portal**

MTS Portal will be made available by the Company to all MT Participants.

### **7C.4.2 Undisclosed Trading**

All MT Contracts shall be facilitated by the Company by acting as an authorized intermediary for the respective MT Participants, which are underlying parties to a MT Contract. MT Participants will not be able to access the identity of the underlying counter-party to any of the MT Contracts.

### **7C.4.3 Procedure**

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1. All Offers and Bids for the MT Transactions will be displayed directly on the MTS Portal.
2. An Offer shall specify the following:
  - (i) MT Eligible Securities that the Trading Financier intends to finance;
  - (ii) The applicable rate of return;
  - (iii) MTS ID of the Trading Financier and UIN details of its corporate client where funds of such corporate client are being used; and
  - (iv) UIN Registration Details filled in the UIN Registration Screen of NCSS.

Provided that the information relating to (iii) and (iv) above shall not be displayed on the MTS Portal.

3. A Bid shall specify the following:
  - (i) MT Eligible Securities that the Finantee intends to sell;
  - (ii) The applicable rate of return;
  - (iii) Trader ID of the Finantee; and
  - (iv) UIN Registration Details filled in the UIN Registration Screen of NCSS

Provided that the information relating to (iii) and (iv) above shall not be displayed on MTS Portal;

Provided further that Non-Broker Trading Financier shall only be allowed to carry out proprietary transactions.

4. Subject to verification pursuant to Regulation 7C.4.9 (*Pre-trade Verification*), execution of a MT Transaction will be confirmed when an Offer is matched with a Bid or *vice versa*. Once confirmed, a MT Transaction shall be irrevocable except as provided in these Regulations and simultaneously a MT(R) Transaction shall be generated by the MTS.

## **7C.4.4 Revocation of Offers and Bids**

MT Participants will be allowed to cancel any Offers or Bids placed by them respectively in the MT Market before the same are matched and executed.

## **7C.4.5 Settlement of MT Transactions**

Each MT Transaction and MT (R) Transaction shall be settled in the NCSS in accordance with these Regulations and the Procedures.

## **7C.4.6 Settlement on Maturity Date**

On each Maturity Date, a MT (R) Transaction representing one fourth quantity of the MT Transaction shall be settled in the NCSS in accordance with these Regulations and the Procedures.

#### **7C.4.7 Settlement on Accelerated Maturity Date**

A Finanee may initiate a MT (R) Transaction on an Accelerated Maturity Date and the same shall be settled in the NCSS in accordance with these Regulations.

#### **7C.4.8 Irrevocability of MT (R) Transactions**

Neither the Finanee nor the Trading Financier will be allowed to modify and/or cancel any part of a MT (R) Transaction.

#### **7C.4.9 Pre-Trade Verification**

The matching of a Bid with an Offer shall be subject to the condition that the Finanee making such Bid has an underlying specific long position in the ready market at that time of that day. However, in order to ensure MT Transaction on the specific ready market purchases of that day, the MTS shall compare such purchases at UIN level in the ready market at the end of each Trading Day with the volume of MT Transaction on that particular UIN. Accordingly, in case of any excess volume of MT Transactions of a Finanee, such volume of MT Transaction shall be force released on that day and such release will cause a one day charge of funds on the value of MT Financed Securities to be paid to the Trading Financier by the Finanee. Provided, however, that:

- (i) the requirement for having such an underlying long position in the ready market shall not be applicable where such MT Contract is solely for the purpose of rolling-over of an existing MT Contract released automatically on Maturity Date or released on Accelerated Maturity Date; and
- (ii) the requirement for having such an underlying long position in the ready market shall not be applicable, in case of shifting of settlement obligation on Finanee due to default by respective Trading Financier on the Settlement Date under Regulation 7C.6.13.1.

#### **7C.4.10 Settlement Mechanism**

The MT Transactions and MT (R) Transactions shall be settled under Balance Order System as prescribed in these Regulations and the Procedures as follows:

1. (a) in the case of a MT Transaction, the Trading Financier shall pay for the ready market purchases to the extent of the MT Transaction Value determined for each MT Transaction on the basis of applicable FPR. The remaining portion of the ready market purchases shall be settled by the respective Finanee on the respective Settlement Date. Upon settlement, all the MT Financed Securities shall be delivered to the CDC account of the respective Trading Financier or sub-account of its corporate client, as the case may be, in Blocked Status;

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- (b) in case where MT Transactions executed by the Financee on behalf of its inter-exchange clients, i.e. a Broker Clearing Member of other Stock Exchange and its clients, as the case may be, such MT Transactions shall be auto-initiated and Broker Clearing Member, of that Stock Exchange, shall be required to affirm such MT Transactions through broker-to-broker transaction module of NCSS in accordance with the Procedures. Upon affirmation, such Broker Clearing Member shall be required to settle such MT Transaction on its respective Settlement Date. Upon settlement, all the MT Financed Securities shall be delivered to the CDC account of the respective Trading Financier or sub-account of its corporate client, as the case may be, in Blocked Status. However, the Financee who executed such MT Transaction shall remain responsible to deposit necessary margins and Marked-to-Market Losses to the Company till the settlement of MT (R) Transactions; and
- (c) If a Trading Financier does not receive the MT Financed Securities in its CDC account or sub-account of its corporate client, as the case may be, in Blocked Status on T+2 on account of default by the seller of MT Financed Securities in the ready market, the Company shall initiate squaring up process in accordance with NCSS Procedures and the MT Financed Securities purchased through squaring up process shall be transferred to the CDC account of such Trading Financier or sub-account of its corporate client, as the case may be, in Blocked Status on SD+1 basis. If the Company is unable to purchase the relevant MT Eligible Security in the squaring up process, then the Company will initiate close-out process in accordance with NCSS Procedures and shall pay to such Trading Financier and Financee the close-out amount, determined in accordance with NCSS Procedures, proportionately as per the FPR. Accordingly, the Company shall initiate MT (R) Transaction to the extent of undelivered MT Eligible Securities against which the close-out has been paid as aforesaid. The MT Participants will have no further obligation with regard to such MT (R) Transaction and such MT Contract shall also stand closed.
2. (a) in the case of MT (R) Transaction, the Financee shall be obliged to pay the MT Contract Price, determined after adjustment of Marked-to-Market Losses and amount paid so far by such Financee to such Trading Financier upon each Maturity Date(s) or Accelerated Maturity Date(s) (in order to align the MT Contract Price) and the Trading Financier shall be obliged to deliver the quantity of MT Financed Securities corresponding to such release transaction.
- b) in case where MT (R) Transactions executed by the Financee on behalf of its inter-exchange clients, i.e. a Broker Clearing Member of other Stock Exchange and its clients, as the case may be, such MT (R) Transaction shall be treated as auto-affirmed by Broker Clearing Member of that Stock Exchange through broker-to-broker transaction module of NCSS in accordance with the Procedures. Accordingly such Broker Clearing Member shall be required to pay the MT Contract Price, determined after adjustment of Marked-to-Market Losses and amount paid so far, upon each Maturity Date(s) or Accelerated Maturity Date(s), by the Financee (who executed MT Transactions on behalf of its inter-exchange clients, i.e. a Broker Clearing Member of other Stock Exchange and its clients), and the Trading Financier shall be obliged to deliver the quantity of MT Financed Securities corresponding to such release transaction. However, the Financee

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who executed such MT(R) Transaction shall remain responsible to deposit necessary margins and Marked-to-Market Losses to the Company till the settlement of such MT (R) Transactions.

- c) Corporate actions of the MT Financed Securities shall be handled by Company in accordance with the Procedures.

### **7C.4.11 Roll Over**

Roll-over of MT Contracts shall be allowed on a Maturity Date and Accelerated Maturity Date. Provided that during the Spot Period, MT Participants shall not be allowed to enter into MT Contract.

### **7C.4.12 Functions of the Company**

Subject to Regulation 7C.4.13, the Company in its role as the authorized intermediary shall act as a common agent of MT Participants for settlement of the MT Contracts between the MT Participants and for delivering securities to and receiving securities from and for receiving or paying any amounts payable to or payable by such MT Participants in connection with any of the MT Contracts and to do all things necessary or proper for carrying out the foregoing purposes in accordance with these Regulations without incurring any liability or obligations as a principal.

### **7C.4.13 Liability of Company**

1. The only obligation of the Company with regard to the settlement of the MT Transactions and MT (R) Transactions shall be to facilitate the delivery and payment in respect of such transactions between the MT Participants in accordance with these Regulations. Each MT Participant acknowledges and confirms that the Company shall not be responsible for:
  - (a) the title, ownership, genuineness, regularity or validity of any security or any other documents or instrument passing through the NCSS;
  - (b) the execution, genuineness, validity, enforceability or sufficiency of any agreement or any other document relating thereto;
  - (c) the collectability of amounts payable in respect of MT Contracts;
  - (d) the financial condition of any MT Participant;
  - (e) the performance and observance by MT Participants of their obligations under the agreements or any other documents executed between them in respect of MTS; or
  - (f) the accuracy of any statements (whether written or oral) made by a MT Participant in or in connection with any agreement or documents in respect of

## MT Contracts.

2 Each MT Participant confirms to the Company that it has made its own independent investigation and assessment of the financial condition and affairs of the concerned MT Participants in connection with its participation in the MTS and has not relied on any information provided to it by the Company in connection with the MTS; and

3. The Company's obligation to make payments to MT Participants is conditional upon it receiving the applicable payment and none of the MT Participants shall have any recourse to the Company if the Company has not received the corresponding payment. The Company shall not have any obligation to pay any amount except to the extent that the Company has received such corresponding payment, it being acknowledged and agreed by the MT Participants that the credit risk assumed by the MT Participants in relation to their participation in the MTS is that of the MT Participants.

### **7C.4.14 Liability of the MT Participants**

All outstanding MT Transactions and MT (R) Transactions shall be binding upon the MT Participants until settled in accordance with these Regulations.

### **7C.4.15 Transaction Costs**

All MT Participants shall pay prevailing transaction costs to the Company in accordance with Fees, Charges and Security Deposit Schedule for all transactions relating to MT Contracts.

### **7C.5 Cost of Funding**

The applicable rate of return on MT Transactions shall be determined as a result of matching of the offer and bid. Such rate, however, shall not be greater than one month KIBOR (prevailing at the close of immediately preceding working day) plus 8% per annum.

### **7C.6 Risk Management**

#### **7C.6.1 Capital Adequacy Requirements**

1. Minimum net capital balance for Finanee:
  - (i) for Broker Clearing Member of Karachi Stock Exchange will be Rs. 10 million; and
  - (ii) for Broker Clearing Member of Lahore Stock Exchange and Islamabad Stock Exchange will be Rs. 4 million
2. The aggregate Exposure of each Finanee, (including outstanding Positions on the all Market

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and the MT market) shall not exceed 25 times of its net capital balance.

3. The aggregate Exposure of each Finanee in respect of MT Market shall not exceed 5 times of its net capital balance.
4. The Company shall monitor the net capital balance of each Finanee on a pre-trade basis. The MTS will not allow any Finanee to enhance its Exposure over and above the prescribed capital adequacy limits and will accordingly reject any MT Transactions that will exceed the aforesaid limits.
5. Minimum net capital balance for Broker Trading Financier:
  - (iv) For Broker Clearing Member of Karachi Stock Exchange will be Rs. 20 million;
  - (v) For Broker Clearing Member of Lahore Stock Exchange will be Rs. 8 million; and
  - (vi) For Broker Clearing Member of Islamabad Stock Exchange will be Rs. 5 million
6. Minimum paid-up capital for Broker Trading Financier:
  - (i) For Broker Clearing Member of Karachi Stock Exchange will be Rs. 50 million;
  - (ii) For Broker Clearing Member of Lahore Stock Exchange will be Rs. 20 million; and
  - (iii) For Broker Clearing Member of Islamabad Stock Exchange will be Rs. 10 million

### **7C.6.2 Separate Markets**

All Markets are separate Markets and accordingly, no netting shall be allowed between and/or among these Markets.

### **7C.6.3 Approved Collaterals**

The following shall be approved collaterals for the purpose of Exposure Margins, Concentration Margins, Marked-to-Market Losses and any other margins that may be required by the Company:

#### **1. Margin Eligible Securities**

The Company shall notify from time to time, as declared by the stock exchange under their respective regulations, the securities that are acceptable to the Company for the purpose of Exposure Margins and any other margins that may be required by the Company from time to time, except Marked-to-Market Losses.

#### **2. Cash**

Cash shall be acceptable collateral against any margin requirement under these Regulations and shall be the only acceptable form for payment of Marked-to-Market Losses and Concentration Margins to be collected from relevant Finanee.

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## 3. Bank Guarantees

A bank guarantee shall be an acceptable collateral for the purpose of Exposure Margins and any other margins that may be required by the Company from time to time, except Marked-to-Market Losses and Concentration Margins (to be collected from Financee) provided such bank guarantee is issued:

- (i) in the form prescribed by the Company from time to time; and
- (ii) by a bank which is:
  - (a) 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 been allocated minimum long term credit rating of “A”. Provided that, where bank has been allocated minimum credit rating of “A” the amount of such Bank Guarantee per NCC Participant is limited up to Rs. 400 million, whereas, in case of “AA” and above credit rated bank the amount of such Bank Guarantee per NCC Participant is limited upto Rs. 1 billion; and
  - (c) it has a branch located in Karachi which is acceptable to the Company as such bank’s main contact branch;

The Company shall maintain a list of banks which satisfy the aforementioned eligibility criteria for issuing the bank guarantees acceptable to the Company for satisfying the Collateral requirements of MT Participants.

## 4. Irrevocable Undertaking

An irrevocable undertaking in the form prescribed by the Company from time to time shall be an acceptable collateral for the purpose of Exposure Margins, Concentration Margins, Mark-to-Market Losses and any other margins that may be required by the Company from time to time, provided that such irrevocable undertakings shall be accepted only from the following Non Broker Trading Financiers for their own obligations:

- (a) Non-Broker Trading Financiers as are banks/development financial institutions (“DFIs”) having minimum credit rating of AA; and
- (b) Any other public sector entity, owned or controlled by the Government of Pakistan and approved by the Board from time to time.

### 7C.6.4 Exposure and Margins

1. Security-wise and client-wise Exposure of each MT Participant will be calculated by the Company or the relevant Stock Exchange, as the case may be, at any point in time, subject

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to the applicable netting rules as prescribed by these Regulations.

2. All trades in any MT Eligible Security shall be subject to the margin requirements prescribed in these Regulations or such other additional margins in this regard as the Company may, with the prior permission of the Commission, from time to time prescribe in addition thereto.
3. The VaR based margins for each MT Eligible Security shall be calculated by the Company or the relevant Stock Exchange, as the case may be, applying VaR estimates calculated by the RiskMeter at the end of each trading day.
4.
  - (a) The Exposure margins shall be deposited by a MT Participant to the Company or relevant Stock Exchange as the case may be, within such time as may be determined by the Company or relevant Stock Exchange, as the case may be, from time to time but in no case later than the opening of trade on the next trading day.
  - (b) Exposure margins deposited by a MT Participant under these Regulations must be kept separate by the Company or relevant Stock Exchange, as the case may be, segregated from margins of all other Markets. Such margins will be utilized in respect of settlement of relevant obligation in the Ready Market in accordance with these regulations.
5. All margins deposited by the MT Participants with the Company or relevant Stock Exchange in respect of MT Market, after the settlement of relevant trade in the Ready Market, shall only be in cash. Till the settlement of Ready Market trade, margins in respect of obligations of MT Participants in the Ready Market, shall only be in the form of Approved Collaterals and shall be subject to the following conditions:
  - (a) The Company shall not accept any Margin Eligible Security for the purpose of margin requirements if acceptance of Margin Eligible Security taken together with the margins already held will exceed MT Participant wide and/or market wide limits of deposit of such Margin Eligible Security as prescribed below;

<b>VAR based margin percentages</b>	<b>Maximum No. of Margin Eligible Security that may be deposited by a MT Participants</b>
$0 \leq x < 20\%$	1% of Free Float
$x > 20\%$	0.25% of Free Float

A maximum limit per Margin Eligible Security, as a percentage of free float, shall apply to all Margin Eligible Securities deposited as margin held by the Company i.e. margin held by the Company cannot exceed 25% of free float of such Margin Eligible Security.

- (b) The Margin Eligible Security is in book entry form.
  - (c) The issuer of Margin Eligible Security is not placed on the defaulter's counter of any of the Stock Exchanges.
  - (d) MT Participants listed on Stock Exchanges will not be allowed to deposit their own shares against margin deposits.
  - (e) The Company may from time to time prescribe, with the prior approval of the Commission, the maximum number of acceptable Margin Eligible Securities.
  - (f) Any other criterion prescribed by the Company and approved by the Commission from time to time.
6. The MT Participant depositing margin in the form of Margin Eligible Securities shall always maintain the value thereof, after application of the relevant Haircuts, at not less than the margin amount for the time being required to be covered by them by providing further Margin Eligible Securities or depositing cash to the satisfaction of the Company which shall always determine the said value and whose valuation shall conclusively fix the amount of any deficiency to be made up from time to time. If at any time during a trading day, the required margins against Exposure of a MT Participant exceed the already deposited margins, such MT Participant shall deposit with the Company the margin computed by the Company within the time specified by the Company, but not later than opening of the market on the next trading day.

### **7C.6.5 Netting Regime for Exposure Margins in MT Market**

1. Trading Financier shall deposit exposure margins in respect of its obligation to pay for the ready market purchase of the financee, to the extent of FPR, on the day that the MT Transaction is executed. The margins will be held till MT Transaction is settled by the Trading Financier. After settlement and deposit of MT Financed Securities in Blocked Status exposure margin shall be released to the Trading Financier.

After settlement of MT Transaction, Trading Financier shall not pay any exposure margin on the corresponding MT (R) Transaction.

2. When a ready market purchase is financed in MT Market, Financee shall pay to the exchange(s) the Exposure margins, Marked-to-Market Losses and Liquidity Margins relating to such trade in the form of Approved Collaterals from the date of such purchase till its settlement in the Ready Market in accordance with the relevant regulations of the exchange(s). However, Exposure margins shall be higher of 25% or VaR Estimate of that

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particular MT Eligible Security in the form of any of the Approved Collaterals.

3. Trading Financiers shall deposit their respective Marked-to-Market Losses, in the form of Approved Collateral, on the trading day on which such Trading Financier's Offer is accepted and MT Transaction is executed. The Marked-to-Market Losses will be collected till such time that MT Transaction is settled. Thereafter, Marked-to-Market Losses shall not be collected from Trading Financier on MT (R) Transaction. Such Marked-to-Market Losses shall be collected by the Company in respect of obligation of the Trading Financier to settle the ready market trade in proportion to FPR.

### **7C.6.6 Marked-to-Market Losses**

1. Marked-to-Market Loss shall be calculated on trade to trade basis, separately for each MT Eligible Security, for each MT Participant on the basis of the Closing Prices.
2. Marked-to-Market Losses by each MT Participant shall be deposited with the Company at any point in time as demanded by the Company or at the end of each trading day but not later than prior to opening of trading on the next day.
3. Trading Financiers shall deposit their respective Marked-to-Market Losses, in the form of Approved Collateral, on the trading day on which such Trading Financier's Offer is accepted and MT Transaction is executed. The Marked-to-Market Losses will be collected till such time that MT Transaction is settled. Thereafter, Marked-to-Market Losses shall not be collected from Trading Financier on MT (R) Transaction. Such Marked-to-Market Losses shall be collected by the Company in respect of obligation of the Trading Financier to settle the ready market trade in proportion to FPR.
4. Financees will however continue to pay Marked-to-Market Losses in proportion to FPR, in cash only, until MT (R) Transaction is settled in accordance with these Regulations. However, such Marked-to-Market Losses collected from Finantee shall be paid to respective Trading Financiers. Upon payment of the Marked-to-Market Losses, the MT Contract Price shall be adjusted to maintain Finantee's FPR.
5. While determining the Marked-to-Market Losses payable by a MT Participant, no netting, including without limitation, across trades, across clients, across markets, across contract periods, across securities, across settlement dates etc., shall be allowed.

### **7C.6.7. Concentration Margins**

1. Concentration Margins shall be payable by a Finantee in respect of a MT Eligible Security in MT Market determined in accordance with the annexed schedule. Concentration Margin shall be calculated at the end of each Business Day.
2. Till settlement of MT (R) Transaction, Concentration Margin shall be collected only in the form of cash.

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### 7C.6.8 Valuation of Approved Collateral held by the Company as Margin

- Margin Eligible Securities shall be valued as per applicable Hair Cuts.
  - Bank Guarantees shall be taken at the amount guaranteed in such Bank Guarantees.

### 7C.6.9 Position Limits

- Position of Finanee shall not exceed the following:

<b>Market wide position limit :</b>	20% of free-float for each MT Eligible Security subject to maximum of Rs. 10 billion.
<b>Member wide position limit :</b>	2% of free-float of the MT Eligible Security subject to maximum of Rs. 1 billion.
<b>Client wide position limit :</b>	0.5% of free-float of the MT Eligible Security. Client position will be universal and determined on UIN basis subject to maximum of Rs. 250 million for each MT Eligible Security. Provided that overall financing availed in all MT Eligible Securities shall not exceed Rs.1.00 billion.
<b>Member Capital Adequacy :</b>	5 times the net capital balance of Finanee or Rs. 5 billion whichever is lower

- Each Finanee's Position in a MT Eligible Security at any point in time shall comprise of all outstanding MT (R) Transactions.

**7C.6.10** All applicable margins on MT Market shall be calculated on UIN wise in accordance with the client level margining regime applicable at the Stock Exchanges from time to time.

### 7C.6.11 Lien on Deposits

The monies, MT Eligible Securities and other securities and assets deposited by a MT Participant by way of Exposure Margins, Liquidity Margins, Concentration Margin and Marked-to-Market Losses under these Regulations shall be subject to a first and paramount lien and pledge, with a right of sale and set off in each case in accordance with these Regulations, for any sum due to the Company by such MT Participant and for the proper and punctual performance of such MT Participant's engagements, obligations and liabilities arising out of or incidental to any MT Contract and other contracts made subject to these Regulations or anything done in pursuance

thereof.

### **7C.6.12** Obligation of MT Participants to collect margins and settlement obligation from their clients

1. It shall be obligatory upon the MT Participants trading/taking exposure in MT Market under these Regulations to take margins from their respective clients in accordance with the rates as prescribed by the Company based on VaR. Such prescribed margins shall be the minimum margins that must be taken by the MT Participants from their respective clients while trading/taking exposure on behalf of such client.
2. The collection of any type of margin by a MT Participant from its client/client(s) shall be the sole responsibility of such MT Participant; nevertheless any failure of the client to pay such margin shall not affect the obligation of the MT Participant to pay such margin to the Company.
3. The Financee shall collect money obligation for ready market purchase from the respective client in accordance with the applicable FPR in form of Cash. In case of non-payment of such money obligation by the client, no further position of the client should be allowed by the Financee

### **7C.6.13** Withdrawal or Release of Collateral

On submission by a MT Participant of written request, duly signed by an authorized person, the Company may release any Collateral held against the Collateral requirement of such MT Participant, provided that such release of Collateral shall not create any deficiency in the value of the Collateral required to be deposited by such MT Participant with the Company in terms of this Chapter.

### **7C.6.14** Suspension/Default

Where a MT Participant fails to deposit Collaterals against Exposure Margins, Liquidity Margins, Marked-to-Market Losses and, where applicable, Concentration Margins, and fails to settle MT Transaction and MT (R) Transaction, as the case may be or fails to comply with any other requirement of these Regulations, the Company shall initiate necessary default proceedings in accordance with the provisions of Chapter 13 (Money Default Management) of these Regulations. Such proceedings shall be based on the following principles:

#### 1. In case of Trading Financier Default

In case where Trading Financier fails to deposit margin requirement or fails meeting settlement obligation pertaining to a MT Transaction, the Company shall initiate the following proceedings:

- (i) The Company shall suspend such Trading Financier;

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- (ii) After determination on net shortfall by the Company of a suspended Trading Financier, the Company shall after applying the available resources as prescribed in Chapter 13 of these Regulations, provide on a particular Settlement Date, Settling Banks with revised settlement statements (credits) after holding back proportionate amounts in accordance with the credits due to all MT Participants to whom credits shall be due on that Settlement Date, till the recovery of shortfall amount.
- (iii) All margins of suspended Trading Financier held by the Company shall be liquidated;
- (iv) In respect of settlement obligation due under the MT Market, the Company shall immediately shift such settlement obligation to the respective Finances, however, such Finances shall be given an opportunity to re-finance such ready market purchases from the MT Market through any other Trading Financier. In case where such Finantee is unable to re-finance such ready market purchases from MT Market, such Finantee shall be held responsible to meet the settlement obligation in the capacity of Clearing Member after adjustment of proceeds out of utilization of margins of Trading Financiers as provided in (iii) above; and
- (v) MT Financed Securities already held in Blocked Status in such suspended Trading Financier's CDC blocked account or sub-account of its corporate client, as the case may be, if any, shall be released on their respective Maturity Dates and Accelerated Maturity Dates, as the case may be, as per the mechanism agreed between the Company and CDC from time to time.
- vi) In case of any default in any settlement obligation by the Trading Financier in accordance with the provisions of the NCCPL Regulations, the respective Trading Financier shall pay penalty to the Company which shall include:
  - a. For one time default in a calendar year, 1.00 % of the value of defaulted position;
  - b. For second time default in a calendar year, 2.00 % of the value of defaulted position; and
  - c. For third time default in a calendar year, 4.00 % of the value of defaulted position and such Trading Financier shall be suspended for a period of three months from the MT Market.

### 2. In case of Finantee Default

#### A. Failure to pay Marked-to Market Losses to Maintain its FPR

In case where a Finantee fails to deposit any Marked-to Market Losses within the stipulated time following action by the Company will be taken:

- I. In case where certain number of UINs of Finantee including his proprietary UIN fails to deposit necessary Marked-to Market Losses following procedure will be applied:

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- (i) Finanee shall be required to identify the defaulted UIN(s);
- (ii) The Company shall immediately suspend such UIN(s) to take further position in any Market and serve a Notice at the day end to such Finanee so as to give an opportunity to square up the MT (R) Transactions of such UIN within 3 hours on next Trading Day and fulfill the requisite demand of Mark-to Market Losses;
- (iii) In case Finanee is not able to square-up the MT (R) Transaction of such UIN(s) within the above mentioned stipulated time, **the Company shall** initiate square-up process of such MT (R) Transaction on that day;
- (iv) If Finanee fails to square up the MT(R) Transaction or to deposit requisite demand of Marked-to Market Losses after the expiry of said Notice by the Company in accordance with (ii) above and the Company is also unable to square-up in accordance with (iii) above for any reason whatsoever, all MT (R) Transactions of such UIN(s) shall be released by the Company and the Company shall proportionately allocate such MT Financed Securities of such MT (R) Transactions, to all the Trading Financiers who have provided Margin Trading in those securities. Accordingly, such MT (R) Transactions of said UINs shall be treated as closed without any further liability on such Finanee for the settlement of such MT (R) Transactions. Provided, however, that :
  - a) such defaulting UIN(s) may be restricted from taking new positions in all Markets for a period of six-months;
  - b) relevant e Finanee shall be penalized and restricted in the following manner:

First default by the client	Penalty @ 2% of the defaulted amount of such UIN(s) and restriction on Broker Clearing Member to take further positions in leveraged markets for a period of three months
second default by the same client or any other client	Penalty @ 4% of the defaulted amount of such UIN(s) and restriction on Broker Clearing Member to take further positions in leveraged markets for a period of six months
on any subsequent default by any UIN of the broker	permanent restriction on the Broker Clearing Member to take further positions in leveraged markets;

- c) The Company shall deposit complete amount of penalty in the MTS Protection Fund
- (v) In case of second default of Marked-to-Market Losses of the same UIN(s), the Company may block such UIN(s) for a period of three years.

### **B. Settlement Default by Financee**

In case where Financee fails to settle money obligation, including settlement obligation as determined in Regulation 7C.6.14-1 (iv) in the capacity of a Clearing Member on a particular Settlement Date, following procedure will be applied:

- (i) The Company shall suspend such Financee in all Markets in the capacity of Clearing Member;
- (ii) After determination of net shortfall by the Company of a suspended Financee, the Company shall, after applying the available resources as prescribed in Chapter 13 of these Regulations, provide on a particular Settlement Date, Settling Banks with revised settlement statements (credits) after holding back proportionate amounts in accordance with the credits due to all Clearing Members to whom credits shall be due on that Settlement Date, till the recovery of shortfall amount;
- (iii) The Company shall segregate the shortfall amount Market wise in order to ascertain the default of a particular Market;
- (iv) All Market wise margins of a suspended Financee, held by the Company and relevant Stock Exchange shall be liquidated;
- (v) In case shortfall still persists, the Company shall initiate square-up process of Market-wise open position(s) including MT (R) Transaction(s) of such suspended Financee for two consecutive working days;
- (vi) In case where proceeds from said square-up are sufficient to fulfill the shortfall amount, such proceeds shall be applied to compensate the corresponding Clearing Members including Trading Financiers; and
- (vii) In case of shortfall persists even after the said square-up, the Company shall take the following action to finalize the default:

#### **B-I In case of shortfall related to MT Market:**

- a. If there is no square-up or partial square-up of MT Financed Securities by the Company, the related proceeds and the remaining MT Securities shall be proportionately allocated to all the Trading Financiers who have provided Margin Trading in those securities to the extent of MT Contract Price and all related MT (R) Transactions shall stand as closed;

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- b. Where the Company square-up all MT Financed Securities, however, the proceeds do not cover the shortfall amount, the Company shall proportionately allocate such shortfall amount to all the Trading Financiers who have provided Margin Trading in those securities and all related MT (R) Transactions shall stand as closed.
- c. Relevant Finanee shall be penalized in the manner specified in 7C.6.14 2A(vi) above.

### **B-II In case of shortfall pertaining to other Markets**

- a. The Company shall initiate normal default proceedings in accordance with the provisions of Chapter 13 of these Regulations so as to recover shortfall amount from the suspended Finanee.

### **7C.7 MT Market Information**

#### **7C.7.1 Important statistics to be made available to the general public**

1. Following statistics will be made available to the public on a daily basis by the Company:
  - i. Top 15 Trading Financiers and Financees in MTS Market will be disclosed by name.
  - ii. Number of Trading Financiers in the MTS Market will be disclosed together with the total amount of financing provided for all MT Eligible Securities.
  - iii. Total disbursements in the market and for each MT Eligible Security;
  - iv. Total funds due to be released in next 3 days on expiry at every 15th calendar day which may be refinanced.
  - v. Total amount of MTS released in the day.
  - vi. Total amount of MTS released for each MT Eligible Security.
  - vii. Total funding provided in each share. Percentage of MTS funds invested in each MT Eligible Security.
  - viii. Total amount of MTS funds released during the day and refinanced.
  - ix. Weighted average rate of return charged in each MT Eligible Security for the day.
  - x. Total amount availed by the Financees and the number of Financees in the market place.

#### **7C.8. Discontinuation of MT Market**

1. The Board may at any time suspend and /or discontinue the MT Market for temporarily or on a permanent basis subject to the prior written approval of the Commission.
2. The Commission may at any time direct the Company to suspend and/or discontinue the MT Market temporarily or on a permanent basis in the form and manner specified by the Commission. Any such direction shall be binding upon the Company.

#### **7C.9 MTS Protection Fund**

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### 7C.9.1 Contributions to the MTS Protection Fund:

- (i) Every MT Participant shall pay initial contribution of Rs 250,000/- (Rupees Two Hundred Fifty Thousand ) into the fund.
- (ii) One Half of transaction levy shall be allocated towards such Fund.

### 7C9.2 Investment of Fund Money

The Company shall open and maintain an account with a scheduled bank with a credit rating of at least A to deposit the amounts forming part of the MTS Protection Fund or may elect to invest the same in a manner specified by the Board of the Company from time to time.

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## Annexure –Concentration Margins

<b>CONCENTRATION MARGIN SLABS</b>					
%AGE OF MTS	AND	"	%AGE OF MT POSITION TO FREE FLOAT OF SCRIP		Concentration Margins
<b>MARKET-WIDE SECURITY CONCENTRATION SLABS AND RATES</b>					
Greater than	2	"	Greater than	2.9	1.61
Greater than	6	"	Greater than	4.3	3.23
Greater than	8	"	Greater than	5.7	4.84
Greater than	10	"	Greater than	8.6	6.45
Greater than	12	"	Greater than	14.3	8.06
Greater than	14	"	Greater than	20	9.68
<b>MEMBER-WIDE SECURITY CONCENTRATION SLABS AND RATES</b>					
Greater than	5	"	Greater than	0.6	1.61
Greater than	10	"	Greater than	0.9	3.23
Greater than	20	"	Greater than	1.1	4.84
Greater than	30	"	Greater than	1.4	6.45
Greater than	40	"	Greater than	1.7	8.06
Greater than	60	"	Greater than	2.0	9.68
<b>UIN-WIDE SECURITY CONCENTRATION SLABS AND RATES</b>					
Greater than	1	"	Greater than	0.17	0.81
Greater than	2	"	Greater than	0.25	1.61
Greater than	4	"	Greater than	0.33	2.42
Greater than	8	"	Greater than	0.42	4.03
Greater than	16	"	Greater than	0.50	5.65

All three tier Concentration Margins will be applied on ‘AND’ basis and shall be applicable on the basis of average of the margins corresponding to the two applicable slabs

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