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National Clearing Company of Pakistan Limited

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

NCCPL/CM/AUGUST-18/ 09

August 16, 2018

Direct Payment System - Custody Model / Concept Paper

Dear Broker Clearing Members,

This is with reference to our letter No. NCCPL/CM/JUNE-18/02 dated June 07, 2018 pertaining to the implementation of "Direct Payment System- Custody Model ("DPS") in order to revamp custodial services.

In this respect, the Securities and Exchange Commission of Pakistan (SECP) vide its letter No.SMD/SE/2(206)/2009 dated August 15, 2018 has directed NCCPL to implement the revised DPS model in one phase instead of two-phases considering market participant feedback and suggestions. Said SECP letter mentioning target dates along with the revised DPS model are attached herewith.

For any further queries or concerns, please feel free to contact the Customer Support Department at UAN No. 021-111-111-622.

Regards,

_____sd_____

Rehan Saif
Head of PD & CSS

CC:

1. Director/HOD - Policy, Regulation and Development Department - SMD
Securities & Exchange Commission of Pakistan - Islamabad
2. Managing Director - Pakistan Stock Exchange Limited
3. Chief Executive Officer - Central Depository Company of Pakistan Limited
4. All Settling Banks



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Securities and Exchange Commission of Pakistan
Securities Market Division
Policy, Regulation and Development Department

No. SMD/SE/2(206)/2009

August 15, 2018

Mr. Muhammad Lukman,
Chief Executive Officer,
National Clearing Company of Pakistan Limited,
Karachi.


Direction under Sections 31(1)(a), 31(1)(c), 31(2)(d) and 170(2)(g) of the Securities Act, 2015

This is in continuation to the Securities and Exchange Commission of Pakistan's ("the Commission") direction dated June 06, 2018, regarding Direct Payment System ("DPS") – Custody Model, to the National Clearing Company of Pakistan Limited ("NCCPL") communicating approval of DPS implementation plan.

In this regard, the Commission, following market participants' feedback and suggestions, has considered and approved the revised DPS model, as proposed by the NCCPL (revised DPS overview enclosed). Among other changes, revised DPS model shall now be implemented all together in one phase, instead of two-phase implementation, as was envisaged in earlier model.

In view of the forgoing, the Commission in exercise of its powers conferred under Sections 31(1)(a), 31(1)(c), 31(2)(d) and 170(2)(g) of the Securities Act, 2015, in the interest of the public, for ensuring integrity of the securities market and for the protection of customers, hereby directs the NCCPL to execute the implementation of revised DPS model, as per the following schedule:

Sr.	Activity	Target Date
1	Related regulatory changes in NCCPL and CDC Regulations – submission to SECP for consideration and approval	First week of December, 2018
2	DPS development by NCCPL, while keeping CDC in loop, and mock testing	Second week of January, 2019
3	Go-live of DPS	Last week of January, 2019


(Shaukat Hussain)
Chairman/Commissioner (SMD)

Copy Forwarded to:

1. Board of Directors, NCCPL
2. Chief Executive Officer, Central Depository Company of Pakistan Limited



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NCCPL/PDCSS-SECP/07-18-35

July 27, 2018

Mr. Hammad Javed
Joint Director
Securities Market Division | Policy, Regulation and Development Department
Securities and Exchange Commission of Pakistan
NIC Building, Jinnah Avenue, Blue Area,
Islamabad

**Subject: Direct Payment System- Custody Model "DPS"
Revised Process and Implementation Plan**

Dear Sir,

This is with reference to your letter reference SMD/SE/2(206)/2009 dated June 06, 2018 through which the Securities & Exchange Commission of Pakistan ("SECP") has directed National Clearing Company of Pakistan Limited ("NCCPL") to implement Direct Payment System-Custody Model ("DPS") aimed to revamp custodial services within given defined timelines.

As advised, the DPS Concept Paper was circulated to the market participants for their review and comments. Moreover, NCCPL, for better understanding of salient features of DPS functionality, has also arranged various awareness sessions for the market participants at Karachi, Lahore and Islamabad locations.

In the said awareness sessions, market participants appreciated the overall concept of DPS. However, for smooth and hassle free implementation of the product, market participants made various suggestions with respect to its operations and regulatory framework. Accordingly, all such suggestions of market participants along with NCCPL views thereon were duly shared with SECP.

The SECP held a joint meeting with securities brokers and NCCPL on July 19, 2018 to understand and evaluate rationale for their suggestions on DPS product. Subsequently, SECP had a detailed session with NCCPL on July 23-24, 2018 to discuss practical solutions to incorporate the valid market participants' suggestions. The SECP and NCCPL, after detailed deliberations, finalized and agreed to incorporate necessary processes in DPS.

As suggested by market participants, it was also agreed to implement complete DPS Project instead of its phase wise implementation (Phase 1 and Phase 2). Taking into consideration the sensitivity of the project which involve extensive system development, it was also suggested that timeline of complete DPS Model implementation will be the end of March 2019.

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Tel: (92-21) 32460811-19 Fax: (92-21) 32460827 Website: www.nccpl.com.pk



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Market Participant suggestions and proposed solutions are attached herewith as Annexure-I.

We understand that the revised DPS Model has incorporated almost all suggestions of the market participant and hence brief overview of revised DPS is attached herewith as Annexure-II for review and consideration of the SECP.

We look forward to your kind consideration and shall remain available for any discussion on the matter.

Regards,

Rehan Saif
Head of Product Development

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Annexure- II Brief Work Flow- Direct Payment System "DPS" Custody Model

1. Client Level Money Settlement

National Clearing and Settlement System (NCSS) will generate separate net Pay & Collect obligation for the Broker Clearing Member (BCM) proprietary and each Client positions (for trades & transactions executed in all markets viz-a-viz; ready, DFC, CSF, SIFC, Index Options, MTS, MFS & SLB etc). Whereas, Pay & Collect obligations for the BCM proprietary and each client positions for NDM and Debt Market will be processed separately as NDM and Debt Market Trades are settled exclusively on Trade-for-Trade Basis without applying any netting with other markets.

2. Maintenance of Separate Settling Bank Accounts

BCM shall be required to maintain Two Separate Bank Accounts with NCCPL. One Account for Proprietary Money Settlement and One Account namely "NCCPL DPS- (BCM Name) Customers A/C" for Client Money Settlement. BCM shall ensure timely transfer of funds into Proprietary Account in case of any shortfall in the Clients Settling Bank Account.

Option to operate Multiple Client Accounts will be made available to BCMs however One Client Bank Account should be identified by BCM for Client Money Settlement with NCCPL. All Client Bank Accounts of BCM will be managed by NCCPL. Client Bank Accounts shall only be used to collect payments from Clients by BCM. Similarly, collateral against Margins/MTM Losses shall also be processed only through designated BCM Client Settling Bank Account.

Amount collected in non-settlement Client Bank Accounts will be transferred to nominated Clients Settling Bank Account every day as per DTS. BCM will be provided with an option to update/Change its nominated Client Settling Bank Account one day before settlement within Designated Time Schedule (DTS) as notified by NCCPL from time to time. Separate Maintenance charges will be applied on Multiple Client Bank Accounts.

3. Maintenance of Clients Ledger Balances

Before Go-live Date of DPS, BCM shall be required to upload opening balances of their clients in NCSS so as to reconcile Balances available with Clients Bank Account of BCM. It shall be the responsibility of a BCM to provide accurate detail to NCCPL and also submit auditors certificate, confirming accuracy of information uploaded into NCSS.

BCM shall also be required to upload client-level collection details in NCSS on daily basis. BCM collection and distribution will continuously be monitored in System Audit/ Joint Inspection. In case of any discrepancy is found during audit, action in terms of penalty and suspension can be initiated against such BCM.

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4. Tagging of IBANs in NCSS

From Go-live Date of DPS, IBAN of Principle Account Holder shall be mandatory at the time Client Registration with NCCPL (excluding NBCMs and IDS-Custodian Clients). Client can maintain Bank Account in any On-line Bank with BCM. IBAN verification will be performed initially through CDC as per agreed mechanism.

For existing clients of BCMs, sufficient time will now be available to BCMs to obtain IBANs and such IBANs should be updated in CDS Sub-account registration by BCM well before Go-Live date of DPS. NCSS will Auto-Tag such IBANs based on UIN and BCM ID. Where IBAN of existing client is not provided, such client can trade at PSX, however, their credit/receivable amount will be hold in BCM's client bank account until IBAN is provided.

5. Marking of Client Status

At the time of Client Registration in NCSS, option will be made available to BCM to select Credit Instruction Type "Direct Credit" or "Credit on Instruction". Once BCM selects Direct Credit option, respective client will receive direct credit in respective IBAN. At the time of DPS Implementation, all existing accounts will set as type "Direct Credit" however, BCM will have an option change its type to "Credit on Instruction".

In case where BCM selects Credit on Instruction option, amount will be hold in the designated BCM Clients Settling Bank Account. Such hold amount shall only be released in the respective IBAN of such Client on a system generated request by respective BCM.

For those Clients who wish to receive credit in multiple IBANs, BCM will be required to mark such specify category and tag multiple IBANs. Separate maintenance charges will be applied on Multiple IBANs of clients.

6. NCSS Settlement under Direct Payment System (DPS)

BCM Proprietary Net Pay & Collect Obligation will be settled through BCM Proprietary Bank Account as per existing Pay & Collect Module of NCSS whereas, Client-wise Net Pay & Collect Obligation will be settled through BCM Client Settling Bank Account as per existing Pay & Collect Module of NCSS. Gross Amount of Clients will be debited/credited in Bank.

7. Client Settlement under DPS –Payment

For clients having IBAN in the same Bank where respective BCM is maintaining Client Settling Bank Account. In such case, NCCPL on behalf of BCM, will process client-wise credit instruction to the "main contact branch" of Designated Settling Bank for onward credit of amount in respective IBAN of clients.

For clients having IBAN in any other Banks, in such case, NCCPL on behalf of BCM, will process client-wise credit instruction through 1-Link System for direct connectivity and Transfers.



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Annexure- II Brief Work Flow- Direct Payment System "DPS" Custody Model

Before such credit instructions, NCSS shall ensure that all settlement obligation is fulfilled in clients Account with respective BCM.

For client marked as "Direct Credit" will receive payment on the Settlement Date whereas, for client marked as "Credit on Instruction" will receive payment on the same day as per Designated Time Schedule of NCSS, when Fund Release Request is initiated by BCM.

For Clients marked as eligible for credit in Multiple Bank Accounts, BCM will also be required to mark specific amount also with each tagged IBAN at the time of Fund Release Request in NCSS. Accordingly, client will receive payment on the same day as per Designated Time Schedule (DTS) of NCSS, when Fund Release Request is initiated by BCM.

Client Code of Trading Account registered in NCSS with joint holders should be tagged with IBAN maintained with same persons. In case where BCM desires of make payment in the IBAN of Principle Account Holder, in such case, undertaking of all joint holders should be provided at the time of client code registration wherein joint holders undertake and give concurrence to make credit in such IBAN as per standard format of NCCPL.

8. Client Settlement under DPS –Receipt

BCM shall remain responsible for collection of amount from the clients and ensure that amount of clients should be deposited only in BCM Client Bank Accounts Settling Bank Account. However, BCM shall be required to upload client-level collection details to NCCPL on daily basis. It shall be the responsibility of a BCM to maintain proper record of amount received in the respective clients bank accounts and provide accurate collection details to NCCPL

NCCPL shall develop controls in the System to reconcile Net Payable Obligation in NCSS and Credit Amount Balances of each Client at Broker-Level on a particular settlement date. In case where money obligation of a client is over and above the ledger balance with NCCPL, in such case, NCCPL shall debit the proprietary Account of BCM and credited such amount in the Client Bank Account.

NCCPL shall facilitate BCM to release funds from Clients Bank Account in case where Proprietary Fund of BCM is utilized to meet settlement obligation of its Client with NCCPL. NCSS shall maintain such client level positions and relevant amount of client shall be credited into BCMs Proprietary Account as per DTS. SMS/E-Alerts to Clients pertaining to Fund Movement shall be generated by NCCPL

9. Other Information Required from BCMs

NCCPL will develop up-load functionality in NCSS whereby BCM will provide Client-Level Details pertaining to:



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- a. Fee, Commission, other taxes and Capital Gain Tax (CGT)
- b. Profit on unutilized funds of clients/proprietary account
- c. Margins/MTM Losses required to maintain with Client Ledger Position
- d. Adjustment of Exposure Amount with Settlement Obligation

10. Early Payment System

In line with the Pre-Settlement Delivery Mechanism, NCCPL will develop Early Payment System for marking pre-payment just like pre-settlement delivery, wherein necessary adjustment in the Risk Management measures such as Exposure Margin, MTM etc will be provided.

11. Default Handling

Default handling mechanism as explained in the Concept Paper circulated earlier to the market participants will remain the same.

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