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National Clearing Company of Pakistan Limited

8th Floor, Pakistan Stock Exchange Building, Stock Exchange Road, Karachi

NCCPL/CM/JUNE-17/13

June 16, 2017

Recommendations of the Committee Constituted to Review In-house Financing

Dear Clearing Members/Settling Banks,

This is with reference to our various circulars regarding the recommendations of the Committee for the enhancement in the existing Margin Financing System (MFS). In this context, we are pleased to inform you that the Securities and Exchange Commission of Pakistan (SECP) has approved necessary amendments in the NCCPL Regulations, 2015 attached herewith as **Annexure-A**.

Accordingly, following features will be made available in the existing MFS effective from Monday, June 19, 2017.

1. Equity Participation by Margin Finanee

The minimum equity participation required to be paid by the Margin Finanee in cash is 10% of MF Transaction Value. It has been recommended by the Committee that such minimum equity participation of Margin Finanee in cash shall no longer be required. However this can be implemented after incorporating necessary amendments in the Securities (Leveraged Markets and Pledging) Rules, 2011. Till that time period, the minimum equity participation required to be paid by the Margin Finanee in cash shall be 1% of MF Transaction Value

2. Placement of Financier Acceptable Securities (FAS)

Broker Margin Financiers providing financing to its clients are required to place FAS in their house account maintained in the MF Blocked Account for each client. Such requirement to move FAS in CDS house account is removed and FAS of a client need to be maintained in the CDS sub-account of respective client.

3. CDS Sub-Account of a Client in MF Blocked Account

- Where Broker Margin Financier is borrowed fund from banks to provide Margin Financing to its clients, in such case, Broker Margin Financier will be allowed to open CDS sub-account of a client in CDS MF Blocked Account.
- For this purpose, a Margin Financing Tri-Partite Agreement shall be executed between Broker Margin Financier, its client and the bank as per the standard format attached herewith as **Annexure-B**.
- Broker Margin Financier willing to open such CDS sub-account shall be required to provide copy of such Tri-Partite Agreement to CDC and NCCPL. Moreover, such client should have CDC Access and UIN Information System (UIS) Account.



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4. Initiation of MF Transactions

- Where Margin Finanee and Margin Financier are the same Broker Clearing Member, in such case, at the time of MF Transaction initiation, it should be identified in MFS that funding will be provided by Broker Margin Financier from its own resources to its client and/or funding is arranged from bank.
- In case where MF Transaction is initiated to provide funding by Broker Margin Financier from its own resources, in such case, CDS house account in MF Blocked Status of a Broker Margin Financier will be linked with such initiated MF Transaction.
- In case where MF Transaction is initiated against arrangement of funding from bank, in such case, CDS sub account of a client in MF Blocked Status will be linked with such initiated MF Transaction.

5. Settlement of MF Contracts

- In case where funding is provided by Broker Margin Financier from its own resources, all MF Contracts are settled in the CDC house account of the respective Margin Financier in MF Blocked Status.
- In case where funding is arranged from bank by Broker Margin Financier, all MF Contracts are settled in the CDC sub-account of the respective client in MF Blocked Status.

6. Pledging of Securities

- Margin Financed Securities delivered in the CDS sub-account of a client maintained in MF Blocked Status will be allowed to pledge by Broker Margin Financier in favor of bank with which Margin Financing Tri-Partite Agreement has been executed.
- To fulfill the margin requirements of bank, pledging from normal sub-account will also be allowed in accordance with the terms and conditions specified in the Regulations of NCCPL and CDC.
- On the basis of pledge position information provided by CDC and UIN level Margin Financing open position maintained in the MF Module, the NCCPL shall make available a report in the MF Module showing necessary details pertaining to Margin Financing and pledge position.
- Broker Margin Financier shall be required to monitor its client level pledge positions and open position and ensure compliance with the provisions of NCCPL and CDC Regulations.



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7. Pledge call Reporting by Broker Margin Financier

- Broker Margin Financier shall be required to provide a report to respective bank, identifying its clients having open position and against which Securities pledge is required to be called.
- For this purpose, the NCCPL will facilitate Broker Margin Financier to enter requisite details and accordingly generate report in the MF Module.

8. Margins/MTM Losses on Pledged Position

- In case where Margin Financed Securities are pledged by the Broker Margin Financier from the CDS sub-account of a client maintained in MF Blocked Status in favor of bank, Such Broker Margin Financier shall be required to deposit VaR based margins and marked-to-market losses from their proprietary CDS account.
- Margins/marked-to-market losses as stated above shall be kept in a separate and exclusive Blocked Account of such Broker Margin Financier, maintained from the date of pledge till pledge release. NCCPL shall facilitate Broker Margin Financier in Deposit/Release of margins/MTM Losses in accordance with NCCPL Regulations.
- The NCCPL shall make available a report in the MF Module showing necessary details pertaining to pledge position, margin/marked-to-market losses, deposited Securities etc. Broker Margin Financier shall be required to monitor its positions accordingly and maintain requisite securities against margins/marked-to-market losses.

9. Corporate Entitlements

Corporate entitlements of Margin Financed Securities are delivered to the Margin Financier who settles such entitlement with Finanee as per terms and conditions on MF Agreement. In the revised MFS, Corporate entitlements of Margin Financed Securities shall be delivered to the respective client/proprietary normal account in accordance with Regulations/Procedures of NCCPL and CDC. Moreover, corporate entitlements of Securities against pledge position shall also be delivered in the normal CDS house account of Broker Margin Financier.

We have arranged awareness sessions for the market participants to brief the revised features of MFS as per the following schedule:

S. No.	Participants	Date	Time	Venue
1	Karachi Location	Monday, 19th June, 2017	02:30 PM	PSX Auditorium, Karachi
2	Lahore Location			ISE REIT Auditorium, Islamabad
3	Islamabad Location			LSE Auditorium, Lahore



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All are request to participate in the session of respective location.

For any further queries or concerns, please feel free to contact the Customer Support Services at your respective locations.

City	Telephone Number	UAN Number	Fax Number
Karachi	021-32460811-19 Ext. 209, 214, 217, 218 & 224 Dir. 021-32438531-32-33	021-111-111-622	021-32462825
Lahore	042-36280815-7		042-36280818
Islamabad	051-2895460-62		051-2895463

Regards,

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Rehan Saif
Head of PD & CSS

CC:

- Executive Director - Policy, Regulation and Development Department - SMD Securities & Exchange Commission of Pakistan - Islamabad
- Managing Director - Pakistan Stock Exchange Limited
- Chief Executive Officer - Central Depository Company of Pakistan Limited
- Chairman - Pakistan Banking Association



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Annexure – A

Approved Amendments to the NCCPL Regulations relating to Margin Financing Revised Module

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CHAPTER 7B MARGIN FINANCING SYSTEM

7.B1 Definitions ~~inception~~

7.B1.1 Definitions

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 and these Regulations .
MF Blocked Status	means where any MF Eligible-Financed Securities and/or other Securities against Pledge Position Financier's Acceptable Securities are delivered or held to the respective CDC-CDS account of-maintained by a Margin Financier in such-block status such that the same cannot be dealt with by the Margin Financier with the exception of pledging of Margin Financed Securities as specified in clause 7.B.3.4a .
Financing Participation Ratio ("FPR")	means the ratio between the minimum equity participation required to be paid by the Margin Finantee on behalf of finantee (as defined as finantee in the Rules) 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 10% of MF Transaction Value. Provided that the minimum equity participation to be paid by the Margin Finantee, as prescribed by the Company (if defined), FPR shall always be collected in the form of cash only.
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 and for any other purpose in relation to Margin Financing , pursuant to this Chapter of these Regulations
Securities against Pledge	M means S Securities deposited from the normal proprietary CDS House Account of Broker Margin Financier to the proprietary CDS MF House Account of the respective Broker Margin Financier in MF Blocked Status. Provided that a separate proprietary CDSMF House



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<u>Position</u>	Account of <u>a Broker Margin Financier shall be opened for the movement of such S securities.</u>
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MF System	means a system provided by the Company in the capacity of an authorized intermediary to MF Participants for Margin Financing based on <u>margin financing agreement (as defined in the Rules)</u> 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.
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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 and for any other purpose in relation to Margin Financing.

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 execute margin financing agreement with the client(s) terms and conditions thereof. ~~For this purpose, MF Participants shall execute an agreement~~ in accordance with the Rules, and covering matters such as

- 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

treatment of corporate actions; and



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- h) 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 Pakistan Stock Exchange.
4. The Margin Finanee 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 Finanee including the default on any margin call made by the respective Margin Financier. [Marked-to-market collection from client as per clause 7B.9 of these Regulations and such arrangement shall also be covered in margin financing agreement.](#)

7B.3.2a Margin Financing Tri-Partite Agreement

1. Where funds are borrowed from bank/financial institutions/investment finance company, as specified in the Rules, by the Broker Margin Financier to provide Margin Financing to its clients, in such case, a tri-partite margin financing agreement shall be executed between Broker Margin Financier, its client and the bank/financial institutions/investment finance company.

- a) Name of Broker Margin Financier, client of a Broker Margin Financier and relevant bank/financial institutions/investment finance company.
- b) Date and terms of tri-partite margin financing agreement
- c) Broker Margin Financier CDS Participant Account and clients normal and MF sub-account numbers along with CDS pledge/group IDs
- d) Acceptable form of collateral to be depositedpledged with bank/financial institutions/investment finance company
- e) Client aAuthorization to the Broker Margin Financier in terms of Sections 12 & 24 of the Central Depositories Act, 1997
- f) No objection clause for sale of pledge securities by bank/financial institutions/investment finance company
- g) Pledge, lien and authority of pledge securities as per the terms and conditions of bank/financial institutions/investment finance company



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- h) Terms of tri-partite agreement with respect to period of validity and renewal
- i) Conditions under which tri-partite agreement may be altered, terminated and implications thereof
- j) Coverage for provisions as mentioned in clause 7B.3.4 d of these Regulations in case of default by Broker Margin Financier to fulfill any margin call made by bank/~~financial institutions/investment finance company.~~
- k) Functions to be performed in accordance with 7B.3.4a, 7B.3.4b, 7B.3.4d, 7B.3.5 (2), 7B.3.6, 7B.4 and 7B.9 of these Regulations
- l) Signatures of authorized persons of all parties to the tri-partite agreement
- m) Any other condition as mutually agreed by the parties to the tri-partite agreement

2. Such Broker Margin Financier shall be required to open and maintain, in accordance with CDC Regulation, a CDS sub-account of such client in MF Blocked Status ~~as per the terms and conditions stipulated in the relevant regulations of CDC~~ and provide copy of tri-partite agreement to the Company and CDC. Multiple sub-account of a client under CDS Participant Account in MF Blocked Status of a Broker Margin Financier shall be restricted. Moreover, it shall be mandatory for such client to have subscribed ~~should also be an Eligible UIN Holder to for~~ access to UIS at the time of opening of his account. The Company shall provide necessary information to CDC as per mutually agreed mechanism.

~~The Broker Margin Financier shall also be required to provide a copy of tri-partite agreement to the Company.~~

2. It shall be the responsibility of a Broker Margin Financier to immediately report to the Company and CDC, in case of any change/cancellation in the existing tri-partite agreement and/or signing of any new tri-partite agreement.



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7B.3.3 MF Transaction Initiation and Affirmation Process

3. Based on the above net purchases calculated by the Company as provided in paragraph 2 above, the Margin Finnee 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 Finnee and transmitted to Margin Financier within Designated Time Schedule. Provided that a Broker Margin Financier cannot provide Margin Financing to another Broker Clearing Member or its clients, any TRE Certificate Holder of the same Stock Exchange, whether or not such TRE Certificate Holder is a Margin Finnee. Where Margin Finnee and Margin Financier is the same Broker Clearing Member, in such case, at the time of MF Transaction initiation, it ~~should~~ shall be identified that funding will be provided by Broker Margin Financier from its own resources to its client and/or funding is arranged from bank as specified in the Rules. In case where MF Transaction is initiated to provide funding by Broker Margin Financier from its own resources, in such case, CDS MF house account in MF Blocked Status of a Broker Margin Financier will be linked with such initiated MF Transaction. In case where MF Transaction is initiated against arrangement of funding from bank/financial institutions/investment finance company, in such case, CDS MF sub account of a client in MF Blocked Status will be linked with such initiated MF Transaction

7B.3.4 Settlement of MF Transactions

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 Finnee on the respective Settlement Date. Upon settlement, all the Margin Financed Securities shall be delivered to the CDC MF house account of the respective Margin Financier in MF Blocked Status. Where MF Transactions reinitiated/affirmed against arrangement of funding from bank by Broker Margin Financier, in such case, upon settlement, all the Margin Financed Securities shall be delivered to the CDC MF sub-account of the respective client in MF Blocked Status.

MF Transaction(s) which are affirmed by the respective counter-party Margin Financier on the settlement date, such MF Transactions shall be settled in a manner whereby, the Margin Financier shall settle MF Transaction Value directly with the Margin Finnee and the money obligation of the ready market purchases shall be settled by the respective Margin Finnee on the respective Settlement Date through NCSS. Upon settlement, all the Margin Financed Securities shall be delivered to the CDC MF house account of the respective Margin Financier in MF Blocked Status. Where MF Transactions are affirmed against arrangement of funding from bank by Broker Margin Financier on the settlement date, in such case, upon settlement, all the Margin Financed Securities shall be delivered to the CDC MF sub-account of the respective client in MF Blocked Status.

2. If a Margin Financier/client of Broker Margin Financier does not receive the Margin Financed Securities in its CDC MF account in MF 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



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Financed Securities purchased through squaring process shall be transferred to the CDC account of such Margin Financier/client of Broker Margin Financier, as the case may be, in MF 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 financee 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 Financee will have no obligation with regard to such MF (R) Transaction.

7B.3.4a Pledging of Margin Financed Securities

Subject to regulation 7B.3.2a, a Broker Margin Financier will be allowed to pledge Margin Financed Securities from CDS MF sub-account of client maintained in MF Blocked Status in favor of bank through which funding is arranged by Broker Margin Financier for such client subject to fulfillment of following condition:

- i. Pledging shall be made through exclusive pledge ID for Margin Financed Securities and identity of client shall be disclosed to the respective bank/~~financial institutions/investment finance company.~~
- ii. Pledging can only be made in favor of respective bank with whom tri-partite agreement as mentioned in 7B.2.2 a is executed.

7B.3.4b Pledging of Securities from clients normal CDS Account against Margin Financing

Broker Margin Financier can pledge Securities from clients normal CDS accounts in favor of bank through which funding is arranged by Broker Margin Financier for such client subject to the condition of fulfilling the margin requirements of ~~respective bank/financial institutions/investment finance company~~ subject to the following condition:

1. Pledging shall be made through exclusive pledge ID and identity of client shall be disclosed to the respective bank/~~financial institutions/investment finance company.~~
2. Pledging can only be made in favor of respective bank with whom tri-partite agreement as mentioned in 7B.2.2 a is executed.
3. Pledging shall only be allowed where an open Margin Financing position exists for such CDS account holder. For this purpose, the Company shall provide necessary information to CDC as per mutually agreed mechanism.



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7B.3.4c Margin Financing Open and Pledge Position

1. CDC shall provide relevant pledge positions of Broker Margin Financier as stated in 7B.3.4a and 7B.3.4 b above to the Company as per mutually agreed mechanism.
 - i. On the basis of pledge position information provided by CDC and UIN level Margin Financing open position maintained in the MF Module, the Company shall made available a report in the MF Module showing necessary details pertaining to Margin Financing and pledge position.
 - ii. Broker Margin Financier shall be required to monitor its pledge positions and open position and ensure compliance with clause 7B.3.4 a and 7B.3.4 b of these Regulations. Such report of a client shall also be made available by the Company in UIS.
 - iii. The Company shall ~~have the right to~~ review any such report of a Broker Margin Financier and may ask for any other information form Broker Margin Financier in this context. If any discrepancy is found in the Margin Financing open and pledge position in context to clause 7B.3.4 a and 7B.3.4 c of these Regulations, the Company may charge penalty to such Broker Margin Financier amounting to 10% of the amount of discrepancies highlighted by the Company or PKR 500,000 whichever is higher. The Company may also impose a restriction/suspension on the concerned Margin Financier for taking any new position in the MF Market for a period of 3 months or permanently. During the period of suspension only release of open position shall be allowed as per Fee, Charges and Deposit Schedule including imposition of restriction to participate in Margin Financing in any capacity for a temporary period or permanently.

7B.3.4 d Pledge call Reporting by Broker Margin Financier

In case of any shortfall or failure to fulfill the margin requirement determined for Broker Margin Financier by respective bank pursuant to clause 7B.3.4 a and 7B.3.4 b, such bank/~~financial institutions/investment finance company~~ may call the pledged Securities as per terms and conditions stipulated under the tri-partite agreement.

- i. Broker Margin Financier shall be required to provide a report to respective bank/~~financial institutions/investment finance company~~, identifying its clients having open position and against which Securities pledge is required to be called. For this purpose, the Company shall facilitate Broker Margin Financier to enter requisite details and accordingly generate report in the MF Module. Accordingly, priority ~~will~~shall be given to the accounts identified by the Broker Margin Financier for making pledge calls. Bank/~~financial institutions/investment finance company~~ will



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be required to call the pledged shares only to the extent of default.

- ii. The Company shall obtain pledge call position from CDC as per agreed mechanism and open position of relevant client upto the extent of position for which the pledge is called, as made available by CDC, will be reduced accordingly.

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

1. An MF(R) Transaction can be initiated by a Margin Finantee with ~~his~~ its 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 Margin Finantee-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, MF Transaction Value and mark-up thereof 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 MF Blocked Status of relevant Margin Financier/clients account as the case may be and shall be transferred automatically in available status in normal CDC account of such Margin Finantee or sub-accounts of its clients, as the case may be. In case where Broker Margin Financier fails to deliver Margin Financed Securities from the CDS sub-account of a client, due to un-release of pledge position, in such case, Margin Financed Securities shall not be transferred in the normal CDS sub-account of such client through on-line Balance Order mechanism. In such case, marked-to-market profit (if any) deposited by Broker Margin Financier as per clause ~~7B.9 (6)~~ 12.5.10.3 upto the extent of Securities that are not delivered, shall be made available to normal CDS sub-account of the respective client. The Company will facilitate re-execution of MF (R) Transaction to 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 MF Blocked Status of relevant Margin Financier/clients account as the case may be and transferred from the CDC account of the Margin Financier/clients account as the case may be 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/Securities against Pledge Position shall ~~also~~ be handled by Company in accordance with the Procedures.



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~~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 Financier of such MF (R) Transaction has paid the Shortfall Amount to the Company. If such Margin Financier 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 Financier 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 Financier, the delivery default procedures in accordance with these Regulations shall be applied for the satisfaction of corresponding ready market purchasers. In case where Broker Margin Financier fails to deliver Margin Financed Securities due to the reason that they have not been released from the pledge position, in such case, the delivery default procedures in accordance with these Regulations shall be applied for the satisfaction of corresponding ready market purchasers. The Company will facilitate such Broker Margin Financier to un-block Margin Financed Securities subsequently, released by respective bank/financial institutions/investment finance company.

Failure to meet any obligation of such delivery default proceedings will be considered a default as a Broker Clearing Member and 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

7B.4 Functions of the Company

(iii) The Company may force release MF Transaction executed in relation to a client upon his request subject to payment of due amount directly to bank/financial institutions/investment finance company in pursuance to clause 7B.3.2 a of these Regulations and facilitate the client to receive Margin Financed Securities pledged by Broker Margin Financier under clause 7B.3.4 without incurring any liability or obligations to any of the MF Participants or their respective clients.

(iv) In case of any dispute over an MF Contract and consequential pledge positions, the Company shall be empowered to review and decide the matter. The decision of the Company shall have binding effect upon the MF Participants.

7B.9 Exposure and Margins for MF Participants

~~1. Margin Financier will define securities acceptable as Financier’s Acceptable Securities with applicable haircuts as collateral against each Margin Financier in NCSS.~~

1. Where financing is provided by a Broker Margin Financier from its own resources to its clients, in such case, Broker After the settlement of MF Transactions, a Margin Financier shall pay to the respective Margin Financier shall be required to maintain the “Financier’s Acceptable Securities of each client in the respective normal CDS sub-account of such client”



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2. ~~Where financing is provided by a Broker Margin Financier through funds, borrowed from bank/financial institutions/investment finance company as specified in the Rules to its clients, in such case, the Margin Financee shall deposit Financier's Acceptable Securities of each client to respective bank/financial institutions/investment finance company as per clause 7B.3.4 of these Regulations.~~

~~which are acceptable to the Margin Financier. However, the aggregate value of such Financier's Acceptable Securities and FPR shall always be higher of 25% or VaR Estimate of that particular MF Eligible Security.~~

~~For deposit of Financier's Acceptable Securities by the Margin Financee to respective Margin Financier, such Margin Financee will be required to record necessary details in NCSS as per the manner prescribed by the Company from time to time. Accordingly, Financier's Acceptable Securities will be moved from the respective CDS account of Margin Financee to CDS house account of the Margin Financier in Blocked Status.~~

~~For release of Financier's Acceptable Securities by the Margin Financee from respective Margin Financier, such Margin Financee will be required to record release request in NCSS as per the manner prescribed by the Company from time to time. Once such request is approved by the Margin Financier, Financier's Acceptable Securities will be moved from the CDS house account of the Margin Financier to the respective CDS account of Margin Financee.~~

3. Where market price of MF Financed Security declines ~~to by 305% of MF Transaction Value~~, in such case, ~~Broker~~ Margin Financier will be required to collect marked-to-market losses from their clients in the form of cash only ~~whereas Non-Broker Margin Financier will collect marked-to-market losses from Margin Financee as per terms and conditions set out in the Margin Financing Agreement.~~

~~Provided where the Company receives information in respect of a Broker Margin Financier that discloses a contravention of the provision stipulated under 7.B.9.3, a penalty amounting to PKR 500,000 (per instance of failure/ per client) shall be levied by the Company on such Broker Margin Financier, however, the amount of penalty may not exceed the amount of mark-to-market losses that the respective Broker Margin Financier has filed to collect from its client(s).~~

~~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. Provided further, that such requirement of margin from Margin Financier shall not be applicable where Margin Financee and Margin Financier is a same Broker Clearing Member.~~

~~7B.10.2 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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12.4 EXPOSURE AND NETTING:

12.4.1 DETERMINATION OF EXPOSURE:

(g) No netting whatsoever, in any Market, shall be allowed for the purpose of calculation of Exposure and relevant margins in lieu of Margin Financing Transactions. Provided that MF (R) Transactions, executed as per clause 7B.3.5 (1) and Margin Financed Securities of such clients and pledged as per clause 7B.3.4 a of these Regulations, exposure margins of such ready market sales will be collected from the respective Broker Clearing Members proprietary account.

12.6 MARK-TO-MARKET LOSSES

12.6.2 NETTING:

(a) While determining the MtM Losses (or profit) payable by a Clearing Member, netting shall be permissible across trades in different securities for the same client or across trades in different securities for proprietary trades of a Clearing Member, in the same Settlement Date or contract period. Provided that where MF (R) Transactions are executed as per clause 7B.3.5 (1) and Margin Financed Securities of such clients are pledged as per clause 7B.3.4 a of these Regulations, mark-to-market losses of such ready market sales will be collected from the respective Broker Clearing Members proprietary account.

12.5.10 MF Market

1. Margins will initially apply on the Margin Finanee on the Ready Delivery Contract Market purchase as per the risk management requirements of the Company 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.

2. 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 by the Company from the Margin Financier on the corresponding MF (R) Transaction, provided that Margin Financed Securities have been delivered and held in the CDC house account/clients account as the case me of the Margin Financier in MF Blocked Status. Provided further, that such requirement of margin from Margin Financier shall not be applicable where Margin Finanee and Margin Financier is a same Broker Clearing Member.

3. Where Margin Financed Securities are pledged by a Broker Margin Financier as per clause 7B.3.4 a of these Regulations:

- i. Such Broker Margin Financier shall be required to deposit VaR based margins from ~~their~~ proprietary CDS House account.
- ii. Such Broker Margin Financier shall also be required to deposit marked-to-market losses where price of such Margin Financed Security is increased. Provided that profit/loss of clients of a Broker Margin Financier shall not be netted.



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- iii. Margins/marked-to-market losses as stated above, shall be kept in a separate and exclusive Blocked Account of such Broker Margin Financier, maintained from the date of pledge till pledge release.
- iv. For deposit of such margin/marked-to-market losses, Broker Margin Financier will be required to record necessary details in NCSS as per the manner prescribed by the Company from time to time. Accordingly, Securities will be moved from the respective normal CDS house account of Broker Margin Financier to CDS house account in MF Blocked Status of the Broker Margin Financier.
- v. For release of Securities deposited under clause (i) and (ii) above, Broker Margin Financier will be required to record release request in NCSS as per the manner prescribed by the Company from time to time. Accordingly Securities will be moved from the CDS house account in MF Blocked Status to the respective normal CDS house account of Broker Margin Financier.
- vi. The Company shall made available a report in the MF Module showing necessary details pertaining to pledge position, margin/marked-to-market losses, deposited Securities etc. Broker Margin Financier shall be required to monitor its positions accordingly and maintain requisite securities against margins/marked-to-market losses.
- i-vii. The Company shall ~~have the right to~~ review any such report of a Broker Margin Financier and may ask for any other information from Broker Margin Financier in this context. If any discrepancy/shortfall is found in context of clause (i) and (ii) above, the Company may charge penalty to such Broker Margin Financier amounting to 10% of the amount of discrepancies highlighted by the Company or PKR 500,000 whichever is higher. The Company may also impose a restriction/ suspension on the concerned Margin Financier for taking any new position in the MF Market for a period of 3 months or permanently. During the period of suspension only release of open position shall be allowed. ~~in as per Fee, Charges and Deposits Schedule.~~

12.7.16 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 Finanee shall continue to remain responsible for and shall ensure the settlement of its corresponding Ready Delivery Contract Market sell transactions. In case of non-fulfillment of such Ready Delivery Contract Market settlement obligations by the respective Margin Finanee, normal delivery default procedures in accordance with the Procedures shall be applied for the satisfaction of corresponding Ready Delivery Contract Market buyers. In case where Broker Margin Financier fails to deliver Margin Financed Securities due to the reason that they have not been released from the pledged position, in such case, the delivery default procedures in accordance with these Regulations shall be applied for the satisfaction of corresponding ready market purchasers. Failure to meet any obligation of such delivery default proceedings will be consider as a default by the Broker Clearing Member and Company shall initiate default proceedings in accordance with the provisions of Chapter 13



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[\(Money Default Management\) and other relevant provisions of these Regulations and Procedures](#)



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Annexure-B.

TRIPARTITE AGREEMENT BETWEEN

BROKER MARGIN FINANCIER, CLIENT AND BANK

THIS AGREEMENT is made on this ____ day of _____, 20....

BETWEEN

<Broker Margin Financier Name > having offices at _____
(hereinafter referred to as the "Broker Margin Financier", which expression shall, where the context so admits, include its successors and permitted assigns of the First Part;

AND

<Client Name > having offices/ address at _____
(hereinafter referred to as the "Client", which expression shall, where the context so admits, include its successors and permitted assigns, and, where the Client is an individual, his heirs, executors, administrators and personal representatives), of the Second Part;

AND

_____, a banking company duly licensed to carry on banking business in Pakistan, incorporated under the [Companies Act, 1913] [Companies Ordinance, 1984], having its Head Office at

_____. (hereinafter referred to as the "Bank", which expression shall, where the context so admits, include its successors and permitted assigns, and, where the context so admits, the Designated Branch (hereunder defined) and any successor branch of the Designated Branch), of the Third Part.



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- (1) The Broker Margin Financier has been admitted as a “Broker Margin Financier” by the National Clearing Company of Pakistan Limited “NCCPL” under NCCPL Regulations, 2015”;
- (2) The Client means a person admitted as a client by the Broker Margin Financier under the NCCPL Regulations, 2015 for which the Broker Margin Financier has obtained funds from the Bank.
- (3) The Bank means a bank that has agreed to provide funds to the Broker Margin Financier for onward financing to clients as a Broker Margin Financier under the NCCPL Regulations, 2015;
- (4) The Broker Margin Financier, Client and the Bank are hereinafter collectively referred to as the “Parties” who wish to enter in to this Agreement for setting out the terms and conditions on which the Bank will provide financing services to Broker Margin Financier and the Broker Margin Financier will provide financing to its Client under the Margin Financing System in accordance with the Securities (Leverage Market & Pledging) Rules, 2011.

Definitions:

Blocked Status		means where any MF Eligible Securities and/or Financier’s Acceptable Securities are delivered to the CDC account of a Margin Financier /Client in such status that the same cannot be dealt with by the Margin Financier/Client except as provided under the NCCPL Regulations, 2015 and/or the Central Depository Company of Pakistan Limited Regulations (CDC Regulations).
Broker Margin Financier	Margin	means a Broker Clearing Member who has been admitted as a Margin Financier by the National Clearing Company of Pakistan Limited “NCCPL” under NCCPL Regulations, 2015. Such Broker Clearing Member can provide financing in accordance with the Rules.
MF Contract Period		means the period agreed among the MF Participants before execution of MF Transactions.
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 Chapter 7B of NCCPL Regulations, 2015.



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MF Module	means a module provided by the NCCPL 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 Chapter 7B of NCCPL Regulations, 2015.
MF System	means a system provided by the NCCPL in the capacity of an authorized intermediary 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 the NCCPL Regulations, 2015.
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 Finantee respectively who are party to the corresponding MF Transaction; or (ii) closing the MF Transaction as envisaged under the NCCPL Regulations, 2015.
Margin Financing	means a financing facility made available by the Margin Financier to its Margin Finantee pursuant to Chapter 7B of NCCPL Regulations, 2015 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.
NCCPL Regulations 2015	means the National Clearing Company of Pakistan Limited Regulations, 2015 and includes amendments made therein from time to time and any new regulations made in substitution thereof
Rules	means the Securities (Leveraged Markets and Pledging) Rules, 2011.



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All capitalized terms used but not defined herein will have the same meaning as prescribed in the NCCPL Regulations 2015

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Parties hereto agree and declare as follows:

1. The Broker Margin Financier confirms that:

- (a) it maintains a normal CDS Participant Account and Margin Financier CDS Participant Account with the Central Depository Company of Pakistan Limited, the details of which are provided below:

Normal CDS Participant Account

Account title:

Account Number:

Margin Financier CDS Participant Account

Account title:

Account Number

- (b) it has opened a CDC sub-account of the Client in the MF Blocked Account for custody of Margin Financed Securities, the details of which are provided below:

Sub-Account title:

Sub-Account Number:

- (c) it is also maintaining normal CDC sub-account of the Client, the details of which are provided below:

Sub-Account title:

Sub-Account Number:

- (d) The Broker Margin Financier shall ensure that it has subscribed to the following services offered by CDC under the CDC access in respect of the sub-account of the client opened under Margin Financier CDS Participant Account



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- Short Messaging Service
- eAlert Service
- Web Access Service

- (e) The Broker Margin Financier shall provide a certified true copy of this agreement to the Central Depository Company of Pakistan Limited and National Clearing Company of Pakistan Limited on immediate basis after the same has been executed in accordance with the provisions contained under the NCCPL Regulations, 2015.
- (f) It shall be the responsibility of a Broker Margin Financier to immediately report to the National Clearing Company of Pakistan Limited and Central Depository Company, in case of any change/cancellation of this agreement and/or signing of any new tri-partite agreement in substitution hereof.
2. It is agreed between the Parties hereto that the Bank will provide financing to the Broker Margin Financier for onward funding of the Client in accordance with the Rules governing the Margin Financing and the terms of this agreement.
3. The Bank has opened the following Pledge Group ID under its Eligible Pledgee Account with CDC exclusively for the purpose of pledging of securities to be made in its favour in connection with the Margin financing:
- Eligible Pledgee Account ID No.:
- Eligible Pledgee Account Title:
- Pledge Group ID:
4. The Bank also covenants that it shall not accept or authorize any other pledge transaction in respect of the aforementioned Pledge Group ID.
5. The Bank hereby confirms that for the purpose of providing the financing to the Broker Margin Financier for its onwards funding to the Client, the following form of collateral is acceptable and has to be deposited with the Bank for release of funds to the Broker Margin Financier:



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Details of Acceptable form of Collateral

6. The Client unconditionally and irrevocably authorizes the Broker Margin Financier to handle the book-entry securities entered in its sub-accounts maintained with Broker Margin Financier in the normal CDS Participant Account and Margin Financier CDS Participant Account in MF Blocked Account Status in CDS in the manner provided in the CDC Regulations.
7. The Client unconditionally and irrevocably authorizes the Broker Margin Financier in terms of section 12 read with section 24 of the Central Depositories Act, 1997 to pledge Margin Financed Securities from the Client's CDS sub-account maintained in MF Blocked Account Status and to pledge Securities from normal CDS sub-account of the client in favor of the Bank. In the event of any default, the Bank may sell the pledged securities or any part thereof for settling and appropriating the amounts outstanding against the above mentioned Broker Margin Financier in accordance with the provisions of the NCCPL Regulations 2015 without any further reference to the Client. The Client agrees that it shall not have any objection in this regard.
8. The Broker Margin Financier unconditionally and irrevocably authorizes the Bank to call pledged securities in the event of any shortfall or failure to fulfill the margin requirement determined for Broker Margin Financier by the Bank. For this purpose, Broker Margin Financier shall be required to provide a report to the Bank of the Client identifying its open position and against which Securities pledge is required to be called. For this purpose, the Broker Margin Financier shall use the facility provided by National Clearing Company of Pakistan Limited to enter requisite details and accordingly generate report in the Margin Financing Module. Accordingly, priority will be given to the sub-accounts identified by the Broker Margin Financier for making pledge calls. The Bank may call the pledged shares only to the extent of default.
9. The Client unconditionally and irrevocably confirms to the Bank that they are the owners of all the securities deposited with the Bank and the same has been accepted by the Bank on the basis their right of control, ownership and disposition, free from any prior charge, lien or encumbrance.
10. The Broker Margin Financier and Client hereby undertake that the initiation, affirmation and settlement of MF Transaction shall be carried out in accordance with the provisions contained under Regulation 7B.3.3 and 7B.3.4 of the NCCPL Regulations, 2015, whereby, on the settlement date all the Margin Financed Securities Shall be transferred to the CDC sub-account of the Client in MF Blocked Status. MF Transaction will be carried out in accordance with all applicable laws, rules and regulations.
11. The Broker Margin Financier undertakes:



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- a. To pledge Margin Financed Securities from CDS sub-account of the Client maintained in MF Blocked Status in favor of the Bank provided that pledging shall be made through exclusive pledge group ID for Margin Financed Securities as specified in clause 3 above.
 - b. to pledge securities from the Client's normal CDS sub-accounts in favor of the Bank subject to the following conditions:
 - i. Pledging shall be made through exclusive pledge group ID as specified in clause 3 above; and
 - ii. Pledging shall only be allowed where an open Margin Financing position exists for such CDS sub-account holder.
12. In case of any dispute over an MF Contract and consequential pledge positions, the NCCPL shall be empowered to review and decide the matter. The decision of NCCPL shall be binding on the Parties.
13. The Parties hereby agree for movement of Securities from house/sub-account maintained under MF Blocked Status to the respective normal CDS house/sub-account as the case may be upon book closure as per relevant regulations/procedures of Central Depository Company of Pakistan Limited and National Clearing Company of Pakistan Limited.
14. The Broker Margin Financier and Client hereby undertake that the initiation, affirmation and settlement of MF (R) Transaction shall be carried out in accordance with the provisions contained under Regulation 7B.3.4 and 7B.3.5 whereby the Margin Financed Securities will be delivered by the Broker from the CDS sub-account in MF blocked Status to normal CDS-sub-account of the Client. Settlement of MF (R) Transaction will be carried out in accordance with all applicable laws, rules and regulations.
15. The Parties unconditionally and irrevocably agree that the only obligation of the NCCPL 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 in accordance with Chapter 7B of NCCPL Regulations, 2015. The Parties acknowledge and confirm that NCCPL shall not be responsible for:
- i. the title, ownership, genuineness, regularity or validity of any security or any other documents or instrument pledged with or held by the Parties under this agreement;



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- ii. the execution, genuineness, validity, enforceability or sufficiency of any agreement or any other document relating thereto;
 - iii. the collectability of amounts payable in respect of Margin Financing;
 - iv. the financial condition of Parties to this agreement;
 - v. the performance and observance by Parties of their obligations under the agreements or any other documents executed between them in respect of Margin Financing; or
 - vi. any facilitation provided or any matter related to provisions stipulated under Regulation 7B.3.4a, 7B.3.4b, 7B.3.4d, 7B.3.5(2), 7B3.6, 7B.4 and 7B.9 of the Chapter 7B of the NCCPL Regulations, 2015.
16. The NCCPL may force release MF Transaction executed in relation to a client upon his request subject to payment of due amount directly to Bank in pursuance to clause 7B.3.2 a of these Regulations and facilitate the client to receive Margin Financed Securities pledged by Broker Margin Financier under clause 7B.3.4 without incurring any liability or obligations to Parties.
 17. This Agreement shall be binding on the Parties to it and their respective successors and permitted assigns, Provided that none of the Parties shall be entitled to assign this Agreement or any of that Party's rights and obligations under this Agreement without the consent in writing of the others (which consent any Party may in its absolute discretion withhold).
 18. No failure to exercise or delay in exercising any right, power or remedy vested in any Party under or pursuant to this Agreement shall constitute a waiver by that Party of that or any other right, power or remedy.
 19. This agreement is the Parties' only agreement in relation to its subject matter and supersedes all prior agreements and understandings whether oral or written with respect to that subject matter and no variation of this agreement shall be effective unless reduced to writing and signed by or on behalf of a duly authorised representative of each of the Parties.
 20. In the event that any term, condition or provision of this agreement is held to be in violation of any applicable law, statute or regulation, the same shall be deemed to be deleted from this agreement and shall be of no force and effect and this agreement shall remain in full force and



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effect as if such term, condition or provision had not originally been contained in this agreement. Notwithstanding the foregoing, in the event of any such deletion, the Parties shall negotiate in good faith in order to agree the terms of a mutually acceptable and satisfactory alternative provision in place of the provision so deleted.

21. This agreement may be executed in any number of counterparts or duplicates each of which shall be an original but such counterparts or duplicates shall together constitute but one and the same Agreement.
22. Any notice to be given by any Party to the other shall be given in the manner agreed among the parties at the address or (as the case may be) the facsimile number of that other Party set opposite its name below:

To: < Broker Margin Financier >

Address: _____

Facsimile Number: (92-21) _____

[Marked for the attention of (**Mr.** _____)]

To: <Client>

Address: _____

Facsimile Number: (92-21) _____

[Marked for the attention of (**Mr.** _____)]

To: Bank

Address: _____

Facsimile Number: (92-21) _____

[Marked for the attention of (_____)]



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- or at such other address (or facsimile number) as the Party to be served may have notified (in accordance with the provisions of this clause) for the purposes of this Agreement.
23. Any Party hereto may terminate this Agreement without cause by serving a thirty (30) days notice on the other Party. No liability whatsoever shall attach to any Party on account of termination of this Agreement under this Clause, provided that such termination shall be without prejudice to the rights and obligations of the Parties accrued upto the date of the expiry of the said thirty (30) days notice period. However, the agreement may be terminated before 30 days upon mutual consent of the parties in writing.
24. This agreement shall be governed by and be construed in all respects in accordance with Laws of Pakistan.
25. The Broker Margin Financier represents and warrants to the other Parties that (i) the Broker Margin Financier has full power, authority and legal right to incur the obligations, to execute and deliver and to perform and observe the terms and provisions of this agreement, (ii) this agreement has been duly authorised, executed and delivered by it, and (iii) this agreement constitutes the legal, valid and binding obligations of the Broker Margin Financier.
26. The Bank represents and warrants to the other Parties that (i) the Bank has full power, authority and legal right to incur the obligations, to execute and deliver and to perform and observe the terms and provisions of this agreement, (ii) this agreement has been duly authorized, executed and delivered by it, and (iii) this agreement constitutes the legal, valid and binding obligations of the Bank.
27. The Client represents and warrants to the other Parties that (i) the Client has full power, authority and legal right to incur the obligations, to execute and deliver and to perform and observe the terms and provisions of this agreement, (ii) this agreement has been duly authorised, executed and delivered by it, and (iii) this agreement constitutes the legal, valid and binding obligations of the Company.
28. This agreement shall be subject to the NCCPL Regulations 2015, which shall be read in and deemed to have been incorporated into this agreement. In case of any inconsistency between the provisions of this agreement and the provisions of the NCCPL Regulations 2015, the latter shall prevail.
29. This agreement may be altered, terminated by any of the parties concerned in the event of happening of following conditions:
- 29.1



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30. The agreement shall be binding on parties concerned and remain valid for a period of ____ days/ months subsequent to which it shall be renewed.

31. Any other condition as mutually agreed by the parties to the tri-partite agreement

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the day and year above written.

For: Client

For: < Broker Margin Financier

For: < Bank>

Mr. _____

Mr. _____

Mr. _____

Witnesses:

1. _____

NIC# _____

Name: _____

2. _____

NIC# _____

Name: _____

Witnesses:

1. _____

NIC# _____

Name: _____

2. _____

NIC# _____

Name: _____

Witnesses:

1. _____

NIC# _____

Name: _____

2. _____

NIC# _____

Name: _____