National Clearing Company of Pakistan Limited

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

NCCPL/CM/DECEMBER-24/05
December 6, 2024

Implementation of Amendments in NCCPL Regulations pertaining to Margin Trading System (MTS)

Dear Clearing Members (CMs),

Reference is made to National Clearing Company of Pakistan Limited (NCCPL) circular (attached for ready reference) NCCPL/CM/DECEMBER-22/05 dated December 7, 2022 regarding amendments in NCCPL Regulations.

In this regard, we are pleased to inform that necessary system changes pertaining to MTS Market will be implemented effective from Monday, December 23, 2024.

All Market Participants are requested to note the same.

For any further queries or concerns, please feel free to contact the Customer Support Department at UAN 021-111-111-622 or visit our website www.nccpl.com.pk.

You can approach our Customer Support Services through WhatsApp vide 021-111-111-622 or Click here.

Regards,

_______sd________
Muhammad Asif
General Manager / HOD - Operations

CC:

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

National Clearing Company of Pakistan Limited

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

NCCPL/CM/DECEMBER-22/05
December 7, 2022

<u>Approved Amendments in NCCPL Regulations, 2015</u>

Dear Clearing Members,

Please find attached herewith the approved amendment in the **National Clearing Company of Pakistan Limited ("NCCPL") Regulations, 2015**, for your information:

- Revision of eligibility criteria for determining for Margin Trading and other amendments relating to eligibility review period;
- Revision of basis for calculation of Exposure Limits of Professional Clearing Member & TCSBs;
- Position Limits for Securities Brokers; and
- Other consequential amendments pertaining to Margin Trading System (MTS) and Liquid Capital (LC).

For any further queries or concerns, please feel free to contact the Customer Support Department at UAN 021-111-111-622 or visit our website www.nccpl.com.pk

You can approach our Customer Support services through WhatsApp vide 021-111-111-622 or Click here.

Regards,

_______sd___________
Adnan Akhtar

Senior Manager - CSS

APPROVED AMENDMENTS IN NCCPL REGULATIONS, 2015 PERTAINING TO MARGIN TRADING ELIGIBLE SECURITIES "MTS"

CHAPTER 7C MARGIN TRADING SYSTEM
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 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:
~~**Maximum number of Securities**~~ ~~Top 200 book-entry Securities will be selected by giving 50% weight to average daily free float market capitalization and 50% weight to average daily turnover during the previous six (6) months "review period" and same will be filtered based on the following criteria:~~ **After exclusion of Securities on defaulter segment of the Exchange, list of securities in the top 22nd percentile to be prepared by assigning 60% weight to average daily traded volume and 40% weight to average Free Float market capitalization (reduced by a factor of one thousand)**
~~**1. Impact Cost**~~ ~~**Category A**~~ ~~Securities that have an average daily Impact Cost of less than 1% during the review period.~~ ~~**Category B**~~ ~~Securities that have an average daily Impact Cost of less than 2% during the review period.~~
New Insertion **7C.3.2(a) Securities shortlisted under 7C.3.2 shall be excluded from MT Eligible Securities if not compliant with following criteria:**
1.Turnover and traded value: ~~Category A~~ **Minimum** ~~Securities that have~~ average daily turnover of **not less than** ~~0.25%~~ **0.1%** of total average daily traded volume **OR minimum average daily traded value of not less than 0.15% of the total average daily value** of book-entry eligible securities during the review period **or such other percentage as specified by the Commission.** ~~**Category B**~~

~~Securities that have average daily turnover of 0.10% of total average volume of book-entry eligible securities during the review period.~~
2.Public float ~~**Category A**~~ ~~Securities that have free float of more than 35% of issued capital or 60 million free float shares.~~ ~~**Category B**~~ Securities that have free float of more than 25% of issued capital or 40 million free float shares.
3.Trading history ~~**Category A**~~ Securities that have been traded at least 90% of the trading days during the review period. ~~**Category B**~~ ~~Securities that have been traded at least 70% of the trading days during the review period.~~
4.Listing history ~~**Category A**~~ Securities that have been officially listed at the Exchange earlier than last six months period. ~~**Category B**~~ ~~Securities that have been officially listed at the Exchange earlier than three years period.~~
New Insertion **7C.3.2(b) Number of securities excluded due to requirements prescribed at 7C.3.2(a) to be determined. Equivalent number of securities which immediately succeed the excluded securities based on percentile and meet all criteria will be added in the list prepared in Regulation 7C.3.2, provided that securities not falling in top 40th percentile or such other percentile as specified by the Commission will not be included.**
New Insertion **7C.3.2(c) Securities shortlisted after applying Regulation 7C.3.2(b), if not complying with the following conditions shall be ineligible:**
1.Auditors opinion ~~**(Both for Category A and Category B)**~~ Securities ~~**of the companies**~~ that do not have ~~**negative**~~ **adverse**/qualified opinion**/ emphasis of matter paragraph on going concern** in Auditors' report on the Company's most recent audited annual financial statements (**of immediately preceding financial year from the review period.)**
2.Investigation/Inquiry ~~**(Both for Category A and Category B)**~~ **No**~~**.**~~ ~~**Securities of the companies against**~~ ~~which any~~ investigation/inquiry has been concluded **against the company** with adverse findings of mismanagement **or the company has not obtained stay order from the court against any investigation/inquiry initiated by the Commission** ~~**shall not be eligible**~~.
3.Defaulters' segment ~~**(Both for Category A and Category B)**~~ Securities ~~**of the companies**~~ that have not been quoted on the Defaulters segment of the Exchange during the review period.

Further, where a MT Eligible Security that has been quoted on the defaulter segment of the Exchange and notified to the Company, such Security shall not be eligible for trading in the MT Market from the date it has been placed on the Defaulter segment. However, all open MT Contracts shall be released on Accelerated Maturity Date and/or Maturity Date as the case may be.

In case where such Security is reinstated during the review period, trading in MT Market shall not be allowed during that review period.

4.Profit before tax and/or equity

~~**Category A**~~
Profit before tax as per standalone audited financial statements in any two of the last three years from of commercial operations. In case of a company having operating history of less than three years, the company must have completed one year of commercial operations and shown profits before tax as per its ~~**latest**~~ standalone audited financial statements throughout operating history.

~~**Category B**~~
However, a company with negative equity shall be ineligible for the purpose of Margin Trading System.

5.Eligibility of companies with principle activity in short term investment/trading ~~of~~ in Securities (~~Both for Category A and Category B~~)

Securities of listed asset management companies, **collective investment scheme** ~~mutual funds~~, Securities Broker and companies whose Principal activity includes short term investment/trading in Securities shall not be eligible.

For the MT Market, a Financee can not avail financing in any security where he is a Director or sponsor or such scrip is an associated company or associated undertaking of such Financee. Trading Financier shall not provide financing in security where such Trading Financier is a Director or sponsor or such security is an associated company or associated undertaking of such Trading Financier. It shall be the responsibility of Financee and Trading Financier to ensure compliance of above said restriction at their end.

~~Interim~~ 7C.3.2(d) Review of Securities

~~**Category A**~~
~~Clause No. 1, 2,4,6,7 & 8 of the criteria shall be reviewed after each 45 days. Such review shall be carried out at the same frequency and simultaneously with the interim review carried out for SLB Eligible Securities and Margin Eligible Securities and any Security which does not meet any of these criteria shall be excluded from the list after giving notice of at least 60 days to Market participants.~~

~~Provided that in case outgoing Security is qualified for Category-B, such Security shall be included in Category B Security as per notice period.~~

~~**Category B**~~
~~Clause No. 1, 2,4,6,7 & 8 of the criteria shall be reviewed after each 45 days. Such review shall be carried out at the same frequency and simultaneously with the interim review carried out for SLB eligible securities and Margin Eligible Securities and any Security which does not meet any of these criteria shall be excluded from the list after giving notice of at least 30 days to market participants.~~

~~Provided that in case Security is qualified for category A, such Security shall be included in Category A Security as per notice period.~~ i. **MT eligible securities shall be reviewed each quarter based on previous 6-months data on rolling basis within 15 calendar days from the close of calendar quarter (review period).** ii. **Securities which become ineligible based on the pre-defined quantitative parameters (i.e. turnover, value, days traded and the percentile threshold) shall be given a relaxation of 25% in the desired threshold, and shall remain eligible, for the next review period.** **Provided that, such MT eligible securities fail to recover to the pre-defined threshold in the second review period OR the mentioned quantitative parameters deteriorate more than the relaxation provided in the meanwhile, shall become ineligible.** iii. **Any new Securities will be included in MT eligible Securities which have minimum listing history of 06 months, provided that Securities meets the qualitative and Free Float criteria, and also meets the pre-defined quantitative parameters (i.e., turnover, value, days traded and the percentile threshold) for two consecutive review periods i.e., the current review and immediate previous review period.** iv. **IPOs with listing history of more than six months but less than a year shall be considered for MT eligible list provided it meets all of the specified quantitative and qualitative thresholds.**
~~**10.Final review for Securities (Both for Category A and Category B)**~~ ~~The list of MT Eligible Securities will be reviewed in the first 15 days of January and July every year based on their data of immediate preceding 6 calendar months made available by Exchange. Such review shall be carried out at the same frequency and simultaneously with the review carried out for SLB Eligible Securities, MF Eligible Securities and Margin Eligible Securities.~~
7C.3.2(e) notice period ~~**Category A**~~ ~~In case of the MT Market, any inclusion / exclusion in/from the list of eligible securities based on the revised list of securities eligible for trading in the MT Market will be notified after giving notice of at least 60 days to the market participants.~~ ~~**Category B**~~ In case of MT Market, any inclusion in the list of eligible securities based on the revised list of securities eligible for trading in the MT Market will be notified after giving notice of at least **15** days to the market participants. **However, any exclusion from the list of eligible securities based on the revised list of securities ineligible for trading in the MT Market will be notified after giving notice of at least 30 days to the market participants.**
~~**7C.3.2(g) Review for criteria (Both for Category A and Category B)**~~ ~~**The Company may review and change the eligibility criteria as and when required with prior approval of the Commission and notify the change in it, if any, to the market participants.**~~
~~13.**Profit before tax and/or equity**~~ ~~**Category A**~~ ~~Profit before tax as per standalone audited financial statements in any two of the last three years of commercial operations. In case of a company having operating history of less than three years, the company~~

~~must have completed one year of commercial operations and shown profits before tax as per its latest standalone audited financial statements throughout operating history.~~ ~~**Category B**~~ ~~A company with negative equity should be ineligible for the purpose of Margin Trading System.~~
~~14. **Eligibility of companies with principle activity in investment/trading of Securities (Both for Category A and Category B)**~~ ~~Securities of listed asset management companies, mutual funds, Securities Broker and companies whose Principal activity includes short term investment/trading in Securities shall not be eligible.~~ ~~For the MT Market, a Financee 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 Financee. 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. It shall be the responsibility of Financee and Trading Financier to ensure compliance of above said restriction at their end.~~
~~**15.** Where a MT Eligible Security that have been quoted on the defaulter segment of the Exchange and notified to the Company, such Security shall not be eligible for trading in the MT Market from the date it has been placed on the Defaulter segment. However, all open MT Contracts shall be released on Accelerated Maturity Date and/or Maturity Date as the case may be.~~ ~~In case where such Security is reinstated during the review period, trading in MT Market shall not be allowed during that review period.~~
~~**7C. 3.3 Eligibility Review**~~ ~~This list of eligible securities will be revised in the first 15 days of January and July every year based on their data of immediate preceding 6 calendar months. In case of the MT Market, any inclusion in the list of eligible securities based on the revised list of securities eligible for trading in the MT Market will be effective after giving notice of at least 30 days to the market participants and any exclusion from the list of eligible securities based on the revised list of securities eligible for trading in the MT Market will be effective after giving notice of at least 60 days to the market participants.~~

APPROVED AMENDMENTS IN NCCPL REGULATIONS, 2015 PERTAINING TO MARGIN ELIGIBLE SECURITIES "MES" – ELIGIBILITY CRITERIA

Amendments made by PRDD-SMD with concurrence of NCCPL

CHAPTER 12 - RISK MANAGEMENT BY THE COMPANY

Schedule III

Schedule-III

MARGIN ELIGIBLE SECURITIES

1. Shares listed on Securities Exchange (shares)

1.1 Eligibility criteria

Eligibility criteria of Category A and Category B of shares shall include the following:

1.1.1 Maximum Number of shares:

All Top 200 book-entry shares will be selected by giving 50% Weight to Average Daily free float market capitalization and 50% weight to average daily turnover during the previous six (6) months and same will be filtered based on the following criteria:

a) Impact Cost:

(Category A):
Shares that have average daily Impact Cost of Less than 1% during the previous six months.
(Category B):
Shares that have average daily Impact Cost of Less than 2% during the previous six months.

b) Public Float (Both for Category A and Category B)
Shares that have a free float of at least 25% of issued capital or 60 million free float shares whichever is lower. Shares which do not fulfill this requirement shall be subject to additional haircut of 15%.

c) Trading history:

(Category A):
Shares that have traded at least 90% of the trading days during last six months.

(Category B):
Shares that have traded at least 80% of the trading days during last six months.

d) Auditors opinion (Both for Category A and Category B)
Shares of the company should not have adverse/qualified opinion **or an emphasis of matter paragraph** on going concern assumption in Auditor's report on the company's most recent audited annual Financial Statements.

e) Profit before tax (Both for Category A and Category B)
Profit before tax as per standalone audited financial statements in any one of the last three years of operations.

Amendments made by PRDD-SMD with concurrence of NCCPL
f) <u>Principle Activity ((Both for Category A and Category B)</u> Eligibility of companies with principle activity in investment/trading of securities. There should be an additional haircut of 15% if the Principal activities of the company is trading/ investing in shares. **1.1.2 Ineligibility (Both for Category A and Category B)** a) <u>Winding up proceedings</u> Where a Listed Company is subject to winding –up proceedings under relevant provisions of the Companies Act, 2017, it shall be ineligible, even if the same has not been placed on Defaulters segment by the Exchange upon initiation of winding-up proceedings. b) <u>Equity</u> A company with negative equity shall be ineligible. c) <u>Listing history</u> All new shares with listing history of less than six months shall not be eligible. **2.1 Eligibility Review** ~~**a) Interim Review of Securities**~~ ~~**Sub Regulations 1.1 (a), (b), (c), (d), (e) and sub Regulation 1.2 (a) and (b) of the criteria to be reviewed after each 45 days. Such review shall be carried out at the same frequency and simultaneously with the interim review carried out for MT eligible securities and SLB eligible securities. Any shares which does not meet any of these criteria shall be excluded from the list after giving notice of at least 30 days to market participants.**~~ ~~b) Final review for shares~~ The list of securities shall be reviewed in the first 15 days after the close of <u>**every quarter**</u> ~~**January and July every year**~~ based on their data of immediate preceding 6 calendar months made available by the Exchange. Such review shall be carried out at the same frequency and simultaneously with the review carried out for MF Eligible Securities, MT Eligible Securities and SLB Eligible Securities. For any resulting change in the shares, the Company shall give at least ~~30~~ 15 days prior notice to the Clearing Members before including or excluding any shares from the eligible list.

Amendments made by PRDD-SMD with concurrence of NCCPL	
CHAPTER 12: RISK MANAGEMENT BY THE COMPANY	
12.5 EXPOSURE MARGINS:	
12.5.2 VAR BASED MARGINS: (a) CATEGORIZATION OF SECURITIES: The Securities shall be classified into four categories on the basis of following:	12.5.2 VAR BASED MARGINS: (a) CATEGORIZATION OF SECURITIES: The Securities shall be classified into four categories on the basis of following:

y	Scale up factor	Scale up factor for DFC Eligible Securities	No. of Days Count (based on availability of Rs.500,000) trade data)	Imp
	√1	√1	≥ 80% of traded days	
	√3	√5	≥ 80% of traded days	> 1
	√5	√7	≥ 80% of traded days	
			< 80% of traded days	Irres
D	If the tradable days even with one (1) lot in a scrip is less than 33%			

of Securities that are traded at the ready delivery market and
or Deliverable Futures Market, the VaR computed after app
ale-up factor shall only be applicable for Deliverable Future

y	Scale up factor	Scale up factor for DFC / MTS Eligible Securities	No. of Days Count (based on availability of Rs.500,000) trade data)	Imp
	√1	√1	≥ 80% of traded days	
	√3	√5	≥ 80% of traded days	> 1
	√5	√7	≥ 80% of traded days	
			< 80% of traded days	Irres
D	If the tradable days even with one (1) lot in a scrip is less than 33%			

of Securities that are traded at the ready delivery market and
or Deliverable Futures Market/**Margin Trading Securities**,
d after applying the higher scale-up factor shall only be appl
le Future Contract Market/**Margin Trading Securities**.