

## **NCCPL Regulations**

### **CHAPTER 12B: RISK MANAGEMENT SYSTEM OF THE COMPANY FOR DEBT MARKET CLEARING MEMBERS**

#### **12.B RISK MANAGEMENT SYSTEM OF THE COMPANY FOR DEBT MARKET CLEARING MEMBERS**

##### **12.B.1 Definitions**

For the specific purposes of the Regulations contained in this Chapter, the terms set out below shall, unless the context otherwise requires, have the meanings set out there against below in this Regulation 12 B.1:

- 12.B.1.i “Accrued Interest” means the fraction of the coupon payment that the Debt Market Securities seller earns from holding the Debt Market Securities from the last interest payment date until the disposal date.
- 12.B.1.ii “Collateral Requirement” means the value of the collateral required to be deposited by a Debt Market Clearing Member with the Company as security for the Exposure Margins and Mark-To-Market Losses of such Debt Market Clearing Member.
- 12.B.1.iii “Debt Market” means an automated platform provided by the Stock Exchanges for the purpose of trading in eligible Debt Market Securities as specified in the relevant regulations in the Stock Exchanges.
- 12.B.1.iv “Debt Market Clearing Member” means a Clearing Member, including Broker Clearing Member and Non-Broker Clearing Member as defined in these Regulations, who meets the eligibility criteria as stipulated in these Regulations and has been admitted by the Company as a Debt Market Clearing Member under this Chapter of these Regulations.
- 12.B.1.v “Debt Market Protection Fund” means a fund established under this Chapter of these Regulations.
- 12.B.1.vi “Debt Market Securities” shall have the same meaning as assigned to it in the relevant regulations of the Stock Exchanges.
- 12.B.1.vii “Exposure” means at any point in time security-wise and client-wise cumulative net unsettled amount of purchases and sales added together of a Debt Market Clearing Member (including proprietary trades) under Debt Market as per applicable netting regime prescribed in these Regulations.
- 12.B.1.viii “Exposure Margin” means the amount of cash, bank guarantee and / or irrevocable undertaking deposited by the Debt Market Clearing Member as security against the Exposure as defined in these Regulations.

12.B.1.ix “Settlement Value” means a value, with reference to the settlement of Debt Market Securities, that a buyer of Debt Market Securities has to pay to the seller i.e. the purchase price plus an amount equal to the Accrued Interest from the last interest payment date to the disposal date.

**12.B.2 Risk Management for Debt Market Clearing Member**

The Company shall manage the risk of its Debt Market Clearing Members in terms of this Chapter in respect of Debt market trades executed and / or affirmed IDS transactions based on debt market trades by such Debt Market Clearing Members in order to monitor and mitigate the risks arising out of such Debt market trades.

**12.B.3 Determination of the Exposure**

The Company shall determine the Exposure of the Debt Market Clearing Members by applying a netting mechanism by which netting of open positions shall not be allowed across the Debt market trades in the Debt market executed by Broker Clearing Member and shall not be allowed across the affirmed IDS transactions executed by Non-broker Clearing Member based on Debt market trades. The Exposure Margins shall be calculated on the basis of rule based margining slabs as described in Regulations 12.B.3.i in accordance with the following netting mechanism:

- (a) Netting shall be allowed between buy and sell positions in the same Security on the same day for the same client;
- (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 Securities on the same day even for the same client; and
- (d) Netting shall not be allowed across settlement periods even for the same client.

12.B.3.i Rule Based Margin Slabs

Margin requirements shall be calculated on the following rule based margin slabs:

Description	Exposure Margin	Par Premium Margin	Total Margin
TFC (having minimum credit rating of A) > par premium	2.5% of the Exposure amount	50% amount of the excess market value	2.5% of the Exposure amount + 50% amount of the excess market value
TFC (having minimum credit rating of A) < par (discount)	2.5% of the Exposure amount	25% of the amount of discount with par value	2.5% of the Exposure amount+ 25% of the amount of discount with par value
TFC (having minimum credit rating below of A) > par premium	5% of the Exposure amount	100% amount of the excess market value	5% of the Exposure amount + 100% amount of the excess market value

TFC (having minimum credit rating below of A) < par (discount)	5% of the Exposure amount	25% of the amount of discount with par value	5% of the Exposure amount+ 25% of the amount of discount with par value
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#### **12.B.4 Determination of Mark-To-Market Losses**

While determining the Mark-To-Market Losses payable by a Debt Market Clearing Member, netting shall be permissible across Debt market trades in different Securities for the same client or across Debt market trades in different Securities for proprietary Debt market trades of a Debt Market Clearing Member in the same Settlement Date.

The Company shall calculate the Mark-To-Market Losses of its Debt Market Clearing Members on the basis of the Closing Price in the Debt market. Such Mark-To-Market Losses shall be deposited by a Debt Market Clearing Member with the Company on a daily basis till the satisfaction of his settlement obligation on the relevant Settlement Date.

#### **12.B.5 Collateral Requirements against Exposure Margins and Mark-To-Market Losses**

12.B.5.1 Payment of Exposure Margins and Mark-To-Market Losses by the Debt Market Clearing Members shall be secured by such Debt Market Clearing Members by deposit of the Collateral described below with the Company.

12.B.5.2 Collateral Requirements against Exposure Margins and Mark-To-Market Losses shall be calculated by the Company in accordance with the Procedures and shall be deposited by the Debt Market Clearing Members in the form of cash, bank guarantees and/or irrevocable undertakings, whichever is applicable under the Procedures and this Chapter.

12.B.5.3 It shall be the responsibility of every Debt Market Clearing Member to deposit with the Company the collateral of such value as is calculated by the Company as above-stated against its Exposure Margins and Mark-To-Market Losses on every Business (same) Day by the End of Day in accordance with the Procedures.

12.B.5.4 Following conditions shall be applicable where collateral is deposited in the form of cash, bank guarantees and/or irrevocable undertakings:

12.B.5.4.i Cash:

The Debt Market Clearing Members may deposit cash as collateral in order to satisfy their Collateral Requirements against their Exposure Margins and Mark-To-Market Losses.

12.B.5.4.ii Bank Guarantees:

- a) The Debt Market Clearing Members may also deposit bank guarantees in the form prescribed by the Company in order to fulfill their Collateral Requirements against their Exposure Margins and Mark-To-Market Losses, provided that such bank guarantees are issued by such banks as are approved by the Company from time to time for the purpose of Collateral Requirements.
- b) Subject to clause (a) of 12.B.5.4.ii, the Company may accept bank guarantees issued by a bank if:
  - (i) it is duly licensed to carry on banking business in Pakistan under the Banking Companies Ordinance, 1962 (LVII of 1962), or, being a statutory corporation, it is otherwise entitled to carry on banking business under the law by which it is created;
  - (ii) it has been allocated minimum credit rating of A and/or above. Provided that, where bank has been allocated minimum credit rating of A and/or above, the amounts of such Bank Guarantees per Debt Market Clearing Member are extended upto the limited as notified by the Company from time to time; and
  - (iii) it has a bank branch located in Karachi which is acceptable to the Company as such bank's main contact branch.
- c) The Company shall maintain a list of banks which satisfy the aforementioned eligibility criteria for issuing the bank guarantees acceptable to the Company for satisfying the Collateral Requirements of Debt Market Clearing Members.

**12.B.5.4.iii Irrevocable Undertakings:**

Irrevocable Undertakings in the form prescribed by the Company may be deposited by Non Broker Clearing Members admitted as Debt Market 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 such:

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

**12.B.6 Withdrawal or Release of Collateral**

- 12.B.6.1 On submission of written request by a Debt Market Clearing Member, duly signed by its Authorized Person, the Company shall release any collateral held against the Collateral Requirement of such Debt Market Clearing Member, provided that such release of collateral shall not create any deficiency in the value of the collateral required to be deposited by such Debt Market Clearing Member with the Company in terms of this Chapter.

**12.B.7 Failure of a Debt Market Clearing Member to Deposit Collateral with the Company**

12.B.7.1 On the occurrence of a failure by a Debt Market 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, 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 Debt Market 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 Debt Market Clearing Member’s access to any or all of the services offered by the Company in case of those Debt market trades which may result in reducing the Exposure Margin of such Debt Market Clearing Member.

12.B.7.2 Where the Company suspends and/or and restricts the access of a defaulting Debt Market Clearing Member to the services offered by the Company, the Company shall commence taking actions under the Money Default Management provisions of Chapter 13 of these Regulations.

12.B.7.3 Where the Company commences taking actions under the Money Default Management provisions of Chapter 13 of these Regulations, the Company shall, in the first place, apply the collateral provided by the defaulting Debt Market Clearing Member towards satisfying the net money obligations of such defaulting Debt Market Clearing Members determined under Regulation 13.2.

**12.B.8 Other Risk Management Measures**

**12.B.8.1 Exposure Drop-out Process**

The Company shall, in accordance with the Procedures, run a drop-out process on a Settlement Date closing all Debt market trades of all those Debt Market Clearing Members who have settled all their money and delivery obligations against such Debt market trades on that Settlement Date.

**12.B.8.2 Collection of Exposure Margins and Mark-To-Market Losses**

The Exposure Margins and Mark-To-Market Losses shall be deposited by a Debt Market Clearing Member within such time as may be determined by the Company from time to time but in no case later than the End of Day.

Such Exposure Margins and Mark-To-Market Losses deposited by a Debt Market Clearing Member under these Regulations must be kept separately by the Company and shall be segregated from the margins of the Ready market and or any other Market. Such Debt market related margins will be utilized first for the benefit of Debt Market Clearing Members in the event of default.

### 12.B.8.3 Capital Adequacy

The Debt Market Clearing Members acting as Broker Clearing Members shall be allowed to participate in the Debt market with minimum net capital balance of Rs. 25 million shall be allowed to participate in the Debt market for listed TFCs only. The aggregate Exposure of such Broker Clearing Members shall not exceed 10 times of its net capital balance. However, the Debt Market Clearing Members acting as Non-Broker Clearing Members shall be exempted from such net capital balance requirement. Accordingly, the Debt Market Clearing Members acting as Broker Clearing Members shall submit the certificate of net capital balance to the Company from a practicing Chartered Accountant along-with the amount of net capital balance to be allocated to the Debt market. Any revision to this assigned portion shall also be intimated to the Company in writing by such Broker Clearing Member.

The Company shall monitor the net capital balance of each Debt Market Clearing Member acting as Broker Clearing Member. Such Broker Clearing Member is not allowed to enhance its Exposure over and above the prescribed capital adequacy limit.

### 12.B.8.4 Power of imposing any additional margin in future

All Debt market trades shall be subject to the margin requirements prescribed in these Regulations or such other additional margins in this regard as the Company may, with the prior approval of the Commission, from time to time prescribe in addition thereto.

### 12.B.8.5 Circuit breaker

There shall be a security-wise circuit breaker for Debt Market in case of price fluctuation of Rs. 5/- from the Closing Price of the previous day or any other limit as prescribed by the Company with the prior approval of the Commission from time to time.

## 12.B.9 **Imposition of disciplinary charges**

If any Debt Market Clearing Member violates/contradicts of any provisions of these Regulations and/or the Procedures, the Company is authorized to impose charges under provision 17.1.1 of these Regulations to such Debt Market Clearing Member.

## 12.B.10. **Debt market Protection Fund**

### 12.B.10.1 Establishment of the Fund

In order to manage the losses that a Debt Market Clearing Member may incur Debt market, the Company will establish and maintain a Debt Market Protection Fund.

### 12.B.10.2 Contributions to the Fund

- (i) Every Debt Market Clearing Member shall upon his admission under this chapter, pay an initial contribution of Rs. 250,000/- (Rupees two hundred and fifty thousand) into the fund.

- (ii) One fourth of the fee collected from Debt Market Clearing Members shall be transferred to Debt Market Protection Fund as defined in Fee, Charges and Security Deposit Schedule.

**12.B.10.3** Investment of Fund Money

The Company shall open and maintain an account with a scheduled bank with a credit rating of at least A to deposit the amounts forming part of the Debt Market Protection Fund or may elect to invest the same in a manner specified by the Board of the Company from time to time.