



National Clearing Company of Pakistan Limited

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

NCCPL/CM/February-10/07

February 23, 2010

NOTICE FOR ALL CLEARING MEMBERS

CLEARING & SETTLEMENT AND RISK MANAGEMENT OF BATS AT ISLAMABAD STOCK EXCHANGE

This is with reference to the implementation of trading in **Debt Market Securities** through Islamabad Stock Exchange ("ISE") **Bond Automated Trading System ("BATS") effective from February 26, 2010**. In this respect, we are pleased to inform you that the clearing & settlement and risk management of BATS will be handled by the National Clearing Company of Pakistan Limited ("NCCPL") through its National Clearing & Settlement System ("NCSS").

ADMISSION AS DEBT MARKET CLEARING MEMBER

Clearing Members desirous to participate in the trading of Debt Market Securities (*initially in listed Term Finance Certificates "TFCs"*) through BATS are hereby requested to apply IMMEDIATELY for their admission as Debt Market Clearing Member exclusively for clearing & settlement and risk management of trades to be executed on BATS. For this purposes Debt Market Clearing Members are categorized in the following two types:

- **Broker Clearing Member ("BCM")**
- **Non-Broker Clearing Member ("NBCM")**

In order to become the Debt Market Clearing Member, following necessary requirements, in accordance with NCCPL Regulations, need to be completed:

- Dully filled-in Application Form:
- Board Resolution (*only for corporate members*)
- Agreements with NCCPL and Tripartite Agreement with Settling Bank Branch (to be provided by NCCPL upon submission of Application Form)
- Certificate of Net Capital Balance along with the amount to be allocated for Debt Market. (*only for BCMs*).
- Refundable Security Deposit* (*Please see note 1*).
- Initial Contribution to Debt Market Protection Fund of Rs. 250,000.** (*from both BCM and NBCM, please see note 2*)

Clearing Members can obtain standardized formats of application form, board resolution, agreements and Net Capital Balance allocation letter from NCCPL's office and these are also available on our website (www.nccpl.com.pk) for your convenience.

CLEARING AND SETTLEMENT

Trades, to be executed by Debt Market Clearing Members on BATS, shall be settled through NCSS under Balance Order **T+1 settlement cycle**.

All BCMs shall be required to settle their proprietary and client's trades directly through NCSS. However, in order to provide facilitation and relief to market participant at large, **Institutional Delivery System ("IDS")** module of NCSS has also been made available for the clearing and settlement of trades of NBCMs. In this respect following two options have been introduced in the said IDS module of NCSS:

a) Auto-Initiation and Manual Affirmation

In case where trades are executed by BCM on behalf of NBCM as its client, such trades will be **auto-initiated** in IDS module of NCSS and will be made available to NBCM for its **affirmation**. Accordingly, after verification, such NBCM may affirm and/or reject such **auto-initiated** IDS transactions. All affirmed IDS transactions shall be settled directly by NBCM, whereas un-affirmed/rejected IDS transactions shall be settled by BCM. In such case, NBCM shall be required to report un-affirmed transactions to NCCPL immediately with valid reason thereof.

b) Auto-Initiation and Auto-Affirmation

In case where NBCM executes its trades directly through BCM's BATS terminal (*as per the permission and necessary arrangements with ISE*), such trades shall be **Auto-Initiated and Auto-Affirmed through IDS module of NCSS simultaneously**. Accordingly, auto-affirmed IDS transactions shall be settled directly by NBCM.

RISK MANAGEMENT SYSTEM

a) Exposure Margins & MTM Losses

NCCPL shall manage the risk arising out of un-settled positions of its Debt Market Clearing Members on post-trade basis. Accordingly, exposure margins shall be determined on the basis of Rule Based Margin Slabs and Mark-to-Market (MTM) losses shall be calculated on the basis of Closing Price by applying netting mechanism in accordance with NCCPL Regulations. BCMs shall continue to pay exposure margins and MTM losses of their proprietary and client's trading. However, in case of IDS transactions, such exposure margins and MTM losses shall be collected as follows:

- Where trades are auto-initiated to NBCMs for manual affirmation, in such case BCM shall pay exposure margins and MTM losses till the affirmation of auto-initiated IDS transactions. Upon affirmation NBCMs shall be required to pay necessary margins and MTM losses till settlement.
- Where trades are executed directly by NBCMs through BCM's trading terminal, in such case exposure margins and MTM losses shall be collected directly from respective NBCMs and will have no impact on the positions of BCM.

b) Collateral Management System

Collateral against exposure margins and MTM losses shall be accepted in the form of **cash, bank guarantees and/or irrevocable undertakings**, whichever is applicable under the provisions of NCCPL Regulations. Demand against exposure margins and MTM losses shall be collected in **three batches** on each trade day through NCSS automated Pay & Collect functionality from respective settling banks of the Debt Market Clearing Members. Such exposure margins and MTM losses shall be kept separately and segregated by NCCPL from the margins of all other Markets.

c) Capital Adequacy

Debt Market Clearing Members acting as Broker Clearing Members should have minimum net capital balance of Rs. 25 million and their aggregate exposure shall be restricted upto 10 times of net capital balance. However, Debt Market Clearing Members acting as Non-Broker Clearing Members shall be exempted from net capital balance requirement.

You are, therefore, requested to make all necessary arrangements at your end before go-live date i.e. **February 26, 2010**. For any further information or queries please feel free to contact the **Customer Support Department** of your respective locations.

| City | Telephone Number | Fax Number | Email |
|-----------|------------------|--------------|--|
| Karachi | 021-32460811-19 | 021-32460827 | helpdesk@nccpl.pk |
| Lahore | 042-36280815-7 | 042-36280818 | helpdesk@nccpl.pk |
| Islamabad | 051-2895460-2 | 051-2895463 | helpdesk@nccpl.pk |

Regards,

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Badiuddin Akber

Head of Operations

CC:

- Securities and Exchange Commission of Pakistan (SMD Islamabad / Karachi)
- Karachi Stock Exchange (Guarantee) Limited
- Lahore Stock Exchange (Guarantee) Limited
- Islamabad Stock Exchange (Guarantee) Limited
- Mutual Fund Association of Pakistan
- Pakistan Banking Association
- Central Depository Company of Pakistan Limited
- Settling Banks

Note 1:

****Refundable Security Deposit:***

BCM: Rs.100, 000; and

NBCM: Rs. 250,000

However, above Security Deposit requirement for Debt Market Clearing Members shall be reduced to half in the first month, from go-live date i.e. February 26, 2010, for both BCMs and NBCM.

Note 2:

*****The Initial Contribution to Debt Market Protection Fund shall be applicable as follows:***

1. 50% of the required contribution (Rs. 125,000) to be made after 3 months from the go-live date for BATS.

2. Remaining 50% required contribution (Rs. 125,000) to be made after 6 months from the go-live date for BATS.

Encl: NCCPL Regulations pertaining to the Debt Market as approved by the Securities and Exchange Commission of Pakistan.

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