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National Clearing Company of Pakistan Limited

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

NCCPL/CM/June-14/01

June 2, 2014

Handling of IDS Transactions in NCSS affirmed by Central Depository Company of Pakistan Limited (CDC) as NBCM

Dear Clearing Members,

1. This is with reference to the admission of Central Depository Company of Pakistan Limited (“CDC”) in National Clearing and Settlement System (“NCSS”) as Non-Broker Clearing Member (“NBCM”) of National Clearing Company of Pakistan Limited (“NCCPL”) for clearing and settlement of IDS Transactions of its Direct Settlement Services (DSS) subscribed clients.
2. Accordingly, **effective from Monday, June 02, 2014**, CDC will be starting affirmation of IDS Transactions of their eligible clients directly through NCSS.
3. Broker Clearing Members (“BCMs”) will be required to map Client Codes of their DSS clients with a **mapping category of “IAS” in NCSS UIN Registration Screen and tag relevant IAS account with such Client Codes**. Accordingly, such Client Codes shall be marked as eligible for trading.
4. Trades of DSS clients (under UIN mapping category of IAS) executed by their respective BCMS, will be auto-initiated to CDC on the trade day through **Institutional Delivery System (“IDS”)** module in NCSS.
5. Simultaneously, such initiated IDS Transactions will be made available for affirmation to CDC through IDS module of NCSS. The CDC will accordingly affirm and/or reject such initiated transactions on trade day.
6. Upon affirmation of such initiated IDS Transactions, these will be settled directly by CDC with NCCPL on the respective settlement date based on NCSS Balance Order mechanism.
7. Un-affirmed/rejected transactions, if any, will be settled by the initiated BCMS through CDS House Account on respective settlement date. However, CDC shall be



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required to inform NCCPL with valid reason and justification thereof for such un-affirmed/rejected transactions.

8. Approved amendments in NCCPL Regulations are also attached herewith as Annexure-A

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

City	Telephone Number	Fax Number
Karachi	021-32460811-19 Ext. 214, 217 & 218 Dir. 021-32438531-32-33	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:

1. Executive Director (SMD) Securities and Exchange Commission of Pakistan - Karachi
2. Managing Director - The Karachi Stock Exchange Limited
3. Managing Director - The Lahore Stock Exchange Limited
4. Managing Director - The Islamabad Stock Exchange Limited
5. Chief Executive Officer - Central Depository Company of Pakistan Limited



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Annexure-A

Approved Amendments in “NCCPL Regulations”

2.8

Definitions

Available Status

where any Securities are delivered to main, house, investor account, temporary account and/or sub account maintained, as the case may be, maintained by a Clearing Member in CDS in available status such that the same may be dealt with by the Clearing Member.

Balance Order Settlement

means netting of Balance Order Contracts generated by NCSS based on Clearing Member wise, UIN wise and corresponding CDS house account /sub-account/ investor account / temporary account wise and main account wise subject to the conditions applicable under Regulations 11.2.1a and 11.2.1b of the Chapter 11 of these Regulations.

Blocked Status

where any Securities are delivered to main, house, investor account, temporary account and/or sub account maintained, as the case may be, by a Clearing Member in CDS in blocked status such that the same cannot be dealt with by the Clearing Member.

Trade for Trade Settlement

Means a separate Balance Order Contract generated for every Debt Market trade and NDM reporting Interface Trade by NCSS based on Clearing member wise, UIN wise and corresponding CDS investor account/ house / sub-account wise and main account/ temporary account wise in accordance with the conditions applicable under Regulations 10A.1 of the chapter 10A.

UIN Registration Details

means the following details of the trading accounts of the Broker Clearing Members:

- (i) Client name;
- (ii) Applicable UIN;
- (iii) Client Code/Client ID issued by a Broker Clearing Member;
- (iv) Client Type; and
- (v) CDS house, investor account and/or sub-account number, as the case may be.

EXPLANATION:



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Client Code / Client ID

means the Code or ID assigned by the Broker Clearing Members to their clients in their back office system and on the Stock Exchanges' trading terminal.

A Client Code once used for a client cannot be assigned to another client of the same Broker Clearing Member even after the closure of the account. Thus a Client Code once assigned against a UIN cannot be changed / altered or assigned to another client of the same Clearing Member ID and Trader ID.

Client Name

means the name of the client of the Broker Clearing Member, as evident from any registration document referred to or contemplated in the definition of UIN above.

Client Type

means the status of the client of a Broker Clearing Member. This can be one of the following:

- (i) individual Pakistani citizen (which will include individual Broker)
- (ii) individual foreigner/overseas foreign national of Pakistani origin/non Pakistani residing in Pakistan
- (iii) Non-Individual (local or foreign):
 - (a) corporate Broker;
 - (b) company registered with the Commission;
 - (c) all other entities described in the definition of UIN.

CDS house, investor account and/or sub-account number means the CDS house, investor account and/or sub-account number that shall be required to be mapped with the respective UIN Registration Details in a manner whereby UINs appearing in the CDS house, investor account and/or sub-account shall be similar with the NCSS UIN Registration Details. However, multiple client codes of a same UIN under same Clearing Member may be mapped with the single CDS house, investor account and/or sub-account under the same CDS Account Holder of the same UIN.

Aforementioned requirement shall not be applicable for client codes pertaining to the Non-broker Clearing Member, clients having CDS sub-account maintained with the Custodian Clearing Member of the Company, those clients not registered for the purposes of trading in the Stock Exchanges, and for those clients which may be allowed by the Commission from time to time.

9.6.1

Where any Securities delivered to CDS main, house, investor account, temporary account and/or sub account of any Clearing Member are retrieved by the Company on account of



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money default of such Clearing Member, any net benefits, including dividend and/or bonus Securities, received by the Company on such retrieved Securities shall be adjusted against the amount recoverable from such Clearing Member on account of his money default.

9.6.2 Where any Securities cannot be delivered to CDS main, house, investor account, temporary account and/or sub account of any Clearing Member because of any prohibitive order (“Order”) of a Court or of a competent authority and are, as a consequence, received/retrieved by the Company, any benefits, including net cash dividend and/or bonus Securities, received by the Company during the period of validity of the Order, shall be kept by the Company on account of such Clearing Member and shall be paid or delivered to the Clearing Member upon the vacation of the Order, subject to the terms and conditions on which the Order shall be vacated.

9.7.3 The UIN Registration Details of Clients of every Broker Clearing Member mapped with CDS house, investor account and/or sub-accounts, as the case may be, wherever required by the Company in the UIN Registration Details, will be accessible by the Stock Exchange(s) in NCSS as per the transmission mechanism described in the Procedures.

9.7.4 The Company will be provided access by the CDC to information of its CDS accounts of the Clearing Members and investor accounts for the purposes of mapping of Client Codes with the respective CDS house, investor account and/or sub-account details through UIN Registration Screen as per mechanism defined in the Procedures.

CDC shall ensure the completeness and correctness of the information of the CDS accounts so provided to the Company, for the aforementioned purposes.

10.1.1 The Company will conduct a Balance Order Accounting Operation based upon Balance Order Contracts as specified in the Procedures pursuant to which the Company will net the deliver and receive Security obligations of each CDS main, house, investor account, temporary account and/or sub-account maintained with a Clearing Member and prepare Balance Order and Transmit to CDS and Clearing Members accordingly at Designated Time by Settlement Date as per the mechanism defined in the Procedures:

- (a) a separate CDS house, investor account, temporary account and/or sub-account wise and main account wise, subject to the conditions applicable under Regulations 11.2.1a and 11.2.1b of the Chapter 11 of these Regulations, deliver Security balance order for delivery of each Security to be delivered, showing the settlement quantity in respect thereof established by the Company, and
- (b) a separate CDS, house, Investor Account, temporary account and/or sub-account wise and main account wise, subject to the conditions applicable under Regulations 11.2.1a and 11.2.1b of the Chapter 11 of these Regulations, receive Security balance order for each such deliver Security balance order showing the settlement quantity in respect thereof established by the Company.



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Such balance orders generated as (a) and (b) above, shall be transmitted to CDS for automated movement of Securities from/to respective CDS main, house, investor account, temporary account and/or sub-accounts the case may be.

10.2.1 The obligation of a Clearing Member to receive and pay for Securities and the obligation of a Clearing Member to deliver and receive payment for Securities, pursuant to deliver or receive Security balance orders, as per clause 10.1.1, shall be determined by the Designated Time on a Settlement Date, although such balance orders may not in fact have been received by such Clearing Member in respective CDS main, house, investor account, temporary account and/ or sub-account as the case may be.

10.7.1 If a receiving Clearing Member fails to take up and pay for all the Securities delivered to his CDS main, house, investor account, temporary account and/ or sub-account, pursuant to Security receipt order (Balance Order Settlement) by the Designated Time on a Settlement Date, the Company shall have the right to cause the same, or an appropriate portion thereof, to be sold-out in accordance with these Regulations and/or the Procedures. In case where Security (ies), so retrieved by the Company as explained earlier, remain unsold after the recovery of amount unpaid by the Clearing Member may be transferred to the respective CDS accounts of such Clearing Member. Any resulting loss or gain and related expenses shall be entered in the Money Account of such Clearing Member.

Explanation:

Where a Clearing Member has made payment for some and not all the Securities delivered to his CDS main, house, investor account, temporary account and/ or sub-account, the Company shall retrieve all the Securities delivered into such CDS main, house, investor account, temporary account and/ or sub-account and to cause to be sold-out all or an appropriate number of such Securities to the extent of the amount unpaid by the receiving Clearing Member and related expenses.

10A.1.1 The Company will conduct a Balance Order Accounting Operation based upon Balance Order Contracts pursuant to which the Company will determine the gross deliver and receive Security obligations of every Debt Market trade and NDM Reporting Interface Trade of each CDS main, temporary account, investor account, house and/or sub-account maintained with a Clearing Member and prepare Balance Order and Transmit to CDS and Clearing Members accordingly at Designated Time by Settlement Date as per the following mechanism:

10A.1.2 (a) The Company shall generate a separate CDS, house, investor account and/or sub-account/ temporary account wise and main account wise, subject to the conditions applicable under Chapter 11A of these Regulations, deliver Security balance order for delivery of each Security to be delivered, showing the settlement quantity in respect



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thereof established by the Company; and

(b) The Company shall generate a separate CDS, house, investor account and/or sub-account wise and main account / temporary account wise, subject to the conditions applicable under Chapter 11A of these Regulations, receive Security balance order for receiving of each Security to be received, showing the settlement quantity in respect thereof established by the Company.

Such balance orders generated as (a) and (b) above, shall be transmitted to CDS for automated movement of Securities in Available Status from/to respective CDS main, temporary account, investor account, house and/or sub-accounts as the case may be.

11.2.1 Notwithstanding any provision in these Regulations to the contrary, unless the Clearing Member has a Credit Balance with the Company or has settled the net amount reflected in the settlement statements set out in Regulation 11.1.2, 11.1.4 and 11.1.5 (“effective time as per Designated Time Schedule”), any transfer of Securities from a CDS main, house, investor account, temporary account and/ or sub-accounts, as the case may be, of the delivering Clearing Member with CDC to a CDS main, house, investor account, temporary account and/ or sub-accounts, as the case may be of the receiving Clearing Member with CDC on a Settlement Date for which payment is to be made by the receiving Clearing Member to the Company shall be under Blocked Status.

11.2.1a The settlement of Balance Order Contract shall be made on the basis of Clearing Member wise, UIN wise and corresponding CDS main, house, investor account, temporary account and/or sub-account wise. However, in case where CDS sub-account and/or investor account of a client of a Clearing Member is closed by such Clearing Member or is blocked, for any reason whatsoever, subsequent to the generation of Balance Order Contracts, the Securities shall be moved to the CDS main account and/or temporary account of such Clearing Member. In such case Clearing Member shall be hold responsible for onward Securities settlement with the respective sub/investor account-account holders as the case may be.

11.2.1b The settlement of Balance Order Contracts of affirmed Non-exchange Transactions shall be made on the basis of affirming Clearing Member wise, UIN wise and corresponding CDS house, investor account, and sub-account wise. However, in case of un-affirmed/rejected Non-exchange Transactions (excluding broker to broker and institutional delivery transactions), Balance Order Contracts of such un-affirmed/rejected Non-exchange Transactions shall be settled through the CDS main account of the initiating Clearing Member and Balance Order Contracts of un-affirmed/rejected Non-exchange Transactions pertaining to broker to broker and institutional delivery transactions shall be settled in the following manner:



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- 11.2.3** In the event a Settling Bank which represents a Clearing Member with a Debit Balance has paid such Debit Balance to the Company prior to such time as the Company ceases to act for such Clearing Member with respect to transactions generally pursuant to Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY) or Chapter 23 (HEARING AND APPEAL PROCEDURES) for cases covered in Regulation 18.2, and the Company is satisfied that the Clearing Member will be able to pay his Debit Balance for subsequent settlements, the Company shall instruct CDC to unblock or deliver the Securities in the CDS account main, house, investor account, temporary account and/ or sub-accounts, as the case may be, of the Clearing Member with CDC, unless the Company has received any prohibitory order of a competent authority or of a court against unblocking or delivery of the Securities to the Clearing Member. Notwithstanding the foregoing, where the receiving Clearing Member is a Trading Financier or Margin Financier the MT Financed or Margin Financed Securities, as the case may be, delivered to him, as Trading Financier or Margin Financier, shall be kept by him in a separate CDC account under Blocked Status with CDC which restricts his ability to deal with such Securities except for transfer for settlement of Securities obligations through NCSS.
- 11A.2.1** (a) The settlement of Balance Order Contract, under Trade-for-Trade Settlement, shall be made on the basis of Clearing Member wise, UIN wise and corresponding CDS main, temporary account, investor account, house and/or sub-account wise. However, in case where CDS sub-account or investor account of a client of a Clearing Member is closed by such Clearing Member or is blocked, for any reason whatsoever, subsequent to the generation of Balance Order Contracts, the Securities shall be moved to the CDS main account or temporary account of such Clearing Member. In such case Clearing Member shall be hold responsible for onward Securities settlement with the respective sub-account holders.
- (b) The settlement of Balance Order Contracts, under Trade-for-Trade Settlement, of Non-exchange Transactions (excluding MT & MT(R) Transactions MF & MF(R) Transactions and SLB & SLB(R) Transactions) in accordance with these Regulations and Procedures, shall be made on the basis of affirming Clearing Member wise, UIN wise and corresponding CDS investor account, house and sub-account wise. However, in case of un-affirmed/rejected Non-exchange Transactions (excluding broker to broker and institutional delivery transactions), Balance Order Contracts of such un-affirmed/rejected Non-exchange Transactions shall be settled through the CDS main account of the initiating Clearing Member and Balance Order Contracts of such un-affirmed/rejected Non-exchange Transactions pertaining to broker to broker and institutional delivery transactions shall be settled in the following manner:
- 12.A.1.ii** “Collateral requirement”
- means the value of the Collateral required to be deposited by a Non Broker Clearing Member with the Company as security for the Exposure margins and Mark-To-



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Market losses of such Clearing Member. However, in case of CDC, admitted as Non Broker Clearing Member, the value of the Collateral required to be deposited by CDC on affirmed IDS transactions for its client(s) with the Company as security for the Exposure margins and Mark-To-Market losses of their clients.

12.A.2 Risk Management for Non-Broker Clearing Member

The Non-Broker Clearing Members shall be required to affirm their auto-initiated IDS transaction(s) which are executed by the Broker Clearing Member as per their instructions in terms of these Regulations and Procedures. However, CDC, being a Non-Broker Clearing Member, shall be required to affirm auto-initiated IDS transaction(s) of its clients which are executed by the Broker Clearing Member in terms of these Regulations and Procedures made thereunder. Accordingly, the Company shall manage the risk of its Non-Broker Clearing Members in terms of this Chapter in respect of the IDS transactions affirmed by such Clearing Members in order to monitor and mitigate the risks arising out of such affirmed IDS transactions.

In case an auto-initiated IDS transaction is not affirmed or is rejected by the Non Broker Clearing Member, the Company shall impose a penalty, as provided in Fee, Charges and Security Deposit Schedule, on the concerned Non Broker Clearing Member or the Broker Clearing Member as the case may be in accordance with the procedures.

12.A.3 Determination of the Exposure

The Company shall determine the Exposure of the Non-Broker Clearing Members, and in the case of CDC acting as a Non Broker Clearing Member, the exposure of its clients, by applying a netting mechanism by which netting of open positions shall be allowed across the affirmed IDS transactions based on Exchange trades in the ready market and odd lot market. However, netting of such affirmed IDS transactions of ready and odd lot markets shall not be allowed with deliverable futures contract market. In case of off-setting positions in two consecutive contracts of a particular scrip during the over-lapping period of Deliverable Futures Contract Market, the exposure in such scrip will be calculated based on the higher of off-setting positions of contract period-wise net buys and net sales based on netting mechanism as described in 12.A.3.iii. However, in the absence of off-setting positions all contracts period-wise net buys or net sales will be added together for determining total exposure in a particular security. The Exposure margins shall be calculated by Value at Risk (VaR) based method in accordance with the following netting mechanism. However, the Exposure margins for provisionally listed companies shall be determined in accordance with the relevant regulations of the Stock Exchanges.

12. A.3.i Within Ready and Odd Lot Markets:

- (a) Netting shall be allowed between buy and sell positions in the same scrip on the



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same day. However, in case of CDC being a Non-Broker Clearing Member, netting shall be allowed between buy and sell positions in the same scrip for the same Settlement Date for the same UIN;

- (b) Netting shall not be allowed across all the three Stock Exchanges;
- (c) Netting shall not be allowed between buy and sell positions of different scrip on the same day,
- (d) Netting shall not be allowed across settlement periods. However, exposure shall be calculated at the higher of the values determined either by summing-up all settlement day wise net outstanding buy positions or all settlement day wise net outstanding sale positions in the same security at any point in time, subject to the applicable netting rules as prescribed in this Chapter of these Regulations provided that in the case of CDC, acting as a Non Broker Clearing Member, the exposure shall be calculated at the higher of the values determined either by summing-up all settlement day wise net outstanding buy positions or all settlement day wise net outstanding sale positions of the same UIN in the same security at any point in time, subject to the applicable netting rules as prescribed in this Chapter of these Regulations; and
- (e) Netting shall be allowed between ready and odd Lot markets positions. Provided that in the case of CDC acting as a Non Broker Clearing Member, netting shall be allowed between ready and odd lot markets positions of the same UIN in the same security.

12.A.4 Determination of Mark-To-Market Losses

12.A.4.i Within Ready and Odd Lot Markets:

The Mark-To-Market Losses and profits shall be netted across Securities but not across settlement periods. However, in case of CDC acting as a Non-Broker Clearing Member, the Mark-To-Market Losses and profits shall be netted across Securities for the same client but not across settlement periods. Such Mark-To-Market Losses shall be deposited by the Non-Broker Clearing Member with the Company on a daily basis till the satisfaction of his settlement obligation on the relevant Settlement Date.

12.A.5 Collateral Requirements against Exposure Margins and Mark-To-Market Losses

Collateral requirements against Exposure margins, Concentration Margin and Mark-To-Market Losses shall be calculated by the Company in accordance with the Procedures and shall be deposited by the Non Broker Clearing Members in the following manner:

- (a) Collateral requirements against Exposure margins and Mark-To-Market Losses calculated by the Company across affirmed IDS transactions which are based on the Exchange trades in the ready and odd lot markets and shall be deposited by the Non Broker Clearing



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Members in the form of cash, approved eligible securities, eligible term finance certificates, bank guarantees and/or irrevocable undertakings, whichever is applicable under the Procedures and this Chapter. . However, in case of CDC being a Non-Broker Clearing Member, all applicable margins in the ready market and odd lot market shall be calculated on UIN wise in accordance with the client level margining regime applicable at the Stock Exchanges from time to time.

- 12.A.5.2(b)(ii)** In case where a Non Broker Clearing Member is a net-seller in a security under deliverable futures contract market and/or under Ready Market and/or under odd lot market, may deposit the net-sold securities with the Company. Consequently, Exposure Margin, Concentration Margin, Liquidity Margins and Mark-To-Market Losses to the extent of such pre-settlement tendered securities shall not be taken into account by the Company, while calculating such margins requirements. However, in case where exposure is due to sale of a particular security, such security can be deposited up to the extent of net sale against demand of cash and/or bank guarantees deposit as Exposure margin.

Provided that in case where CDC is acting as a Non Broker Clearing Member and the exposure of a client of CDC is due to sale of a particular security, such security can be deposited up to the extent of net sold quantity and consequently, Exposure Margin, Liquidity Margins and Mark-To-Market losses to the extent of such pre-settlement tendered securities shall not be taken into account by the Company, while calculating such margins requirements.

12.A.5.4.iv Irrevocable Undertakings:

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

- a) Non-Broker Clearing Members as are banks/development financial institutions (“DFIs”) having minimum credit rating of AA;
- b) Any other public sector entity, controlled by the Government of Pakistan, approved by the Board from time to time; and
- c) CDC being a Non-Broker Clearing Member and duly approved by the Board.

12.A.7 Failure of a Non Broker Clearing Member to Deposit Collateral with the Company

- 12.A.7.1** On the occurrence of a failure by a Non Broker Clearing Member to fulfill his Collateral requirements against his Exposure margins and Mark-To-Market Losses within the period stipulated for this purpose in the Chapter, and on the occurrence of a failure by CDC, being a Non-Broker Clearing Member, to fulfill the Collateral requirements against his client(s)



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Exposure margins and Mark-To-Market Losses within the period stipulated for this purpose in the Chapter, the Company may, in accordance with the requirements of Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY) of these Regulations, suspend and/or restrict the access of such Non Broker Clearing Member (hereinafter in this Chapter referred to as the “defaulting Clearing Member”) to any or all of the services provided by the Company, provided that the Company may in its entire discretions elect not to suspend and/or restrict such Non Broker Clearing Member’s access to any or all of the services offered by the Company in case of those affirmed IDS transactions which may result in reducing the Exposure margin of such Non Broker Clearing Member.

13.2.9

After the declaration by the Company of a Non-Broker Clearing Member as a Defaulter, all the assets of such defaulting Non-Broker Clearing Member under the control of the Company shall be liquidated by the Company and the proceeds shall be proportionately allocated to the net losses of such Non-Broker Clearing Members in all the Markets. However, after the declaration by the Company of CDC, being a Non-Broker Clearing Member, as a Defaulter all the assets of clients of CDC under the control of the Company shall be liquidated by the Company and the proceeds shall be allocated to its net losses in Ready Markets.