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National Clearing Company of Pakistan Limited

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

NCCPL/MFS/MARCH-16/02

March 31, 2016

Subject: Amendments in the Margin Financing System (MFS)

Dear Clearing Members,

National Clearing Company of Pakistan Limited (NCCPL) has implemented various modifications in the Margin Financing System (MFS) for the improvement in liquidity and to facilitate the market participants. In order to further enhance the liquidity in the MFS, we are pleased to inform you that the following modifications shall also be implemented in the MFS **effective from Monday, April 04th 2016**

1. Position Limits

Three tier position limits i.e. market-wide, member-wide and client-wide position limits are in place on Margin Financee to take position in MFS. Such position limits have been revised as follows:

Particular	Existing Position Limit (Existing)	Revised Position Limits
Market wide position limit	40% of free-float for each security	40% of free-float for each security
Margin Financee wide position limit	1% of the free-float for each security	4% of the free-float for each security
Client wide position limit	0.5% of the free-float for each security. Client position will be universal and determined on UIN basis.	2% of the free-float for each security. Client position will be universal and determined on UIN basis.

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

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2. Financing Participation Ration (FPR) for Margin Financing

- The current minimum FPR of 25% is paid only in cash by Finanee. Such FPR has been revised to 10% in Cash and rest in the form of Financier’s Acceptable Securities (FAS). Accordingly, the Finanee shall pay 10% in cash and Margin Financier will pay 90% remaining cash to NCCPL against market buy on Settlement Date.
- Margin Financier will define securities acceptable as FAS with applicable haircuts as collateral against each Margin Finanee by using “**MF FAS Setup**“ screen in the MF Module of NCSS. Margin Finanee will deposit to the respective Margin Financier the “FAS” which are acceptable to the Margin Financier by using “**FAS Movement**” screen in the MF Module of NCSS. Margin Finanee may upload bulk records by uploading a file through “**FAS Upload**” functionality. Once necessary details are provided by the Margin Finanee, FAS will be moved from the respective CDS account of Margin Finanee to CDS house account of the Margin Financier in Blocked Status.
- For release of FAS by the Margin Finanee from respective Margin Financier, such Margin Finanee will be required to record release request by using “**FASR Initiation**” screen in the MF Module of NCSS. Once such request is approved by the Margin Financier by using “**FASR Initiation Affirmation**” screen in the MF Module of NCSS, FAS will be moved from the CDS house account of the Margin Financier to the respective CDS account of Margin Finanee.
- The aggregate value of FAS and FPR shall always be higher of 25% or VaR Estimate of that particular MF Eligible Security. The Margin Financier can adjust the cash FPR of existing Finanee minimum of 10% in the FPR setup screen of NCSS.
- FAS movement can be executed prior to the initiation of MF Transactions however, If FAS value is over and above the required MF transaction, the NCCPL at the end of trade date, will force release such FAS from the Margin Financier’s account.

3. Margins from Margin Financier

Presently, all Margin Financiers are required to pay exposure margins on the MF Transaction Value till its settlement date to NCCPL. Such requirement of margin from Margin Financiers shall not be applicable where Margin Finanee and Margin Financier is a same Broker Clearing Member.



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4. Allow Spot Financing

Margin Financing facility is presently available against ready market net purchases on each trade date only to the MF Participants. Such facility may also be made available to the MF Participants on the settlement date if the requirement of financing by MF Participants on settlement date is genuine.

MF Transaction(s) which are affirmed by the respective counter-party Margin Financier on the settlement date, such MF Transactions value shall be settled directly with the Margin Financier and the money obligation of the ready market purchases shall be settled by the respective Margin Financier on the respective Settlement Date through NCSS. Upon settlement, all the Margin Financed Securities shall be delivered to the CDC account of the respective Margin Financier in Blocked Status.

Designated Time Schedule (DTS) and approved amendments in the NCCPL Regulations pertaining to said changes are attached herewith.

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 - 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



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APPROVED AMENDMENTS IN THE NCCPL REGULATIONS RELATING TO MARGIN FINANCING SYSTEM

SECP Approved Amendments

7.B1 Definitions inception

7.B1.1 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 in such status that the same cannot be dealt with by the Margin Financier.

Financier's Acceptable Securities

Means any security negotiated and accepted by Margin Financier as collateral to MF Contract with applicable haircuts and other terms as appropriate.

Financing Participation Ratio (FPR)

means the ratio between the minimum equity participation required to be paid by the Margin Finantee for the purchase of each MF Eligible Security and the MF Transaction Value. For this purpose, the minimum equity participation for each MF Transaction shall be 10% of MF Transaction Value provided that, FPR shall always be collected in the form of cash only.

7B.3.3

MF Transaction Initiation and Affirmation Process

2. Margin Financing facility shall be available against ready market net purchases on each trade date and shall be available to the MF Participants in accordance with the Designated Time Schedule. For this purpose, the Company shall calculate the Margin Finantee-wise, security-wise and UIN-wise (including proprietary account) net purchases from ready market trades for each trade date received on NCSS for each broker as Margin Finantee. The net purchases shall not include purchases that are financed in the MT Market.

Margin Financing facility against ready market net purchases may also be made available to the MF Participants on the settlement date as per the Designated Time Schedule. The net purchases shall not include purchases that are financed on trade date as stated above. Such financing facility may only be extended by the Company to the MF participants if the Company, at its sole discretion, determines that requirement of financing by MF Participants on settlement date is genuine.



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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 Finantee on the respective Settlement Date. Upon settlement, all the Margin Financed Securities shall be delivered to the CDC account of the respective Margin Financier in Blocked Status.

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 Finantee and the money obligation of the ready market purchases shall be settled by the respective Margin Finantee on the respective Settlement Date through NCSS. Upon settlement, all the Margin Financed Securities shall be delivered to the CDC account of the respective Margin Financier in Blocked Status.

7B.7

7B.7.1 Transaction Costs

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

7B.9.2 Position Limits on Margin Finantee

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

Market wide position limit	40% of free-float for each security
Margin Finantee wide position limit	4% of free-float for each security
Client wide position limit	2% of free-float for each security Client position will be universal and determined on UIN basis



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

7B.9.4 Exposure and Margins for MF Participants

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

Margin Financier will define securities acceptable as Financier's Acceptable Securities with applicable haircuts as collateral against each Margin Finanee in NCSS.

2. After the settlement of MF Transactions, a Margin Finanee shall pay to the respective Margin Financier the "Financier's Acceptable Securities" 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.
3. For deposit of Financier's Acceptable Securities by the Margin Finanee to respective Margin Financier, such Margin Finanee 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 Finanee to CDS house account of the Margin Financier in Blocked Status.
4. For release of Financier's Acceptable Securities by the Margin Finanee from respective Margin Financier, such Margin Finanee 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 Finanee.
5. Where market price of MF Financed Security declines to 30% of MF Transaction Value, in such case, Margin Financier will be required to collect marked-to-market losses from the Margin Finanee in the form of cash only.
6. 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 Finanee and Margin



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Financier is a same Broker Clearing Member

7B.10.3

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

7B.11 Margin Financing Market Information

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

1. Following statistics will be made available to the public on a daily basis by the Company:
 - i. Scrip wise Margin Financing value and volume and percentage of free float;
 - ii. Aggregate value and volume of financing released in the day;
 - iii. Scrip-wise Total Margin Financing availed during the day;
 - iv. Top 15 Margin Financiers and Margin Financees in MF Market will be disclosed by name.
 - v. Any other report that the Company and/or Commission intends to provide to the public for monitoring purposes.



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3a.	Non-Exchange Transaction fee for MF	Rs. 1.50	Per Rs. 100, 000 value of Non-Exchange (Margin Financing and Margin Financing (R)) Transactions
3d.	<u>Non-Exchange Transaction fee for MF (recording on settlement date)</u>	<u>Rs.</u> <u>5.00</u>	<u>Per Rs. 100, 000 value of Non-Exchange (Margin Financing) Transactions</u>



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NCSS DESIGNATED TIME SCHEDULE

Sr. No.	Activity	Monday to Thursday		Friday	
		Start Time	End Time	Start Time	End Time
1	Margin Financing FAS Setup	9:00 AM	6:15 PM	9:00 AM	7:00 PM
2	FAS-R Initiation	9:00 AM	6:15 PM	9:00 AM	7:00 PM
3	FAS-R Affirmation	9:00 AM	6:15 PM	9:00 AM	7:00 PM
4	FAS Movement	9:00 AM	6:15 PM	9:00 AM	7:00 PM
5	FAS Movement Upload	9:00 AM	6:15 PM	9:00 AM	7:00 PM
6	FAS Call	9:00 AM	6:15 PM	9:00 AM	7:00 PM
7	MF Spot Initiation	On CM Request, Subject to NCCPL Approval			
8	MF Spot Affirmation				