

**NATIONAL CLEARING COMPANY**

**OF**

**PAKISTAN LIMITED**

**REGULATIONS**

## TABLE OF CONTENTS

<b>PREAMBLE</b>		Preamble-1
<b>CHAPTER 1</b>	<b>SHORT TITLE AND COMMENCEMENT</b>	
1.1	Short Title.....	1-1
1.2	Commencement.....	1-1
<b>CHAPTER 2</b>	<b>INTERPRETATION AND DEFINITIONS</b>	
2.1	General principles of interpretation.....	2-1
2.2	Headings.....	2-1
2.3	Conduct, acts and omissions.....	2-1
2.4	Regard to be had to purpose or object of Regulations.....	2-2
2.5	Examples.....	2-2
2.6	Notice, notification and service of documents.....	2-2
2.7	Defect, irregularities and deficiencies.....	2-4
2.8	Definitions.....	2-5
<b>CHAPTER 3</b>	<b>THE NCC SYSTEM</b>	
3.1	Operations of the NCC System.....	3-1
3.2	Powers of the Company.....	3-1
3.3	Exercise and delegation of functions and powers.....	3-3
3.4	Binding effect of the Regulations and Procedures.....	3-3
3.5	Procedures.....	3-4
3.6	Fees, Charges and Security Deposit.....	3-4
3.7	Designated Time Schedule.....	3-5
3.8	Company Indemnity.....	3-5
3.9	Specific exclusion of liability provisions.....	3-7
3.10	Exclusion of other liabilities.....	3-8
3.11	NCC Participant Indemnity.....	3-8
3.12	Intellectual property.....	3-8
3.13	Dispute resolution between NCC Participant.....	3-9
3.14	Complaints against the Company.....	3-10
3.15	Reports available in NCC System.....	3-10
<b>CHAPTER 4</b>	<b>COMMUNICATIONS IN THE NCSS</b>	
4.1	Communication by and between NCC Participant and NCC Systems.....	4-1
4.2	Technical and Performance Requirements.....	4-1
4.3	Validation of Transmission.....	4-2
4.4	Source of a Transmission on NCC Systems.....	4-2
4.5	Validation of trade / transaction data.....	4-3
<b>CHAPTER 5</b>	<b>APPLICATIONS FOR ADMISSION AND ADMISSION CRITERIA FOR NCC PARTICIPANT</b>	
5.1	Application for admission to the NCSS as Clearing Member...	5-1

5.2	Admission as Clearing Member.....	5-1
5.3	Requirements for applications for admission to the NCSS.....	5-2
5.4	Technical and Performance Requirements.....	5-3
5.5	Capacity requirements.....	5-3
5.6	Business integrity requirements.....	5-3
5.7	Execution of Clearing Member Agreement and Tripartite Agreement .....	5-4
5.8	Non-acceptance of an application.....	5-4
5.9	Clearing Member Warranties and Indemnities.....	5-5
5.10	Eligible Criteria for admission as Settling Bank.....	5-5
<b>CHAPTER 6</b>	<b>ESTABLISHMENT AND MAINTENANCE OF CLEARING ACCOUNTS &amp; MONEY ACCOUNTS</b>	
6.1	Establishment of Clearing & Money Accounts.....	6-1
6.2	Board to prescribe Registration Details.....	6-1
<b>CHAPTER 7</b>	<b>CONTINUOUS FUNDING SYSTEM MK-II</b>	
7.1	Definitions .....	7-1
7.2	Applications for Admission and Admission Criteria for CFS Mk-II Participants.....	7-5
7.3	CFS Mk-II Eligible Securities .....	7-8
7.4	CFS Mk-II Contracts and Settlement .....	7-9
7.5	CFS Mk-II Financing .....	7-11
7.6	CFS Mk-II Protection Fund .....	7-12
7.7	Risk Management.....	7-13
7.8	CFS Mk-II Market Information.....	7-18
7.9	Transitional Provisions.....	7-18
7.10	Discontinuation of CFS Mk–II Market.....	7-19
<b>CHAPTER 8</b>	<b>SECURITY DEPOSITS</b>	
8.1	Obligation of Clearing Members to keep Security Deposit with the Company.....	8-1
8.2	Application of Security Deposits and investment of Security Deposits.....	8-1
8.3	Elimination of deficiency by Clearing Member in his Security Deposit.....	8-1
8.4	Refund of the Security Deposits by the Company.....	8-2
8.5	Notice to Clearing Member for increase in his Security Deposit.....	8-2
8.6	Determination of Clearing Member’s required Security Deposit.....	8-3
<b>CHAPTER 9</b>	<b>GENERAL PROVISIONS</b>	
9.1	Clearing Data and Compared Contracts.....	9-1
9.2	Official Date of comparison operations etc.....	9-1
9.3	Additional Services for Settlement of trades or transactions.....	9-1

9.4	NCC Participants to designate Authorised Person(s).....	9-1
9.5	Requirement of the Company for NCC Participant's staff on non Business Day.....	9-1
9.6	Treatment of benefits on Retrieved Securities.....	9-2
9.7	Unique Identification Number.....	9-2
9.8	Entries in the Money Account in respect of Non-Deliverable Future Contracts and/or Deliverable Future Contracts.....	9-3
9.9	Data to be uploaded by the Company in CDS in respect of CFS Financed Securities.....	9-3
9.10	Daily Purchase and Sales Report.....	9-4
<b>CHAPTER 10</b>	<b>BALANCE ORDER SYSTEM</b>	
10.1	Deliver Security balance order and receive Security balance order under Balance Order System.....	10-1
10.2	Obligation to deliver and receive payment for Securities.....	10-1
10.3	Deliveries.....	10-1
10.4	Book entry delivery.....	10-1
10.5	Delivery Date.....	10-1
10.6	Securities buy-in by the Company.....	10-1
10.7	Securities sell out by the Company.....	10-1
10.8	Partial Delivery.....	10-2
10.9	Liability of Clearing Member for any costs.....	10-2
10.10	Delivery of Securities.....	10-2
10.11	Non delivery charges.....	10-2
<b>CHAPTER 11</b>	<b>SETTLEMENT</b>	
11.1	Settlement Statement(s) and Settlement by Clearing Member...	11-1
11.2	Delivery of Securities and right of the Company on Securities..	11-2
<b>CHAPTER 12</b>	<b>RISK MANAGEMENT BY STOCK EXCHANGES</b>	
12.1	Monitoring & Management of the Clearing Members Exposure.....	12-1
<b>CHAPTER 12A</b>	<b>RISK MANAGEMENT SYSTEM OF THE COMPANY FOR NON-BROKER CLEARING MEMEBRS</b>	
12A	Risk Management System of the Company For Non-Broker Clearing Members.....	12A-1
12A.1	Definitions.....	12A-1
12A.2	Risk Management for Non-Broker Clearing Member.....	12A-2
12A.3	Determination of the Exposure.....	12A-2
12A.4	Determination of Mark-To-Market Losses.....	12A-2
12A.5	Collateral Requirements against Exposure Margins and Mark-To-Market Losses .....	12A-3
12A.6	Withdrawal or Release of Collateral.....	12A-4
12A.7	Failure of a Non Broker Clearing Member to Deposit Collateral with the Company.....	12A-5
12A.8	Other Risk Management Measures.....	12A-5

<b>CHAPTER 12B</b>	<b>RISK MANAGEMENT SYSTEM OF THE COMPANY FOR DEBT MARKET CLEARING MEMBERS</b>	
12B	Risk Management System of the Company for Debt Market Clearing Members .....	12B-1
12B.1	Definitions.....	12B-1
12B.2	Risk Management for Debt Market Clearing Member.....	12B-1
12B.3	Determination of the Exposure.....	12B-2
12B.4	Determination of Mark-To-Market Losses.....	12B-2
12B.5	Collateral Requirements against Exposure Margins and Mark-To-Market Losses .....	12B-3
12B.6	Withdrawal or Release of Collateral.....	12B-4
12B.7	Failure of a Debt Market Clearing Member to Deposit Collateral with the Company.....	12B-5
12B.8	Other Risk Management Measures.....	12B-5
12B.9	Imposition of Disciplinary Charges.....	12B-5
12B.10	Debt market Protection Fund.....	12B-6
<b>CHAPTER 13</b>	<b>MONEY DEFAULT MANAGEMENT</b>	
13.1	Failure of Settlement of Money Obligation by Clearing Member.....	13-1
13.2	Actions in the Event of Suspension or Restriction of the Suspended Clearing Member’s access to services offered by the Company.....	13-1
13.3	Allocation of net losses by the Company upon terminating a Clearing Member’s access to the Services offered by the Company.....	13-4
13.4	Miscellaneous .....	13-6
<b>CHAPTER 14</b>	<b>POWER TO IMPOSE DISCIPLINARY CHARGES ETC</b>	
14.1	Imposition of disciplinary charges and other actions.....	14-1
14.2	Imposition of disciplinary charges by Chief Executive Officer..	14-1
14.3	Notice to NCC Participant before taking action.....	14-1
14.4	Right of Hearing.....	14-1
<b>CHAPTER 15</b>	<b>WHEN THE COMPANY RESTRICTS, SUSPENDS OR TERMINATES ITS SERVICES TO A NCC PARTICIPANT</b>	
15.1	Notice to NCC Participant when the Company ceases to act for him.....	15-1
15.2	Balance Order Securities deliverable to Clearing Member in respect of whom the Company has taken action.....	15-1
15.3	Rights of the Company.....	15-2
<b>CHAPTER 16</b>	<b>SUSPENSION OF REGULATIONS/PROCEDURES</b>	
16.1	Waiver or suspension by the Board.....	16-1

<b>CHAPTER 17</b>	<b>CHARGES FOR SERVICES RENDERED</b>	
17.1	Fees and charges.....	17-1
<b>CHAPTER 18</b>	<b>RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY</b>	
18.1	Restriction, suspension or termination of access to services.....	18-1
18.2	Notice to NCC Participant before taking action.....	18-1
18.3	Summarily restriction, suspension or termination.....	18-2
18.4	Liability of the Company upon suspension or termination of a NCC Participant with respect to services offered by the Company.....	18-2
18.5	Liability of NCC Participant upon his restriction, suspension or termination with respect to services offered by the Company.....	18-2
<b>CHAPTER 19</b>	<b>INSOLVENCY</b>	
19.1	Insolvency Notice by NCC Participant .....	19-1
19.2	Events in which NCC Participant will be treated insolvent.....	19-1
19.3	Notice by the Company of action taken.....	19-1
<b>CHAPTER 20</b>	<b>ADMISSION TO PREMISES OF THE COMPANY POWER OF ATTORNEY, ETC</b>	
20.1	Representative of NCC Participant .....	20-1
<b>CHAPTER 21</b>	<b>FORMS</b>	
21.1	Prescribing of Forms.....	21-1
<b>CHAPTER 22</b>	<b>AMENDMENTS IN THE REGULATIONS</b>	
22.1	Amendment in, addition to or substitution of the Regulations...	22-1
<b>CHAPTER 23</b>	<b>HEARING AND APPEAL PROCEDURES</b>	
23.1	Request for Hearing.....	23-1
23.2	Tribunal.....	23-1
23.3	Establishment of the Panel.....	23-2
23.4	Appeals.....	23-2
23.5	Hearing and determination of Appeals.....	23-3
23.6	Hearings before the Tribunal and the Commission.....	23-4
23.7	Indemnification of members of Tribunal.....	23-5
23.8	Savings.....	23-5
<b>CHAPTER 24</b>	<b>RELEASE OF CLEARING DATA</b>	
24.1	Disclosure of Clearing Data.....	24-1
24.2	Usage and addition to the UINs Database.....	24-2

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<b>CHAPTER 25</b>	<b>LISTS TO BE MAINTAINED</b>	
25.1	List of Securities.....	25-1
25.2	List of Settling Banks.....	25-1
<b>CHAPTER 26</b>	<b>EFFECT OF SUBSTITUTION OF THE 2001 NCSS REGULATIONS BY THESE REGULATIONS</b>	
26.1	Effect of substitution of the 2001 NCSS Regulations.....	26-1
<b>CHAPTER 27</b>	<b>NCSS REVIEW</b>	
27.1	NCSS review.....	27-1

**NATIONAL CLEARING COMPANY OF PAKISTAN LIMITED**

## NOTIFICATION

Karachi, the 26 February, 2008

**THE NATIONAL CLEARING COMPANY OF PAKISTAN LIMITED REGULATIONS,  
2003**

Whereas, the National Clearing Company of Pakistan Limited (“Company”) has been formed under the authorization of the Securities and Exchange Commission of Pakistan;

And whereas, the Company has established a national clearing and settlement system (“NCSS”);

And whereas, the Company made and notified the National Clearing and Settlement System Regulations in 2001 (“2001 NCSS Regulations”) for regulating the affairs of the Company, the NCSS and the persons who are admitted as Clearing Members under the NCSS Regulations;

And whereas, the 2001 NCSS Regulations were made by the Company pursuant to paragraph (6) of Clause III of its Memorandum of Association;

And whereas the Company intends to establish continuous funding system Mk-II (“CFS Mk-II”) to provide funding system at the national level;

And whereas, Regulation 22.1 of the 2001 NCSS Regulations permits the Company to make amendments to, including additions to or deletions from such Regulations, and the said paragraph (6) of Clause III of the Memorandum of Association of the Company permits the Company to make any new, amended or additional Regulations;

And whereas, in exercise of its aforesaid powers, based upon the changes and modifications proposed in the services provided by the Company, the Company has decided to revise and substitute the 2001 NCSS Regulations by these new Regulations.

**CHAPTER 1: SHORT TITLE AND COMMENCEMENT****1.1 Short title**

- 1.1.1 These Regulations may be called The National Clearing Company of Pakistan Limited Regulations 2003.

**1.2 Commencement**

- 1.2.1 These Regulations shall come into force as of the date of approval of these Regulations by the Securities and Exchange Commission of Pakistan and shall substitute the 2001 NCSS Regulations as of that date. Such date shall be notified in the Gazette of Pakistan.

## CHAPTER 2: INTERPRETATION AND DEFINITIONS

### 2.1 General principles of interpretation

2.1.1 In these Regulations, unless the context otherwise requires:

- (a) a reference to any legislation or legislative provision includes any statutory modification or re-enactment of, or legislative provision substituted for, and any statutory instrument issued under, that legislation or legislative provision;
- (b) a reference to these Regulations, the Procedures, the Fees, Charges and Security Deposit Schedule, or the Designated Times Schedule is a reference to these Regulations, Procedures, Fees, Charges and Security Deposit Schedule, or the Designated Times Schedule, as modified or amended from time to time;
- (c) if a word or expression is given a particular meaning, another part of speech or grammatical form of that word or expression has a corresponding meaning; and
- (d) a reference to power includes a reference to authority and discretion;
- (e) unless the context otherwise requires, the words importing the singular shall include the plural, and vice versa, and words importing the masculine gender shall include the feminine gender, and words importing persons shall include companies or other bodies corporate, firms, institutions, authorities, commissions or governments.

### 2.2 Headings

2.2.1 In these Regulations, headings are for convenience of reference only and do not affect interpretation.

### 2.3 Conduct, acts and omissions

2.3.1 In these Regulations, a reference to conduct or engaging in conduct includes a reference to doing or refusing to do any act, including the making of, or the giving effect to a provision of, an agreement.

2.3.2 In these Regulations, conduct engaged in or on behalf of a person:

- (a) by an officer, employee, or other agent of the person within the scope of the actual or apparent authority of the officer, employee, or other agent; or
- (b) by any other person at the direction or with the consent or agreement (whether express or implied) of an officer, employee, or other agent of the person, where the giving of the direction, consent or agreement is within the scope of the actual or apparent authority of the officer, employee, or other agent,

is taken to have been engaged in also by the person.

2.3.3 If for the purposes of these Regulations in respect of conduct engaged in by a person, it is necessary to establish the state of mind of the person, it is sufficient to show that an officer, employee, or other agent of the person by whom the conduct was engaged in within the scope of

the actual or apparent authority of that officer, employee, or other agent, had that state of mind.

2.3.4 A reference in Regulation 2.3.3 to the state of mind of a person includes a reference to the knowledge, intention, opinion, belief or purpose of the person and the person's reasons for the person's intention, opinion, belief or purpose.

2.3.5 In these Regulations, unless the contrary intention appears, a reference to doing any act or thing includes a reference to causing, permitting or authorising the act or thing to be done.

## **2.4 Regard to be had to purpose or object of Regulations**

2.4.1 In the interpretation of a Regulation, a construction that would promote the purpose or object underlying the Regulation (whether that purpose or object is expressly stated in the Regulation or not) is to be preferred to a construction that would not promote that purpose or object.

## **2.5 Examples**

2.5.1 If these Regulations or the Procedures include an example of the operation of a Regulation or a Procedure:

- (a) the example is not to be taken to be exhaustive; and
- (b) if the example is inconsistent with the Regulation or Procedure, the Regulation or Procedure shall prevail.

## **2.6 Notice, notification and service of documents**

2.6.1 In these Regulations or the Procedures, a reference to notifying a person of any matter includes a reference to Transmitting a message containing that matter to the person.

2.6.2 For the purposes of these Regulations and the Procedures, a Notice which is Transmitted by the Company to a NCC Participant or to a Settling Bank shall be taken to be received by the NCC Participant or the Settling Bank when matters comprised in the Notice are shown up on the computer terminal that is linked to the Computer System.

2.6.3 Subject to Regulation 2.6.2, if any Regulation requires or permits the giving of Notice of any matter to a person, such Notice shall be given in writing.

2.6.4 For the purposes of any Regulation, or any provision of the Procedure, that requires or permits a notice or document to be given to a person, whether the expression "serve", "give" or "send" or any other similar expression is used, the notice or document may be given:

- (a) to a natural person:
  - (i) by delivering it to the person personally;
  - (ii) by leaving it at, or by sending it by courier or registered post to, the address of the place of residence or business of the person last known to the person serving the notice or document; or
  - (iii) by sending it by facsimile to the person's facsimile number last known to the person

giving the notice or document;

(iv) by sending it by email to the person's email address that the Company has established for the giving of notices or documents to such person.

(b) to a company or other body corporate:

(i) by leaving it at, or sending it by courier or registered post to, in the case of a company, its registered office and, in the case of any other body corporate, its head office;

(ii) by sending it by facsimile to company's or body corporate's facsimile number last known to the person giving the notice or document; or

(iii) by sending it by email to such company or body corporate's email address that the Company has established for the giving of notices or documents to such Company or body Corporate.

(c) to others:

(i) by leaving it at, or by sending it by courier or registered post to, the address of the place of business of the addressee last known to the person serving the notice or document;

(ii) by sending it by facsimile to the facsimile number of the addressee last known to the person giving the notice or document; or

(iii) by sending it by email to such addressee's email address that the Company has established for the giving of notices or documents to such addressee.

2.6.5 For the purposes of Regulation 2.6.4:

(a) a notice or document sent by courier shall be taken to be received at the time of delivery to the correct address;

(b) a notice or document if sent by registered post shall be taken to be received on the 5th Business Day after the notice or document, in a correctly addressed and stamped envelope or other covering, is put in the registered post;

(c) a notice or document sent by facsimile shall be taken to be received when the sender's facsimile machine indicates a successful transmission to the correct facsimile number;

(d) a notice or document sent by email shall be taken to be received when the sender's computer indicates a successful transmission; and

(e) notwithstanding any thing to the contrary contained in these Regulations, if a notice or document is sent by courier or registered post, as provided in Regulation 2.6.4, and is returned undelivered because:

(i) of the unavailability of the addressee at the address to which the notice or document

was sent, or

- (ii) the place of business, the registered or the head office, as the case may be, to which the notice or the document was sent was found to be closed or found to be not the place of business, the registered or the head office, as the case may be, of the addressee.

such notice or document shall nevertheless be deemed to have been received by the addressee for the purposes of these Regulations.

2.6.6 Nothing in Regulation 2.6.4 prevents notices or documents being sent or given to, or served on, a person in any other manner required or permitted by law or custom.

2.6.7 If under these Regulations the Company is to give any Notice or document to NCC Participant, an accidental omission by the Company to give Notice or document to one or more NCC Participant, does not affect the validity and enforceability of any resolution, decision, proceedings or act in connection with which the Notice or document was to have been given.

## **2.7 Defect, irregularities and deficiencies**

2.7.1 A decision, resolution, proceedings or act of the Company, the Board or the Chief Executive Officer under these Regulations is not invalidated by any:

- (a) defect;
- (b) irregularity; or
- (c) deficiency,

of Notice or time unless:

- (i) a Clearing Member concerned by the defect, irregularity or deficiency requests the Board to resolve that the decision, resolution, proceedings or act is invalid;
- (ii) the Board reasonably believes that the defect, irregularity or deficiency has caused or may cause substantial injustice which cannot reasonably be avoided; and
- (iii) the Board accordingly resolves that the decision, resolution, proceedings or act is invalid.

### **2.7A Evasion of Requirements Prohibited**

A NCC Participant shall not directly or indirectly enter into any arrangement or adopt any procedure for the purpose of evading or assisting in the evasion of the requirements prescribed under these Regulations.

### **2.7B Other Terms**

All words or terms not defined in these Regulations shall have the same meaning as assigned to them in the Securities and Exchange Ordinance 1969, the Securities and Exchange Commission of Pakistan Act, 1997, the Securities and Exchange Rules, 1971 and the Companies Ordinance, 1984.

## 2.8 Definitions

2.8.1 When used in these Regulations and, where applicable, in the Procedures, the following expressions shall, unless the context otherwise requires, have the meanings herein below specified:

Admission Form	means the relevant admission form, made available for the purpose by the Company from time to time, for use by a person seeking to be admitted in the capacity of a Clearing Member. A separate Admission form will be made available by the Company from time to time, for signing by a Clearing Member who is to be admitted as a CFS Financier Clearing Member.
Appeal	means an appeal to the Commission under these Regulations.
Appeal Notice	means an Appeal Notice given under these Regulations.
Authorised Person	means any person who has the actual authority of the Clearing Member to make Transmissions or to act on his behalf or to undertake such other actions as he may be authorised so as to legally bind the Clearing Member.
Balance Order Accounting Operation	means all operations having to do with Balance Order
Balance Order	means the compared contracts for Balance Order Contracts Securities and other transactions in respect of Balance Order Securities submitted to the Company under these Regulations and/or the Procedures.
Balance Order	means Securities that are eligible for book-entry securities transfer in CDS and are subject of Balance Order Contracts
Balance Order Settlement	means a multilateral netting of Balance Order Contracts by NCSS.
Blocked Status	where any Securities are delivered to an Account of a Clearing Member in CDC in such status that the same cannot be dealt with by the Clearing Member.
Board	means the board of directors of the Company.
Broker Clearing Member	means a member of Stock Exchange(s) admitted as a Clearing Member to CSS under Regulation 5.1.1(a) of these Regulations.
Business Day	means any day on which the Company is open for business, as determined by the Board.
Central Depository	means a central depository as defined in clause (cc) of section 2 of the Securities and Exchange Ordinance, 1969 (XVII of 1969), and registered with the Commission under section 32A of that Ordinance.

CDC	means the Central Depository Company of Pakistan Limited.
CDC Regulations	means the Central Depository Company of Pakistan Limited Regulations.
CDS	means the Central Depository System established by CDC.
CFS Financier Clearing Member	means a person who has been admitted by Clearing Member the Company as a CFS Financier Clearing Member to enter into CFS transactions as a financier.
CFS Financed Securities	means the Book Entry Securities, representing the securities, the purchase of which is financed by a CFS Financier Clearing Member pursuant to a CFS transaction.
CFS transaction	means a continuous funding system transaction referred to in item (i) of the definition of “Exchange transaction” appearing in this Regulation 2.8.1.
Chapter	means a chapter of these Regulations.
Chief Executive Officer	means any person occupying the position of the chief Officer executive of the Company or any person authorised by the Board to perform the functions of Chief Executive Officer during his absence.
Clearing Member	means a person who is admitted as a Clearing Member under these Regulations
Clearing Member Agreement	means an agreement, in the form prescribed by the Company from time to time, entered into by a person with the Company as a pre-condition to admission of that person to NCC Systems in the capacity of a Clearing Member, a CFS Financier Clearing Member or an Authorized Financier including an agreement or a supplemental to such agreement prescribed by the Company from time to time, entered into by a Clearing Member with the Company as a pre-condition to admission of such Clearing Member to NCC Systems in any other capacity.
Clearing Member ID (CM ID)	means Clearing Member ID issued by the Company
Clearing Account	means the following accounts opened by the Company in the name of a Clearing Member with NCC Systems for the purposes set out in these Regulations in connection with the settlement and clearance of his trades and transactions other than Debt market trades, including a separate Clearing Account opened by the Company in the name of a Debt market Clearing Member in connection with the settlement and clearance of Debt market trades.
Closing Price	means the volume weighted average price at the Karachi Stock Exchange, in the ready market of the last 30 minutes trades of the

Business Day on which there were trades in that particular scrip on that Stock Exchange. In case of no trading in that particular scrip during the last 30 minutes of that Business Day, then, in such case, the volume weighted average price of last traded 30 minutes in that scrip on that Business Day or on any preceding Business Day in which trading in that particular scrip took place on the Karachi Stock Exchange shall be the Closing Price.

For Debt market, the closing price shall mean the volume weighted average price of the trades during whole day. In case of no trading in that particular security for three continues Business Days, then in such case the closing price shall be updated on the basis of bid and offer mechanism whereby Bid/Offer must be better than last traded price and satisfy the following conditions:

- (i) Bid/Offer is available for trade at the time of closure of the market.
- (ii) Bid/Offer remains un-changed during this time.

For the purpose of the above, the volume weighted average of bid and offer of last three days on which the bid and offer are available shall be considered.

Collateral	the cash, margin eligible securities, eligible term finance certificates, bank guarantees and/or irrevocable undertakings deposited by a NCC Participant with the Company under these Regulations as security for the Exposure Margins, special margins and Mark-To-Market losses of such NCC Participant.
Commission	means the Securities and Exchange Commission of Pakistan established under the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997).
Company	means National Clearing Company of Pakistan Limited.
Computer System	means the computer system forming part of the NCC Systems including the hardware to operate the NCC Systems Software.
Credit Balance	means the excess of the amounts payable by the Company to a Clearing Member on account of Securities movements, and other cash settlements over: <ul style="list-style-type: none"> <li>(a) the amount which the Company has paid out or is obligated or may become obligated to pay out for the account of such Clearing Member pursuant to these Regulations, and</li> <li>(b) the amounts payable by such Clearing Member to the Company on account of disciplinary charges and for services, if any, rendered by the Company.</li> </ul>
Data Base Tables	means the basic component of a database. A set of tables which forms

a database and holds data in the form of rows and columns.

**Debit Balance**

means:

- (a) the amount payable by a Clearing Member to the Company on account of Securities movements, and other cash settlements,
- (b) the amount which the Company has paid out or is obligated or may become obligated to pay out for the account of such Clearing Member pursuant to the Regulations, and
- (c) the amounts payable by such Clearing Member to the Company on account of disciplinary charges or for services rendered less the credits to which such Clearing Member has become entitled pursuant to these Regulations.

The Clearing Member's Security Deposit as provided for in Chapter -8 and the amount payable to the Clearing Member or payable by it under the provisions of these Regulations relating to the Security Deposit do not enter into the Debit Balance.

**Debt Market Clearing Member**

means a NCC Participant who meets the eligibility criteria as stipulated in these Regulations and has been admitted by the Company when acting as Broker Clearing Member or as Non-Broker Clearing Member, as the case may be for the settlement of Debt market trades.

**Default Management Committee**

means the committee described in Regulation 13.4.6 of these Regulations.

**Designated Branch**

means a branch of a Settling Bank acceptable to the Company and to be used for performing money settlement services for the benefit of those Clearing Members who have entered into Tripartite Agreements with such Settling Bank.

**Deliverable Future Contracts**

The term deliverable futures contracts shall have the same meaning as set out in the relevant regulations of the Stock Exchange and received from such Stock Exchange in NCSS for settlement through NCSS.

**Designated Time**

means the time on a Business Day as reflected in NCSS in terms of the Designated Times Schedule, within or by which a requirement under these Regulations and/or the Procedures must be complied with.

**Designated Time Schedule**

means the Designated Time Schedule made by the Board under Regulation 3.7 and any revision or substitution thereof made by the Board or the Chief Executive Officer under the authority of the Board.

**End of Day**

means, on any Business Day, such time as may be specified in the Designated Time Schedule for this purpose.

**Exchange trade**

means a trade which is affected on a Stock Exchange and/or on UTS

	and is received in NCSS as a locked-in trade contract for clearing and settlement through NCSS.
Exchange transaction	<p>means</p> <p>a continuous funding system transaction, excluding CFS MK-II Contracts, which is effected on a Stock Exchange and/or on UTS and is received in NCSS as a locked-in contract for clearing and settlement through NCSS: for the purpose of this definition “continuous funding system” shall be the Continuous Funding System as described in the relevant Regulations of the relevant Stock Exchange.</p>
Fees, Charges and Security Deposit Schedule	means such Fees, Charges and Security Deposit Schedule for the by the Board under these Regulations, subject to the approval of the Commission and any amendment, modification, revision, substitution or revision thereof made by the Board with the prior approval of the Commission.
Force Majeure	<p>means:</p> <p>(a) fire, explosion, earthquake, lightning, tsunami, floods, storm, cyclone, typhoon, tornado, chemical contamination, epidemic, plague, power failure or restriction, communication breakdown, accident, war or threat of war (declared or undeclared), invasion, armed conflict, act of enemy, embargo, blockade, revolution, riot, insurrection, civil commotion, act of terrorism, radioactive contamination or ionizing radiation, strike, works to regulation or go slows, boycott, labour dispute or action, unavailability of data processing or any other computer system or facility, act of God or any other similar event; or</p> <p>(b) other event beyond the control of the Company which prevents or significantly hinders the operations of the Company or of NCC Systems</p>
Foreign Entity	means an entity having the country of origin other than Pakistan and is not registered in Pakistan.
Government Securities	means any Government Securities as defined in the Securities Act, 1920 (X of 1920).
ID	means the code allocated by the Company to itself and pursuant to Regulation 4.3.1 to a Clearing Member, and the separate code allocated by the Company to a CFS Financier Clearing Member pursuant to Regulation 4.3.1A.
Locked-in	means the status of a contract in NCSS which require no additional action either by a selling or buying Clearing Member.
Margin Financing System Price	means the last trade price of a Security on the Karachi Stock Exchange on the trade day of that Stock Exchange on which there

were trades on such Stock Exchange in such Security. If there were no trades in such Security on the Karachi Stock Exchange or the Security is not listed on that Stock Exchange, the last trade price on the trade day of the Security traded on UTS. If there were no trades in such Security on UTS or the Security is not listed on UTS, the last trade price on the trade day of the Security on Lahore or Islamabad Stock Exchanges, in that order, will be the Margin Financing System Price. Provided that NCSS will ignore the last trade(s) between the client(s) of the same Clearing Member in determining the Margin Financing System Price of a Security.

Marked-to-Market Losses	means the difference between the transaction price of the unsettled Position of an NCC Participant in each security and the Closing Price of such security at the end of each Business Day.
Market	Means all markets as defined in the relevant regulations of the stock exchanges.
Minimum Amount	means the minimum amount required to be deposited by a Clearing Member with the Company in cash by way of or as part of his Security Deposit in terms of the Fees, Charges and Security Deposit Schedule under these Regulations.
Money Account	means an account maintained by the Company in the name of a Clearing Member, which shall be debited and credited with moneys payable to or by the Company to arrive at his net pay and net collect on account of all his trades and transactions other than those entered into as a Debt Market Clearing Member for a particular Business Day, including a separate Money Account(s) maintained by the Company in the name of a Clearing Member upon his admission as Debt Market Clearing Member for the purpose of settlement of Debt market trades which shall be debited and credited with moneys payable to or by the Company to arrive at such Debt Market Clearing Member's net pay or net collect for a particular Business Day separately on account of his Debt market trades only. Security Deposit of a Clearing Member and any amounts payable or refundable from the Security Deposit shall, however, not form part of the Money Account.
NBFC Rules	means the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.
NCC Systems	means collectively NCSS and CFS MK-II System and each shall be individually referred to as an NCC System.
NCC Systems Software	means collectively NCSS Software and CFS Mk-II Software and each shall be individually referred to as a NCC System Software.
NCEL	means National Commodity Exchange Limited
NCC Clearing and Settlement Fund	means the clearing and settlement fund established by the Company pursuant to Rule 12 of the Clearing Houses (Registration and Regulation) Rules, 2005 by a Trust Deed dated November 15, 2006

made between the Company, of the one part, and the trustees named in the said Trust Deed, of the other part, in whom (and in the trustees for the time being of the said Trust Deed) the NCC Clearing and Settlement Fund is vested for the purpose of payment of the required amount(s) to the Company from time to time for satisfying Clearing Member(s)' obligations to the Company in case of the default of such Clearing Members' in terms of these Regulations and the Procedures.

NCC Participant	means a NCSS Participant, and/or a Debt Market Clearing Member as the case may be.
NCSS	means the National Clearing and Settlement System established by the Company under these Regulations.
NCSS Participant	means a clearing member when acting as Broker Clearing Member or as Non-Broker Clearing Member, as the case may be.
NCSS Software	means all systems and application programmes relevant to the operation of the NCSS including all of the computer software maintained and used by the Company for the purposes of the NCSS (other than software used by a Clearing Member to communicate with the Company in relation to the NCSS).
Non-Deliverable Futures Contracts	means: net positions of the marked-to-market loss to be collected from and/or the profit to be disbursed to a Clearing Member in respect of cash settled futures contracts and stock index futures contracts concluded in the cash settled futures market and stock index futures market respectively of a Stock Exchange under the regulations governing cash settled futures contracts and stock index futures contracts of such Stock Exchange determined on a daily basis or upon closing of such contracts and received from such Stock Exchange in NCSS for settlement through NCSS: for the purposes of this definition, the term cash settled futures contracts and stock index futures contracts shall have the same meaning as set out in the relevant regulations of the relevant Stock Exchange.
Non Exchange Transaction	means <ul style="list-style-type: none"><li>(i) a broker to broker transaction, as per the Procedures, which is not effected on a Stock Exchange and is initiated by a Clearing Member, who is a member of a Stock Exchange, based on an Exchange trade; or</li><li>(ii) an institutional delivery system transaction, as per the Procedures, which is not effected on a Stock Exchange and is initiated by a Clearing Member, who is a member of a Stock Exchange, based on an Exchange trade and/or Exchange transaction; or</li><li>(iii) a margin financing transaction, as per the Procedures, which is not effected on a Stock Exchange and is initiated by a Clearing Member, who is a member of a Stock Exchange, based on an Exchange trade and/or on an Exchange transaction; or</li></ul>

- (iv) a reversal of the margin financing transaction, as per the Procedures, which is not effected on a Stock Exchange and is initiated by a Clearing Member, who is a member of a Stock Exchange and/or by a Clearing Member who is not a member of Stock Exchange,

and is recorded on NCSS in which the initiating Clearing Member notifies NCSS that the transaction shall be settled by an affirming Clearing Member on his behalf, provided that such affirmation is made by a Clearing Member (who may be a member or a non-member of a Stock Exchange), provided further that notwithstanding the foregoing in case of reversal of margin financing transaction the transaction shall be settled by the Clearing Member who had initiated the original margin financing transaction as referred to in (iii) above. Moreover, institutional delivery system transaction based on provisionally listed companies market shall stand null and void in the event of formal listing of such companies being refused by the relevant Stock Exchange.

- (v) a CFS Mk II Transaction and CFS Mk-II (R) Transaction, as defined in the CFS Mk-II Regulations

Notice has the meaning given by Regulation 2.6

Obtain

means:

- (a) to print a Report available on NCC Systems;  
 (b) to Transmit, within the Designated Time, a request for any Report to the Company; and  
 (c) to receive a Transmission of that Report from the Company in response to a request.

Position

means the net of a Clearing Member's open commitment in a security.

Pre-commencement Testing

means testing, under the direction of the Company, to establish whether a Clearing Member meets the Technical and Performance Requirements.

Procedures

means procedures of NCC System made under Regulation 3.5, and include any amendment, modification, revision and/or substitution thereof.

Report

means any of the reports whose parameters are prescribed in the Procedures from time to time.

Registration Details

means:

- (a) in respect of an individual:  
 (i) the name;

- (ii) the address; and
- (iii) CDC Account number.

- (b) in respect of a company or other body corporate:
  - (i) the name;
  - (ii) the registered/Head Office address; and
  - (iii) CDC Account number.

and includes such other Registration Details as may be prescribed by the Board.

Security	means a Security as defined in Clause 24 of Section 2 of the Central Depositories Act, 1997 [XIX of 1997], which may be subject of contracts eligible to be settled in NCSS.
Security Deposit	means the security deposit to be maintained by a NCC Participant with the Company under Chapter 8.
Settlement Date	means the date on which the delivery of and payment for Securities is due as per Clearing and Settlement Calendar issued by the Company pursuant to Procedures.
Settling Bank	means a bank acceptable to the Company which meets the eligible criteria set out in these Regulations and is a party to a Tripartite Agreement whereby such bank undertakes to perform money settlement services for the Clearing Member through its Designated Branch.”
Stock Exchange	means a stock exchange registered under the Securities and Exchange Ordinance, 1969 (XVII of 1969).
System Price	<p>means the last trade price of a Security on the Karachi Stock Exchange on the immediate preceding Business Day of that Stock Exchange on which there were trades on such Stock Exchange in such Security. If there were no trades in such Security on the Karachi Stock Exchange or the Security is not listed on that Stock Exchange, the last trade price on the immediate preceding Business Day of the Security traded on UTS. If there were no trades in such Security on the UTS or the Security is not listed on UTS, the last trade price on the immediate preceding Business Day of the Security on the Lahore or Islamabad Stock Exchanges, in that order, will be the System Price. Provided that NCSS will ignore the last trade(s) between the client(s) of the same Clearing Member in determining the System Price of a Security. Notwithstanding the foregoing, the Company may fix the "System Price" of a Security at such amount as it deems necessary and appropriate in the circumstances to protect the respective interests of the Clearing Member(s) and the Company:</p> <ul style="list-style-type: none"><li>(a) whenever trading in such Security has been suspended by order of the Commission or by any Stock Exchange on which such Security is listed or by any other authority having power to</li></ul>

	<p>suspend trading in such Security,</p> <p>(b) to reflect a dividend or other distribution on such Security, or</p> <p>(c) in other appropriate circumstances.</p>
Technical and Performance Requirements	means the requirements to be satisfied by a Clearing Member under Regulation 4.2 and Chapter 5.
Term Finance Certificate (“TFC”)	means a Security as defined in these Regulations, which may be subject of contracts eligible to be settled in NCSS.
Transmit	means to cause a message, document or other information to be sent through electronic or any other suitable mean.
Trade Date	means the date on which the Exchange trade and/or Exchange transaction was entered into between a buying and a selling Clearing Member.
Trader ID	means Stock Exchange member code issued by a Stock Exchange to their respective members.
Tripartite Agreement	means an agreement, in the form prescribed by the Company from time to time, entered into between the Company, a Clearing Member and a Settling Bank whereunder the Settling Bank undertakes to perform money settlement services for the Clearing Member in connection with all his trades and transactions other than those entered into as Debt Market Clearing Member, including an agreement or a supplemental to an existing Tripartite Agreement in the form prescribed by the Company from time to time, entered into between the Company, Debt Market Clearing Member, and a Settling Bank whereunder the Settling Bank undertakes to perform money settlement services for the Debt Market Clearing Member on account of Debt market trades only.
Unified Trading System (UTS)	means a trading system based on a common platform established by Lahore Stock Exchange (LSE) and Islamabad Stock Exchange (ISE) for execution of orders by their members and for the purpose of this definition UTS shall be the Unified Trading System as defined in the relevant UTS Regulations.
Unique Identification Number (UIN)	<p>for the following client types of a Broker Clearing Member means:</p> <p>(I) For individual Pakistani including individual Broker Clearing Member – Computerized National Identity Card Number (CNIC) issued by National Database Registration Authority (NADRA);</p> <p>(II) For individual foreigner / overseas Pakistani citizen (without CNIC) – Passport number;</p> <p>(III) For overseas Pakistani – Computerized National Identity Card</p>

- for Overseas Pakistanis (NICOP) number issued by NADRA;
- (IV) For foreign individual of Pakistan Origin – Pakistan Origin Card (POC) number issued by NADRA;
  - (V) For a Non-Pakistani residing in Pakistan – National Alien Registration (NAR) number issued by the National Alien Registration Authority;
  - (VI) For a corporate entity including a Corporate Broker Clearing Member – Registration number issued by the Commission;
  - (VII) For a mutual fund / modaraba – Specific number issued by the Company;
  - (VIII) For foreign institutional investor / foreign asset management company / international broker dealer – Registration number issued by the concerned authority in the country of incorporation or registration of the foreign institutional investor / foreign asset management company / international broker dealer placing the order with an alphabetical prefix or suffix attached to such number by the Company;
  - (IX) For a trust, foundation, gratuity fund, provident fund, co-operative society or similar other entity – Registration number, if any, issued by the concerned authority where registration number is not issued by the Commission; and
  - (X) Where (i) to (ix) do not apply, or cannot be given effect to, any other number issued by the Company to a Broker Clearing Member client as per the scheme prescribed by the Company and approved by the Commission for this purpose from time to time.

#### EXPLANATION

Provided that the term “client” as used above for the purposes of UIN shall mean the client of a Broker Clearing Member and the Broker Clearing Member itself if it trades on its own account.

Provided further that there shall be only one UIN for all of the categories mentioned above i.e. from (i) to (xi), in order to avoid duplication / multiplication of UINs.

#### UINs Database

means a set of information consisting of the UINs generated in NCSS by the Broker Clearing Members. Such information would include the form and fields, as may be required for the registration of clients by Broker Clearing Members in NCSS. This may also include the UIN information, provided by the Commission or by the Company or by the CDC or by the NCEL to provide UIN Registration Details in the UINs Database.

UIN Mapping Table means the Database Tables in NCSS for UIN Mapping available to the Commission and to every Stock Exchange for the purpose of ensuring that all trades are executed in a transparent manner.

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; and
- (iv) Client Type

**EXPLANATION:**

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;

all other entities described in the definition of UIN.

UIN Registration Screen means the Registration Screen in NCSS whereby the Broker Clearing Members will provide Clients UIN Registration Details to the Company as described in the Procedures.

## CHAPTER 3: THE NCC SYSTEMS

### 3.1 Operations of the NCC Systems

3.1.1 NCC Systems shall be maintained and operated or caused to be maintained and operated by the Company in accordance with these Regulations and the Procedures.

3.1.2 As notified by Notice to:

- (a) the Commission;
- (b) each Stock Exchange; and
- (c) all Clearing Members,

NCSS became operational as of December 24, 2001.

3.1.3 CFS Mk-II System shall become operational on a date to be notified by the Company by issuing a notice to:

- (a) the Commission;
- (b) each Stock Exchange; and
- (c) all NCC Participants.

### 3.2 Powers of the Company

3.2.1 The Company has such powers as are conferred on it by or under:

- (a) any law;
- (e) these Regulations;
- (c) the Procedures; and
- (d) any contract or arrangement with a Clearing Member, Settling Bank, Stock Exchange, CDC or any other person.

3.2.2 Unless the contrary intention appears, powers conferred on the Company by or under these Regulations and/or the Procedures shall be exercised in such manner as the Board may from time to time prescribe in this behalf.

3.2.3 If under any of these Regulations or the Procedures, the Company or the Board has power to make, issue Regulations, Procedures, specifications, determinations, schedules, conditions or restrictions on or in respect of admission to NCC Systems or other instruments (in this Regulation 3.2.3 called, collectively "instruments"), this power includes a power exercisable in the same manner and subject to the same conditions (if any) to repeal, rescind, revoke, amend or vary any of such instruments.

3.2.4 The Board may, subject to Regulation 3.2.5, exempt any person or group of persons from the

obligation to comply with a provision of these Regulations or the Procedures, either generally or in a particular case, and either unconditionally or subject to such conditions as the Board thinks fit.

- 3.2.5 The Board shall not exempt any person or group of persons under Regulation 3.2.4 from an obligation to comply with:
- (a) a Warranty and Indemnity Provision;
  - (b) a provision of this Chapter and of Chapter 8 (SECURITY DEPOSIT) except the provisions of Regulation 8.4.1, Chapter 13 (MONEY DEFAULT MANAGEMENT), Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY) and Chapter 23 (HEARING AND APPEAL PROCEDURES).
- 3.2.6 Failure to comply with a condition imposed under Regulation 3.2.4 is a contravention of that Regulation.
- 3.2.7 The Board may specify the period during which any exemption from an obligation to comply with a provision of these Regulations or of the Procedures will apply. If the Board:
- (a) does not specify a period, the period shall be 30 Business Days; or
  - (b) does specify a period, the period shall not exceed 30 Business Days,
- unless:
- (c) (i) the Company gives Notice to the Commission of a proposed extension of the period at least 5 Business Days before the expiry of the period; and
  - (ii) before the expiry of the period the Commission does not advise the Company that it has an objection to the extension of the period.
- 3.2.8 The Company shall set up and maintain a register for recording details of exemptions granted by the Board under Regulation 3.2.4.
- 3.2.9 If the Board exempts a person or group of persons from the obligation to comply with a provision of these Regulations or of the Procedures under Regulation 3.2.4, the Company shall enter the following details in the register maintained under Regulation 3.2.8:
- (a) the date that the exemption takes effect;
  - (b) the person or group of persons exempted from the obligation;
  - (c) the provision to which the exemption applies;
  - (d) brief reasons for the exemption;
  - (e) any condition that applies to the exemption; and
  - (f) description of exemption granted.

### **3.3 Exercise and delegation of functions and powers**

- 3.3.1 Unless the contrary intention appears, the Board shall exercise all the powers and functions of the Company under these Regulations and the Procedures.
- 3.3.2 Unless the contrary intention appears, the Board may delegate any of the Boards or the Company's powers and functions under these Regulations and/or the Procedures to:
- (a) the Chief Executive Officer; or
  - (b) any one or more other officers of the Company or any other person or persons.
- 3.3.3 Where the Board delegates any powers or functions in accordance with Regulation 3.3.2, the Board may authorise those delegates to sub-delegate any of the delegated powers.
- 3.3.4 A delegation of a power or function, or of a specified class of powers or functions, may be made either generally or as otherwise provided by the terms of delegation.
- 3.3.5 If any power or function is delegated:
- (a) performance or exercise by the delegate of the power or function shall be taken to be performance or exercise by the Company or the Board, as the case requires;
  - (b) the delegation shall not prevent the performance or exercise of the power or function by the Company or the Board, as the case requires; and
  - (c) where the performance or exercise depends upon the opinion, belief or state of mind of the Company or the Board, as the case requires, the power or function may be performed or exercised by the delegate upon the opinion, belief or state of mind of the delegate.

### **3.4 Binding effect of the Regulations and Procedures**

- 3.4.1 These Regulations (other than, except as provided in these Regulations, a Warranty and Indemnity Provision) and the Procedures shall have the effect of a contract between the Company and each NCC Participant under which:
- (a) each NCC Participant covenants with the Company to observe the Regulations and the Procedures, and to perform the obligations which the Regulations and the Procedures purport to impose on the Clearing Member, in the manner provided by the Regulations and the Procedures; and
  - (b) subject to Regulations 3.9 and 3.10, the Company covenants with each NCC Participant to observe the Regulations and the Procedures, and to perform the obligations which the Regulations and the Procedures purport to impose on the Company, in the manner provided by the Regulations and the Procedures.
- 3.4.2 The Company and the NCC Participant are not liable for failure to comply with a Regulation or any requirement of the Procedures (other than a Warranty and Indemnity Provision), if and to the extent to which, compliance has been delayed, interfered with, curtailed or prevented by the occurrence of an event of Force Majeure affecting the Company and or NCC Systems.

3.4.3 The Company shall not be liable to any NCC Participant or to any other person, company or other entity whatsoever which may have any rights under these Regulations or the Procedures for any failure or delay in the performance of its functions and obligations under these Regulations, the Procedures or under any applicable agreements or for any failure, break-down or suspension of NCC Systems if such failure, delay, break down or suspension is directly or indirectly attributable to the occurrence of an event of Force Majeure or any other events or circumstances or combination of events and circumstances beyond the reasonable control of the Company. Notwithstanding any other Regulation, this Regulation has the effect of a contract between the Company and all NCC Participants and all other persons, companies and entities which may have any rights under these Regulations, the Procedures or under any agreements entered into by them with the Company.

3.4.4 The Company Indemnity under Regulation 3.8 has the effect of a contract between the Company and each NCC Participant.

3.4.5 The NCC Participant Warranties and Indemnities under Regulation 5.9 and 7.2.7 have the effect of a contract between NCC Participant, the Company and every other NCC Participant.

### **3.5 Procedures**

3.5.1 The Board may make Procedures from time to time relating to the operations and functions of NCC Systems and implementations of these Regulations.

3.5.2 The Procedures shall have binding effect upon the NCC Participants.

3.5.3 If a Regulation requires a person to comply with any part of the Procedures, failure by the person to comply with that part of the Procedures is a contravention of these Regulations.

3.5.4 The Company shall have the right at any time to make such changes in the Procedures, including substituting the same, as it may deem necessary, provided that the Company shall give such Notice as is reasonable in the circumstances, being of not less than ten (10) Business Days, to NCC Participants prior to implementing changes in or substitution of the Procedures.

### **3.6 Fees, Charges and Security Deposit**

3.6.1 The Board shall, with the prior approval of the Commission, make a Fees, Charges and Security Deposit Schedule specifying (i) the fees and charges payable for facilities and services provided by the Company and the time by which, or period within which, the fees and charges must be paid, and (ii) the Security Deposit to be maintained by the NCC Participants with the Company. The Fees, Charges and Security Deposit Schedule as in force on the date of coming into force of these Regulations (as approved by the Commission) shall be deemed to have been made under this Regulation.

3.6.2 In consideration for the facilities and services provided to it by the Company, each NCC Participant shall pay fees and charges to the Company in accordance with the Fees, Charges and Security Deposit Schedule.

3.6.3 The Fees, Charges and Security Deposit Schedule may include fees and charges imposed to recover costs, damages and expenses incurred by the Company by reason of a failure by a NCC Participant to comply with these Regulations and/or the Procedures.

- 3.6.4 The Company shall have the right, with the prior approval of the Commission, at any time to make such changes in the Fees, Charges and Security Deposit Schedule as it may deem necessary, provided that the Company shall promptly notify the NCC Participant of any changes to the Fees, Charges and Security Deposit Schedule prior to implementing those changes.
- 3.6.5 A may be charged for any unusual expenses caused directly or indirectly by such NCC Participant including but without limitation, the cost of producing records pursuant to a court order or other legal process in any litigation or other legal proceeding to which such NCC Participant is a party or in which such records relating to such NCC Participant are so required to be produced, whether such production is required at the instance of such NCC Participant or of any other party other than the Company.

### **3.7 Designated Time Schedule**

- 3.7.1 The Board shall make a Designated Time Schedule specifying the Designated Times. The Designated Time Schedule as in force on the date of coming into force of these Regulations shall be deemed to have been made under this Regulation.
- 3.7.2 The Chief Executive Officer or any Officer of the Company designated by the Chief Executive Officer may relax the requirements of the Designated Time Schedule or grant extension in any Designated Time in an emergency or on a case to case basis.
- 3.7.3 The Board, or the Chief Executive Officer, where authorized by the Board, shall have the right at any time to make such amendment, modification, revision in/or substitution of the Designated Time Schedule as the Board, or the Chief Executive Officer, as the case may be, may deem necessary, provided that the Company shall promptly notify the NCC Participants, and the Settling Banks of any changes to the Designated Time Schedule prior to implementing those changes.

### **3.8 Company Indemnity**

- 3.8.1 The purpose of Regulations 3.8, 3.9 and 3.10 is to set out the circumstances in which the Company may become liable to compensate a NCC Participant or other person for loss arising out of any act or omission of the Company.
- 3.8.2 Subject to Regulations 3.8.8, 3.9 and 3.10, if:
- (a) the Company Transmits a Report or takes any action, as the case may be, in accordance with these Regulations and/or the Procedures, and the Report or action, as the case may be:
    - (i) has been Transmitted or taken, as the case may be, by mistake; or
    - (ii) the Report or action, as the case may be, contains a mistake, due to any wrongful act or omission on the part of or negligence of the Company; and
  - (b) the NCC Participant to whom or in respect of whom the Company:
    - (i) took the mistaken action suffers a loss because of the mistake; or

- (ii) Transmitted the mistaken Report and the NCC Participant relies upon the Report and suffers a loss because of the mistake,

the Company shall indemnify the NCC Participant for that loss, PROVIDED that the NCC Participant has filed his claim with the Company within seven (7) days of the occurrence of the mistaken action or Transmission of the mistaken Report by the Company, whereafter, (if the NCC Participant has not filed his claims with the Company within the said seven (7) days), the Company shall stand discharged of its obligations under this Regulation.

PROVIDED further that:

- (d) the amount of any compensation payable by the Company for that loss shall be reduced to the extent that the mistake was caused or contributed to by negligent conduct or omission, or contravention of these Regulation and/or of the Procedures and/or of any applicable agreements by the NCC Participant ; and
- (e) if the Company makes a payment to a NCC Participant in discharge of its liability to that person under this Regulation, the Company is subrogated to all rights which that person may have against any other person with respect to the matter which was the subject of the claim against the Company.

3.8.3 The indemnity contained in Regulation 3.8.2 does not apply if the mistaken information contained in a Report is derived from information supplied to the Company or another person by any NCC Participant, any Stock Exchange, Settling Bank or any third party.

3.8.4 The indemnities contained in this Regulation are not applicable to any losses, damages, costs or expenses suffered or incurred by any NCC Participant to the extent that such losses, damages, costs or expenses would have been avoided if the Clearing Member had acted reasonably in accordance with prudent practices.

3.8.5 If a provision of Regulation 3.8, 3.9 or 3.10 purports to exempt the Company from liability or to limit its liability, such provision is intended to operate to the full extent permissible by law, but is to be read subject to any qualification imposed by law.

3.8.6 Every exemption from or qualification of liability applicable to the Company in these Regulations shall also extend to protect every director, officer, employee or agent of the Company and any contractor engaged by the Company to perform services with respect to the NCC Systems.

3.8.7 Each NCC Participant and the Company acknowledges that the Commission shall not have any liability to any person in respect of any act or omission of the Company in connection with the NCC Systems and in respect of any aspect of the administration of the NCC System to the full extent permitted by law.

3.8.8 Subject to Regulations 3.8, Regulations 3.9 and 3.10, neither:

- (a) the Company;
- (b) an employee of the Company or any other person who is authorised to perform or exercise a function or power of, or on behalf of, the Company;

- (c) the members of the Board; nor
- (d) the Chief Executive Officer,

is liable to an action or other Proceeding for damages for or in relation to an act done or omitted in good faith in performance or purported performance of any function, or in exercise or purported exercise of any power, conferred or expressed to be conferred by or under these Regulations, the Procedure and/or any applicable agreement.

- 3.8.9 The amount payable by the Company in pursuance of its indemnity contained in Regulation 3.8.2 shall not exceed the market value of the Securities or any amount in respect of which the Company took the mistaken action or Transmitted the mistaken Report.

### **3.9 Specific exclusion of liability provisions**

- 3.9.1 Regulations 3.4, 3.8 and 3.10 are subject to this Regulation 3.9, which applies whether or not the Company is negligent or in willful default.
- 3.9.2 The Company is not liable to compensate any person for any losses, damages, costs or expenses suffered or incurred by him in consequence of a failure or refusal to admit a person as a NCC Participant under Chapter 5 and/or Chapter 7 as the case may be.
- 3.9.3 The Company is not liable to compensate any person for any losses, damages, costs or expenses suffered or incurred in consequence of the Company not declaring any Securities as eligible to be cleared and settled in NCSS and not declaring any Security as eligible for CFS MK-II Market.
- 3.9.4 The Company is not liable to compensate any person for losses, damages, costs or expenses suffered or incurred by him in consequence of:
- (a) suspension or revocation of the eligibility of any Security to be cleared and settled in NCSS;
  - (b) suspension or revocation of the CFS MK-II eligibility of any Security;
  - (c) any Appeal whether in accordance with these Regulations or not;
  - (d) any enforcement action taken by the Company in accordance with a determination of the Chief Executive Officer, the Disciplinary Tribunal or the Commission under Chapter 23 (HEARING AND APPEAL PROCEDURES); or
  - (e) any action to suspend, prohibit or limit a NCC Participant with respect to access to services offered by the Company in terms of these Regulations.
- 3.9.5 If the Company is obliged under these Regulations to notify a person of a matter and fails to do so, the Company is not liable to compensate any person other than the person to whom the notification should have been given.
- 3.9.6 If the Company is obliged under any Regulation and/or the Procedures and/or any applicable agreement to keep information confidential and the Company fails to do so, the Company is not liable to compensate any person other than the person who supplied the information to the

Company, or on whose behalf information was supplied.

- 3.9.7 The Company is not liable to compensate any person for losses, damages, costs or expenses suffered or incurred in consequence of any action taken under Chapter 8 (Security Deposit), Chapter 15 (WHEN THE COMPANY RESTRICTS, SUSPENDS OR TERMINATES ITS SERVICES TO A CLEARING MEMBER), Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY) and Chapter 24 (RELEASE OF CLEARING DATA).

### **3.10 Exclusion of other liabilities**

- 3.10.1 The Company is not liable to compensate, indemnify or pay any amounts to any NCC Participant for losses, damages, costs or expenses suffered or incurred in consequence of a contravention by the Company of, or failure by the Company to comply with, any provisions of these Regulations and/or the Procedures unless the contravention or failure is caused by wrongful act or omission on the part of or negligence of the Company.
- 3.10.2 The Company is not liable to compensate, indemnify or pay any amounts to any person other than a NCC Participant for losses, damages, costs or expenses suffered or incurred in consequence of wrongful act or omission on the part of or negligence of the Company except as provided in Regulation 3.8.

### **3.11 NCC Participant Indemnity**

If as consequence of any mistaken action or mistaken Report of the Company, any Securities are delivered to the Clearing Member or any amount is paid in to his settling account to which such NCC Participant is not entitled, the NCC Participant shall return the same to the Company by the End of Day on the next Business Day following the Business Day on which he came to know of such delivery or payment, provided that the NCC Participant shall be deemed to have come to know of such delivery or such payment by the End of Day on the second Business Day following the Business Day on which such delivery or payment was made. Provided further that where the Company has itself discovered making of such delivery or payment, as the case may be, the NCC Participant shall forthwith by the End of Day on the next Business Day following the Business Day on which the Company by Notice requires return of the said Securities or the said amount, as the case may be, return the same to the Company. If the NCC Participant does not return the Securities or the amount delivered or paid to him by mistake within the period(s) stipulated above in this Regulation, and, as a consequence, the Company becomes liable to pay any compensation and/or expenses to any other NCC Participant or NCC Participants, such non-compliant NCC Participant shall indemnify the Company for such compensation and/or expenses.

### **3.12 Intellectual property**

- 3.12.1 Subject to payment of fees and charges in accordance with the Fees, Charges and Security Deposit Schedule, the Company grants to each NCC Participant a non-exclusive, non-transferable license to use NCC Systems' Software to communicate with the NCC Systems to the extent and in the manner required or permitted by these Regulations and the Procedures.
- 3.12.2 Subject to the license granted in Regulation 3.12.1, the Company reserves all intellectual property rights it has or may have in relation to NCC Systems and NCC Systems' Software and also reserves any rights that it may have in relation to the confidentiality of information passing

into or out of, or held within NCC Systems.

- 3.12.3 To the fullest extent permitted under the law for the protection of the intellectual property rights referred to in Regulation 3.12.2, the Company prohibits each NCC Participant from:
- (a) attempting to alter or modify all or any part of NCC Systems' Software;
  - (b) attempting to recreate, reverse engineer or in any other way derive the source code or object code for all or any part of NCC Systems' Software;
  - (c) using or communicating with NCC Systems otherwise than as required or permitted by these Regulations and the Procedures; or
  - (d) allowing a person that is not an Authorised Person access to NCC Systems.

### **3.13 Dispute resolution between NCC Participants**

- 3.13.1 Any dispute between any NCC Participants in relation to matters arising under or regulated by these Regulations and/or the Procedures may be referred by any NCC Participant to the Chief Executive Officer for determination in accordance with Regulations 3.13.3 to 3.13.6.
- 3.13.2 The reference made to the Chief Executive Officer under Regulation 3.13.1 shall:
- (a) be accompanied by such payment to the Company as the Board may from time to time in this behalf determine;
  - (b) be made in writing together with the statement that the complaint is made pursuant to this Regulation 3.13; and
  - (c) must contain sufficient particulars for the Chief Executive Officer to form a view that prima facie the NCC Participant referring the dispute has suffered, or is likely to suffer, a loss as a result of contravention of these Regulations and/or the Procedures by another NCC Participant.
- 3.13.3 A dispute between NCC Participants may be referred to the Chief Executive Officer whether or not any NCC Participant is a Party to a Proceeding or Appeal in relation to the events which have given rise to the dispute.
- 3.13.4 Upon referral of a dispute, the Chief Executive Officer may inquire into all facts, matters and circumstances relevant to the dispute and for this purpose may take statements (orally or in writing) from persons, request documents or other evidence and generally conduct his inquiries and Proceedings for the resolution of the dispute as he thinks fit.
- 3.13.5 Except as required by law, no person (including the Chief Executive Officer) may use or disclose information, statements, documents or other evidence obtained by the person as a result of an inquiry of the Chief Executive Officer into a dispute, for any purpose other than resolution of that dispute.
- 3.13.6 Subject to the right of any person to have a dispute or any connected matter determined by a court or arbitration, the Chief Executive Officer may determine any dispute referred to him, and

the parties to the dispute shall accept and abide by the determination of the Chief Executive Officer.

3.13.7 For the purpose of this Regulation 3.13, the term Chief Executive Officer shall include a person designated by the Chief Executive Officer.

### **3.14 Complaints against the Company**

3.14.1 Subject to Regulations 3.8 to 3.10, if a NCC Participant has a complaint in relation to:

(a) any failure, complete or partial, or inefficiency in the performance of any function of the Company; or

(b) any contravention by the Company of its obligations under these Regulations,

such complaint may be referred to the Chief Executive Officer for determination in accordance with Regulation 3.14.3.

3.14.2 The reference made to the Chief Executive Officer under Regulation 3.14.1 shall be made in writing together with the statement that the complaint is made pursuant to this Regulation 3.14.1.

3.14.3 Upon referral of a complaint, the Chief Executive Officer may inquire or may authorise any person to inquire into all facts, matters and circumstances relevant to the complaint and take such action for the resolution of the complaint as he thinks appropriate in the circumstances.

3.14.4 Any NCC Participant aggrieved by the determination of the Chief Executive Officer under Regulation 3.14.3 may refer his complaint to the Board for determination. A request to the Board for determination must be in writing and filed by the NCC Participant with the Company Secretary of the Company within Seven (07) Business Days after receipt from the Company of the determination of the Chief Executive Officer under Regulation 3.14.3.

3.14.5 Upon referral of a complaint by a NCC Participant to the Board for determination under Regulation 3.14.4, the Board may authorise a committee of the Board to inquire into all facts, matters and circumstances relevant to the complaint in the light of the Chief Executive Officer's determination under Regulation 3.14.3, and the Board may take such action for the resolution of the complaint as it thinks fit.

3.14.6 A NCC Participant may file an Appeal against the decision of the Board under Regulation 3.14.5. The provisions of Regulations 23.4, 23.5 and 23.6 shall mutatis mutandis apply to such Appeal.

### **3.15 Reports available in NCC Systems**

Such Reports as may be prescribed from time to time in the Procedures may be Obtained from the Company by any NCC Participant.

## CHAPTER 4: COMMUNICATIONS IN THE NCC SYSTEMS

### 4.1 Communication by and between NCC Participants and NCC Systems

4.1.1 Each Clearing Member shall:

- (a) establish and maintain an interface with the NCC Systems; and
- (b) ensure that no person other than the NCC Participant itself or an Authorised Person has access to that interface with the NCC Systems.

4.1.2 A NCC Participant shall promptly give Notice to the Company if it or its Authorised Person:

- (a) is aware of any fact or matter; or
- (b) intends to take any action,

that may affect its capacity to communicate reliably with NCC Systems.

4.1.3 The Company shall promptly give Notice to a NCC Participant if the Company's ability to communicate with the NCC Participant through the NCC Participant's interface with NCC Systems is or may be impaired.

4.1.4 If a NCC Participant gives Notice to the Company under Regulation 4.1.2 or if the Company gives Notice to a NCC Participant under Regulation 4.1.3, the Company may take such steps as it considers necessary or desirable for the integrity or orderly operation of the NCC Systems, including giving advice or directions to the NCC Participant to:

- (a) restore communications; or
- (b) prevent or minimize impairment to communications,

between the Company and that NCC Participant, as the case requires.

4.1.5 If the Company gives advice or directions to a NCC Participant under Regulation 4.1.4, the NCC Participant shall observe and give effect to that advice or directions.

4.1.6 Communications between NCC Participants and NCC Systems shall be by electronic means.

4.1.7 Every NCC Participant shall file with the Company a list of its Authorized Persons together with, in case the NCC Participant is a body corporate, Board Resolutions or notarially attested Powers of Attorney pursuant which the appointment of such Authorised Persons was made.

### 4.2 Technical and Performance Requirements

4.2.1 A NCC Participant shall ensure at all times that:

- (a) it has the capacity to communicate reliably with the NCC Systems; and
- (b) it employs or retains such personnel familiar with these Regulations and the Procedures as are necessary to allow the NCC Participant to carry out its obligations in accordance

with these Regulations and the Procedures and to generate, receive and Obtain Reports in accordance with the Procedures.

- 4.2.2 The Company may give advice or directions to a NCC Participant in order to ensure that the NCC Participant meets or continues to meet the Technical and Performance Requirements.
- 4.2.3 A NCC Participant shall observe and give effect to any advice or directions given under Regulation 4.2.2.
- 4.2.4 Without limiting Regulation 4.2.2, the Company may on reasonable Notice require a NCC Participant to undertake additional testing of the NCC Participant's ability to meet the Technical and Performance Requirements if:
- (a) the Company reasonably believes that the number of erroneous Transmissions to, or electronic communications problems with, that NCC Participant warrants such action;
  - (b) the Company introduces new NCC Systems' Software or make any modification therein, that will affect that NCC Participant's ability to meet those Technical and Performance Requirements;
  - (c) the NCC Participant gives Notice to the Company under Regulation 4.1.2; or
  - (d) the NCC Participant fails to give Notice to the Company under Regulation 4.1.2 but the Company becomes aware that the NCC Participant has effected or proposes to effect:
    - (i) any change to its interface with NCC Systems; or
    - (ii) any changes to its computing environment that alters or may alter its capacity to communicate with NCC Systems.

### **4.3 Validation of Transmission**

- 4.3.1 The Company shall allocate an ID to each NCC Participant on admission to NCC Systems; and
- 4.3.1A The Company shall allocate a separate ID to each NCC Participant on his admission as a Debt Market Clearing Member.
- 4.3.2 A NCC Participant shall use the ID allocated to it pursuant to Regulations 4.3.1 and 4.3.1A in each Transmission made by it to identify the source of the Transmission.

### **4.4 Source of a Transmission on NCC Systems**

- 4.4.1 If a Transmission identifies the source of that Transmission:
- (a) as the Company by specifying the ID of the Company; or
  - (b) as a NCC Participant by specifying the ID of the NCC Participant,

that Transmission is taken for all purposes under these Regulations and/or the Procedures to have been made by the Company or that NCC Participant, as the case may be.

**4.5 Validation of trade/transaction data**

- 4.5.1 Any trade/transaction data received by NCC Systems from Stock Exchanges and/or from the Company with respect to CFS MK-II Contracts shall be treated as valid, subject to these Regulations and/or the Procedures.

## CHAPTER 5: APPLICATIONS FOR ADMISSION AND ADMISSION CRITERIA FOR NCSS PARTICIPANTS

### 5.1 Application for admission to the NCSS as Clearing Member

#### 5.1.1 Any:

- (a) member of a Stock Exchange;
- (b) banking company within the meaning of the Banking Companies Ordinance, 1962 (LVII of 1962) which has been allocated minimum short term credit rating of A3;
- (c) financial institution within the meaning of the Financial Institutions (Recovery of Finances) Ordinance, 2001 [No. XLVI of 2001] which has been allocated minimum short term credit rating of A3;
- (d) company, corporation or institution to which Section 3A of the Banking Companies Ordinance, 1962 (LVII of 1962) is applicable which has been allocated minimum short term credit rating of A3;
- (e) investment company registered with the Commission, and any investment advisor licensed by the Commission under The Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 which has been allocated minimum short term credit rating of A3 and any custodian appointed with the approval of the Commission pursuant to the said Rules which has been allocated minimum short term credit rating of A3;
- (f) asset management company licensed by the Commission under The Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, mutual fund of any kind constituted under the said Rules or any trustee appointed with the approval of the Commission pursuant to the said Rules which has been allocated minimum short term credit rating of A3, provided that in case of a mutual fund which has not been allocated minimum short term credit rating of A3, the said requirement as to credit rating of A3 shall be deemed to have been satisfied if the asset management company managing such mutual fund has been allocated minimum short term credit rating of A3, provided further that where such asset management company has not been allocated minimum short term credit rating of A3, this requirement shall be deemed to have been satisfied for a period of one year in the case of a new asset management company if the principal sponsor of the asset management company has been allocated minimum short term credit rating of A3; or
- (g) other person about which the Board is satisfied that it has a good financial standing, has the capability to satisfy the requirements of these Regulations and is otherwise a fit and proper person to be admitted a Clearing Member,

may apply to the Company for admission to NCSS as a Clearing Member, PROVIDED that the members of the Stock Exchanges and other persons, companies and entities who were admitted as Clearing Members pursuant to the 2001 NCSS Regulations shall continue to remain as Clearing Members as if admitted as Clearing Members under these Regulations, provided that such Clearing Members shall be required to comply with any additional or modified admission requirements as set out in these Regulations.

### 5.2 Admission as Clearing Member

- 5.2.1 The Company shall admit as a Clearing Member a person making an application pursuant to Regulations 5.1.1 and 5.3.1 if the Company is satisfied that:

- (a) the applicant has complied with the requirements of Regulation 5.3.1;
- (b) the applicant has supplied additional information required by the Company pursuant to Regulation 5.3.2;
- (c) the Company is satisfied with any information obtained in pursuance of Regulations 5.3.1, 5.3.2 and 5.3.3;
- (d) the applicant meets the Technical and Performance Requirements of Regulation 4.2 and of this Chapter;
- (e) the applicant meets the business integrity requirements of this Chapter;
- (f) the applicant meets the capacity requirements of this Chapter;
- (g) the Company has the data processing capacity and operational capabilities to provide service to additional Clearing Member without endangering or impairing the integrity of NCSS or its orderly functioning.
- (h) the applicant meets the financial requirements of these Regulations.
- (i) the applicant is a Participant or an Account Holder of CDC, or in the case of an applicant for admission as a Debt Market Clearing Member, the applicant is a Participant or an Account Holder of CDC having such Accounts, including Sub-accounts under his control, with CDC as are required to be maintained or controlled by a Debt Market Clearing Member under the relevant regulations of the relevant Stock Exchange and under the CDC Regulations regulating the receiving, holding and making delivery of the Debt Market Securities delivered to him pursuant to Debt Market trades as the case may be.
- (j) all Stock Exchanges in the case of an applicant who is not a member of a Stock Exchange and the relevant Stock Exchange(s) in the case of an applicant who is a member of such Stock Exchange(s) have no objection to the admission of the applicant as a Clearing Member; and
- (k) the applicant, being not a member of any Stock Exchange, is acceptable to the Board.

### **5.3 Requirements for applications for admission to the NCSS**

#### **5.3.1 Any application for admission to NCSS as a Clearing Member shall:**

- (a) be in the most current version of the Admission Form in which shall be filled-up all the information required to be set out therein;
- (b) be accompanied by the relevant application fee and Security Deposit as specified in the Fees, Charges and Security Deposit Schedule;
- (c) contain a covenant by the applicant that if his application is accepted the applicant shall enter into a Clearing Member Agreement and a Tripartite Agreement;
- (d) be executed by or on behalf of the applicant and shall be delivered to the Company; and

- (e) complies with any further requirements of these Regulations and Procedures.
- 5.3.2 The Company may by Notice require an applicant for admission to NCSS as a Clearing Member to provide the Company with any additional information in relation to the application which the Company thinks necessary for the consideration of the application.
- 5.3.3 The Company may seek information from persons other than the applicant to the extent that the Company thinks necessary in considering whether to grant admission to NCSS to the applicant.
- 5.3.4 Subject to any need to disclose information in order to seek other information under Regulation 5.3.3, or unless disclosure is required by law, the Company shall maintain the confidentiality of each application and information contained in or supplied in connection with an application.

#### **5.4 Technical and Performance Requirements**

- 5.4.1 The technical requirements of this Chapter are that, to the reasonable satisfaction of the Company:
  - (a) as determined during Pre-commencement Testing, the applicant has the capacity to communicate reliably with NCSS; and
  - (b) the applicant has the operational capabilities to the extent envisaged in these Regulations, in the Procedures and in the user manual prescribed by the Company.
- 5.4.2 The performance requirements of this Chapter are that, to the reasonable satisfaction of the Company, the applicant employs or retains such personnel familiar with these Regulations and the Procedures as are necessary to allow the applicant to carry out its obligations in accordance with these Regulations and the Procedures.

#### **5.5 Capacity requirements**

- 5.5.1 The capacity requirements of this Chapter are:
  - (a) for an applicant which is a company or other body corporate, that:
    - (i) if the applicant is a company, the applicant is not in receivership, court-appointed managership or under winding-up/liquidation; or
    - (ii) if the applicant is a body corporate other than a company, the applicant is not under any equivalent form of administration or winding-up/liquidation; and
  - (b) for an applicant which is an individual, that:
    - (i) the applicant is not a minor;
    - (ii) the applicant is not of unsound mind;
    - (iii) the applicant has not applied to be adjudicated as an insolvent or has suspended payment or has compounded with his creditors; or
    - (iv) the applicant is not an undischarged insolvent.

#### **5.6 Business integrity requirements**

- 5.6.1 The business integrity requirements of this Chapter are:
  - (a) for an applicant which is a company or other body corporate, that:

- (i) any Chief Executive, directors or other officers of the applicant have not, at any time within 5 years before making an application for admission to the NCSS, been convicted of an offence under any law in connection with business, professional or commercial activities;
  - (ii) being a member of a Stock Exchange, the applicant was never declared as a defaulter by that Stock Exchange or by any other Stock Exchange of which the applicant was a member; and
  - (iii) the Company has no reason to believe that the applicant will not carry out its obligations in connection with the NCSS efficiently, honestly and fairly; and
- (b) for an applicant which is an individual, that:
- (i) the applicant has not, within 5 years before making an application for admission to the NCSS, been convicted of an offence under any law in connection with business, professional or commercial activities;
  - (ii) the applicant has not, within 5 years before making an application for admission to the NCSS served any sentence of imprisonment following such a conviction;
  - (iii) being a member of a Stock Exchange, the applicant was never declared as a defaulter by that Stock Exchange or by any other Stock Exchange of which the applicant was a member;
  - (iv) the Company has no reason to believe that the applicant is not of high business integrity; and
  - (v) the Company has no reason to believe that the applicant will not carry out his or her obligations in connection with the NCSS efficiently, honestly and fairly.

## **5.7 Execution of Clearing Member Agreement and Tripartite Agreement**

5.7.1 An applicant shall, as a pre-condition to admission to the NCSS in the capacity of a Clearing Member pursuant to Regulation 5.2.1, enter into a Clearing Member Agreement and Tripartite Agreement.

5.7.2 Regulation 5.2.1 is subject to Regulation 5.7.1.

## **5.8 Non-acceptance of an application**

5.8.1 The Company shall not reject an application made under Regulation 5.2.1, unless the Company:

- (a) gives Notice to the applicant of the reasons why it proposes to reject the application;
- (b) affords the applicant a period of 10 Business Days after giving the Notice (or such longer period as the applicant reasonably requires) in which to provide further information or otherwise take steps to address the reasons stated in the Notice; and
- (c) after the end of that period, considers whether any further information provided or steps taken by the applicant address the reasons in the Notice.

- 5.8.2 If, after following the procedure in Regulation 5.8.1, the Company is not satisfied that the applicant meets the requirements set out in Regulations 5.2.1 and 5.3.1, the Company may give Notice to the applicant rejecting the application and giving reasons why the application is rejected.
- 5.8.3 An applicant may request for a hearing under CHAPTER 23 (HEARING AND APPEAL PROCEDURES) in accordance with that Chapter if the Company rejects his application under Regulation 5.8.2.
- 5.8.4 Notwithstanding anything contained in Regulations 5.8.1 to 5.8.3, if the Company rejects an application on the basis that the Company does not have the data processing capacity or operational capabilities to provide services to additional Clearing Members it shall give Notice of such decision to the applicant which shall be final and binding upon the applicant and shall not form the subject of a hearing pursuant to Regulation 5.8.3.
- 5.8.5 If at any time subsequent to the service of the Notice referred to in Regulation 5.8.4 the Company forms the opinion that the Company has acquired the data processing capacity and operational capabilities to provide the requested services to an applicant on whom the Notice was served, the Company shall entertain the applicant's application in the order in which it served similar Notices to other applicants rejecting their applications for similar reasons.

## **5.9 Clearing Member Warranties and Indemnities**

- 5.9.1 A Clearing Member supplying any information to the Company in pursuance of any obligation of the Clearing Member under these Regulations and the Procedures, shall:
- (a) be deemed to have warranted to the Company that the information supplied is true and correct; and
  - (b) indemnify the Company if any losses, damages, costs or expenses are suffered or incurred by the Company as a result of any inaccuracy contained in the information supplied by the Clearing Member.

## **5.10 Eligible Criteria for Admission as Settling Bank**

- 5.10.1 The Company may admit a bank as a Settling Bank if:
- (a) (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, and
  - (ii) it has been allocated minimum short-term credit rating of A3;
  - (b) It has designated bank branches (“Designated Branches”) having physical presence in the premises or building in which Stock Exchange(s) are located or in the vicinity of Stock Exchange(s);
  - (c) It has designated a bank branch located in Karachi and acceptable to the Company as its main contact branch;

- (d) It is capable of maintaining online linkage with NCSS; and
- (e) It has signed or agree to sign with the Company an agreement (“Settling Bank Agreement”) in the form prescribed by the Company whereby it undertakes to perform money settlement services for the benefit of the Company and those Clearing Members who become customers of the Designated Branch(es) and have entered into Tripartite Agreements with the Company and such Clearing Members.

Provided that the banks admitted as Settling Banks pursuant to NCSS Procedures 2001 and NCSS Procedures 2003 prior to the insertion of this Regulation in these Regulations shall continue to remain as Settling Banks as if admitted as Settling Banks under these Regulations provided that such Settling Banks shall have minimum short-term credit rating of “A3” and that such Settling Banks shall comply with any additional or modified admission requirements as are presently or in future set out in these Regulations.

## **CHAPTER 6: ESTABLISHMENT AND MAINTENANCE OF CLEARING ACCOUNTS & MONEY ACCOUNTS**

### **6.1 Establishment of Clearing & Money Accounts**

- 6.1.1 Forthwith upon admitting a person as a Clearing Member pursuant to Regulation 5.2, the Company shall establish a Clearing Account and a Money Account in the name of such Clearing Member in NCSS.
- 6.1.1A Forthwith upon admitting a Clearing Member as a CFS Financier Clearing Member, the Company shall establish a separate Clearing Account and a separate Money Account in the name of such CFS Financier Clearing Member in NCSS in connection with his CFS transactions.
- 6.1.1B Forthwith upon admitting a Clearing Member as a Debt Market Clearing Member, the Company shall establish a separate Clearing Account and a separate Money Account in the name of such Debt Market Clearing Member in NCSS in connection with his Debt market trades.
- 6.1.2 The Clearing Account of a Clearing Member shall bear such Registration Details and other information as are supplied by the Clearing Member in the Admission Form referred to in Regulation 5.3.1(a) and/or obtained from CDC under the authority of the Clearing Member. Every Clearing Member shall ensure that the Registration Details and other information supplied to the Company as above referred are correct and complete in every respect and shall be responsible for any and all inaccuracies and/or inadequacy in such Registration Details and other information
- 6.1.3 If at any time a change occurs in the Registration Details and other information supplied by a Clearing Member to the Company and/or obtained by the Company from CDC as above mentioned, the Clearing Member shall notify such change to the Company forthwith.

### **6.2 Board to prescribe Registration Details**

- 6.2.1 The Board shall from time to time prescribe any additional Registration Details as may be necessary to facilitate the smooth functioning of the NCSS.
- 6.2.2 Where any additional Registration Details are prescribed pursuant to Regulation 6.2.1:
- (a) the Company shall give prompt Notice of same to all Clearing Members; and
  - (b) all Clearing Members shall promptly furnish such additional Registration Details to the Company.

**CHAPTER 7****CONTINUOUS FUNDING SYSTEM MK-II****7.1. Definitions**

## 7.1.1 Definitions

When used in this Chapter of these Regulations and, where applicable, in the Procedures, the following expressions shall, unless the context requires otherwise, have the meanings herein specified below:

Accelerated Maturity Date	means, in respect of CFS Mk-II Contract, any Business Day prior to the Maturity Date on which a Finanee initiates the release of a CFS Mk-II (R) Transaction.
Application Form	means the most current version of an application form prescribed and made available by the Company from time to time, for admission of a Clearing Member as an Authorised Financier in the CFS Mk-II Market under these Regulations.
Applicant	means a Clearing Member who has applied to the Company for admission as an Authorised Financier.
Authorised Financier	means a Clearing Member, who meets the eligibility criteria as stipulated in these Regulations and has been admitted by the Company as an Authorised Financier under this Chapter of these Regulations.
Authorised Financier Clearing Member Agreement	means an agreement setting out the terms relating to the CFS Mk-II financing, in the form prescribed by the Company from time to time, entered into by a Clearing Member and Company as a pre-condition to admission of that Clearing Member as an Authorised Financier.
Available Commitment	means an Authorised Financier's Financing Commitment minus the aggregate CFS Mk-II Transaction Value of the outstanding CFS Mk-II Contracts of such Authorised Financier.
Bank Guarantees	(a) means a bank guarantee deposited by CFS MK-II Participants, in the form prescribed by the Company, in order to fulfill their Collateral requirements against their exposure margins, Mark-To-Market Losses and where applicable Special Margins, 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.  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. Provided that, where bank has been allocated minimum credit rating of A the amount of such Bank Guarantee per NCC Participant is limited upto Rs. 400 million, whereas, in case of AA and above credit rated bank the amount of such Bank Guarantee per NCC Participant is limited upto Rs. 1 billion; and
- iii) it has a bank branch located in Karachi which is acceptable to the Company as such bank's main contact branch;

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 CFS MK II Participants.

Bid	means a quotation displayed on the CFS Mk-II Portal by a Finneece for sale of CFS Mk-II Eligible Securities in the CFS Mk-II Market.
Broker Authorised Financier	means a Broker Clearing Member of the NCSS who has been admitted as a Broker Authorised Financier by the Company under these Regulations.
Broker Code	means the broker code allocated to each Broker Clearing Member by the respective Stock Exchange.
CFS Mk-II Contract	means a combination of a CFS Mk-II Transaction and a CFS Mk-II (R) Transaction, wherein the CFS Mk-II (R) Transaction shall be released on the Maturity Date automatically or on the Accelerated Maturity Date at the initiation of the Finneece.
CFS Mk-II Contract Price	means the product of applicable rate of return specified in the Bid, the CFS Mk-II Transaction Value and CFS Mk-II Contract Period.
CFS Mk-II Contract Period	means the period lapsed from (and including) the date on which an Offer or Bid is matched until and including the Maturity Date or Accelerated Maturity Date as the case may be.  <i>Explanation:</i> if the Accelerated Maturity Date is same as the date of matching of the Offer and Bid, the CFS Mk-II Contract Period shall be one day.
CFS Mk-II Eligible Securities	means the securities declared by the Company as such pursuant to Regulation 7.3.1 ( <i>Eligibility Declaration</i> ).
CFS Mk-II Facilitation Agent	means the Company acting as a common agent of the CFS Mk-II Participants and in such capacity appearing as the counter-party on CFS Mk-II Portal to the Authorized Financiers and Finneeces in

each CFS Mk-II Transaction and CFS Mk-II (R) Transaction.

CFS Mk-II Financed Securities	means the CFS Mk-II Eligible Securities financed by an Authorised Financier pursuant to a CFS Mk-II Transaction.
CFS Mk-II ID	means the code allocated by the Company to an Authorised Financier.
CFS Mk-II Market	means the market for offering and availing financing in respect of CFS Mk-II Eligible Securities through CFS Mk-II Transactions and incidental transactions thereof, pursuant to this Chapter of these Regulations.
CFS Mk-II Participant	means an Authorized Financier or Finantee as the case may be.
CFS Mk-II Portal	means an automated portal provided by the Company to CFS Mk-II Participants for the purpose of the CFS Mk-II Market and accessible through their interface with computer system forming part of the NCSS.
CFS Mk-II Protection Fund	means a fund established under this Chapter of these Regulations.
CFS Mk-II Software	means all systems and application programmes relevant to the operation of the CFS Mk-II including all computer software maintained and used by the Company for the purposes of the CFS Mk-II System (other than software used by a CFS Mk-II Participant to communicate with the Company in relation to the CFS Mk-II System).
CFS Mk-II System	means the continuous funding system by way of CFS Mk-II Transactions and other incidental transactions implemented by CFS Mk-II Facilitation Agent pursuant to and governed by these Regulations.
CFS Mk-II Transaction	means a transaction which is effected on the CFS Mk-II Portal provided by the Company to the CFS Mk-II Participants for the purpose of offering financing in the CFS Mk-II Market and is received in the NCSS as a locked-in contract for clearing and settlement through the NCSS.
CFS Mk-II (R) Transaction	means a release transaction for the sale on the Maturity Date or Accelerated Maturity Date of CFS Mk-II Financed Securities by the Authorised Financier to the Finantee.
CFS Mk-II Transaction Value	means the amount of financing involved in CFS Mk-II Transaction
Finantee	means a Broker Clearing Member of the Company, who enter

into CFS MK-II Transaction (s).

Financing Commitment	means the amount referred to in Regulation 7.5.1 ( <i>Financing Commitment</i> ) to the extent not cancelled or reduced under these Regulations;
Go-Live Date	means a date notified by the Company with the prior written approval of the Commission for commencement of the CFS Mk-II System in respect of a Stock –Exchange.
Haircut	means the percentage rates on which the Margin Eligible Securities are discounted for valuation purpose based on their liquidity and volatility.
Impact Cost	means the impact cost calculated in accordance with the Procedures as calculated by the RiskMeter®.
Irrevocable Undertakings	<p>means Irrevocable Undertakings in the form prescribed by the Company deposited by CFS MK II Participants 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 Authorized Financier:</p> <ol style="list-style-type: none"> <li>a) Non-Broker Authorized Financiers as are banks/development financial institutions (“DFIs”) having minimum credit rating of AA; and</li> <li>b) Any other public sector entity, controlled by the Government of Pakistan, approved by the Board from time to time.</li> </ol>
KIBOR	means the daily average of one-month Karachi Interbank Offered Rate (Ask Side) as published on Reuters page KIBR or as published by the Financial Markets Association of Pakistan in case the Reuters page is unavailable.
Margin Eligible Securities	<p>means securities declared acceptable as Collateral, on the basis of criteria approved by the Board, with prior approval of the Commission.</p> <p>Provided that where a CFS MK-II Participant is a listed company and its issued securities fall under the eligibility criteria set out in these Regulations, such CFS MK-II Participant shall not be allowed to deposit its own issued securities as Collateral to secure its exposure margins.</p> <p>A list of companies, the securities of which shall be eligible for deposit with the Company as Collateral, shall be prepared by the Company and shall be reviewed by the Company after six month.</p>

Maturity Date	means, in respect of CFS Mk-II Contract, the twenty-third (23 <sup>rd</sup> ) Business Day on which day the NCSS will automatically initiate a CFS Mk-II (R) Transaction before the opening of business, which shall be settled in accordance with NCCS Procedures
Non-Broker Authorised Financier	means a non-broker Clearing Member of the NCSS who has been granted the status of a Non-Broker Authorised Financier by the Company under these Regulations.
Offer	means a quotation displayed on CFS Mk-II Portal by an Authorised Financier for purchase of CFS Mk-II Eligible Securities in the CFS Mk-II Market.
RiskMeter	means a computer application developed by National Commodity Exchange Limited for calculation of VaR margins.
Security Deposit	means the security deposit to be maintained by an Authorised Financier with the Company under these Regulations.
Special Margins	means the margins as prescribed under Regulation 7.7.6 ( <i>Special Margins required from the Financeses</i> ) of these Regulations.
Spot Period	means the trading periods prior to the commencement of book closure date, as notified by the stock exchange(s) from time to time.

## 7.2. Applications for Admission and Admission Criteria for CFS Mk-II Participants

### 7.2.1 Eligibility Criteria for an Authorized Financier

The following categories of Clearing Members will be eligible to apply to the Company for admission as Authorised Financiers:

1. a member of a Stock Exchange ;
2. a banking company within the meaning of the Banking Companies Ordinance, 1962 (LVII of 1962) and which has been allocated minimum short-term credit rating of A3;
3. a company, corporation or institution to which Section 3A of the Banking Companies Ordinance, 1962 (LVII of 1962) is applicable and which has been allocated minimum short-term credit rating of A3;
4. an investment company and a closed-end scheme registered with the Commission under the NBFC Rules having a minimum fund performance ranking of MFR 3-Star, and being managed by an investment adviser licensed by the Commission under the NBFC Rules, which has been allocated minimum management quality rating of AM3 minus;
5. an open-ended scheme of any kind constituted under the NBFC Rules having a minimum fund performance ranking of MFR 3-Star and being managed by an asset management company licensed by the Commission under the NBFC Rules having a minimum management quality rating of AM3 minus, provided that in case of an open-ended scheme which has not been allocated fund performance ranking of MFR 3-Star, the said requirement as to minimum rating

shall be deemed to have been satisfied if the asset management company managing such open-ended scheme has been allocated minimum management quality rating of AM3 minus, provided further that where a new asset management company has not been allocated such aforementioned rating, this requirement shall be deemed to have been satisfied for a period of one year if the principal sponsor of the asset management company has been allocated minimum short-term credit rating of A3;

6. any other person about which the Board (subject to final approval by the Commission) is satisfied that it has a good financial standing, has the capability to satisfy the requirements of these Regulations and is otherwise a fit and proper person to be admitted as an Authorised Financier.

#### 7.2.2 Admission of an Authorised Financier

The Company may admit an Applicant as an Authorized Financier by a written notice issued to such Applicant, if the Company is satisfied that such Applicant:

1. has made an application for admission by submitting a completely filled Application Form accompanied by the documents required by the Application Form;
2. satisfies the criteria laid down in Regulation 7.2.1;
3. has deposited, if such Applicant is not a Broker Clearing Member, a Security Deposit of Rs.1,000,000 in the bank account designated by the Company for such purpose;
4. has submitted an Authorised Financier Clearing Member Agreement appropriately stamped and duly executed by the authorised representative(s) of such Applicant;
5. has complied with all the technical requirements specified by the Company from time to time under these Regulations.
6.
  - (a) where such Applicant is a company, is not in receivership, court-appointed managership or under winding-up or liquidation; or
  - (b) where such Applicant is a body corporate other than a company, is not under any equivalent form of administration, winding-up or liquidation; and
  - (c) where such Applicant is an individual,:
    - (i) the Applicant is not a minor;
    - (ii) the Applicant is not of unsound mind;
    - (iii) the Applicant has not applied to be adjudicated as an insolvent or has suspended payment or has compounded with his creditors; or
    - (v) the Applicant is not an undischarged insolvent.

#### 7.2.3 Non-acceptance of an application

1. The Company shall not reject an application made under Regulation 7.2.2, unless the

Company:

- (a) gives Notice to the Applicant of the reasons why it proposes to reject the application;
  - (b) affords the Applicant a period of 10 Business Days after giving the Notice (or such longer period as the Applicant reasonably requires) in which to provide further information or otherwise take steps to address the reasons stated in the Notice; and
  - (c) after the end of that period, considers whether any further information provided or steps taken by the Applicant address the reasons in the Notice.
2. If, after following the procedure in paragraph 1 above, the Company is not satisfied that the applicant meets the requirements set out in Regulations 7.2.1 and 7.3.2, the Company may give Notice to the Applicant rejecting the application and giving reasons why the application is rejected.
  3. An Applicant may request for a hearing under CHAPTER 23 (HEARING AND APPEAL PROCEDURES) in accordance with that Chapter if the Company rejects his Application under paragraph 2 above.

#### 7.2.4 Existing CFS Financier Clearing Members

1. With effect from the Go-Live Date for Karachi Stock Exchange (Guarantee) Limited all existing Non-Broker CFS Financier Clearing Members shall become Non-Broker Authorized Financiers. Each such Non-Broker CFS Financier Clearing Member shall execute an addendum (in the form specified by the Company) to its respective CFS Financier Clearing Member Agreement on or before the aforesaid Go-Live Date.
2. With effect from the Go-Live Date for each Stock Exchange, all existing Broker CFS Financier Clearing Members, who are members of such Stock Exchange, shall become Broker Authorized Financiers. Each such Broker CFS Financier Clearing Member shall execute a supplemental agreement (in the form specified by the Company) to their respective CFS Financier Clearing Member Agreement on or before the aforesaid Go-Live Date.

#### 7.2.5 Annual Fee

Each Non-Broker Authorised Financier shall pay an annual fee of Rs. 1,000,000 to the Company before the commencement of each calendar year. The payment shall be made in such account as may be designated by the Company for such purpose from time to time.

#### 7.2.6 Eligible Finances for CFS Mk-II

All Broker Clearing Members shall be eligible Finances in the CFS Mk-II Market, provided that the Company is satisfied that each such Broker Clearing Member:

1. holds a valid membership under the respective regulations, rules and procedures governing their admission to the relevant stock exchange(s);
2. no action, which might materially and adversely affect such Broker Clearing Member's

membership, is pending in any court or has been initiated by the concerned stock exchange(s) or the Commission against such Broker Clearing Member;

3. is not in breach of these Regulations, any law or other regulations applicable to such Broker Clearing Member; and
4. has submitted a Finanee Agreement appropriately stamped and duly executed by its authorised representative(s).

#### 7.2.7 Suspension or Termination of CFS Mk II Participant

In the event that a CFS Mk-II Participant is suspended or terminated as a Clearing Member pursuant to these Regulations, such CFS Mk-II Participant shall also stand suspended or terminated as CFS Mk-II Participant automatically without any further action being taken on the part of the Company. The stock exchange membership of such CFS Mk-II Participant, if any, shall also be suspended or terminated, as the case may be, by the relevant stock exchange and CDC shall suspend such CFS Mk-II Participant's access to its accounts in the CDS.

#### 7.2.8 CFS Mk-II Participant's Warranties and Indemnities

A CFS Mk-II Participant supplying any information to the Company in pursuance of any obligation of the CFS Mk-II Participant under these Regulations and the Procedures, shall:

- (a) be deemed to have warranted to the Company that the information supplied is true and correct; and
- (b) indemnify the Company if any losses, damages, costs or expenses are suffered or incurred by the Company as a result of any inaccuracy contained in the information supplied by the CFS Mk-II Participant.

### 7.3. CFS Mk-II Eligible Securities

#### 7.3.1 Eligibility Declaration

The Company shall select the securities that are eligible to be declared as CFS Mk-II Eligible Securities for the purpose of CFS Mk-II Market in accordance with the eligibility criteria described in Regulation 7.3.2. The list of the securities so selected shall be sent by the Company to the Commission for its approval. Upon receipt of the Commission's approval, such securities shall be declared by the Company as CFS Mk-II Eligible Securities.

#### 7.3.2 Eligibility Criteria

Eligibility criteria of CFS Mk-II Eligible Security, shall be prescribed by the Company and approved by the Commission from time to time. Such eligibility criteria shall become part of the CFS MKII Procedures.

#### 7.3.3 Eligibility Review

This list of CFS Mk-II Eligible Securities will be reviewed by the Company every six months and

such review shall be undertaken before the end of such duration. In consequence of any additions and/or deletions to the existing list, the Company will give at least 30 days prior notice to the CFS Mk-II Participants for introduction of incoming and phasing out of outgoing CFS Mk-II Eligible Securities. After expiry of the said notice period, CFS Mk II positions in the outgoing securities shall be frozen and will be available only for release for the purposes of settlement or squaring-up. Any CFS Mk-II Contract relating to outgoing securities shall not be rolled over and any unreleased position on the expiry of notice period shall be forced released on its respective maturity of 22 working days.

#### 7.4. CFS Mk-II Contracts and Settlement

##### 7.4.1 CFS Mk-II Portal

CFS Mk-II Portal will be made available by the Company to all CFS Mk-II Participants.

##### 7.4.2 Undisclosed Trading

All CFS Mk-II Contracts shall be facilitated by the Company by acting as CFS Mk-II Facilitation Agent for the respective CFS Mk-II Participants, which are underlying parties to a CFS Mk-II Contract. CFS Mk-II Participants will not be able to access the identity of the underlying counterparty to any of the CFS Mk-II Contracts.

##### 7.4.3 Procedure

1. All Offers and Bids for the CFS Mk-II Transactions will be displayed directly on the CFS Mk-II Portal.
2. An Offer shall specify the following:
  - (i) CFS Mk-II Eligible Securities that the Authorized Financier intends to finance;
  - (ii) The applicable rate of return;
  - (iii) CFS Mk-II ID of the Authorized Financier;
  - (iv) UIN Details filled in the UIN Registration Screen of NCSS; and
  - (v) Broker Code of any Broker Clearing Member, if the Offer is made by a Non-Broker Authorized Financier.

Provided that the information relating to (iii), (iv) and (v) above shall not be displayed to the CFS Mk-II Participants

3. A Bid shall specify the following:
  - (i) CFS Mk-II Eligible Securities that the Finantee intends to sell;
  - (ii) The applicable rate of return;
  - (iii) Trader ID of the Finantee; and
  - (iv) UIN Details filled in the UIN Registration Screen of NCSS

Provided that Non-Broker Authorized Financier shall only be allowed to carry out proprietary transactions

4. Subject to verification pursuant to Regulation 7.4.9 (*Pre-trade Verification*), execution of a CFS Mk-II Transaction will be confirmed when an Offer is matched with a Bid or *vice*

*versa*. Once confirmed, a CFS Mk-II Transaction shall be irrevocable except as provided in these Regulations and simultaneously a CFS Mk-II (R) Transaction shall be generated by the NCSS.

5. Immediately upon execution of a CFS Mk-II Transaction and generation of a CFS Mk-II (R) Transaction, the Company shall, as CFS Mk-II Facilitation Agent, assume the position of an Authorized Financier with every Finanee and a Finanee to every Authorized Financier on the terms of the respective Offers and Bids.

#### 7.4.4 Revocation of Offers and Bids

CFS Mk-II Participants will be allowed to modify or cancel any Offers or Bids placed by them respectively in the CFS Mk-II Market before the same are matched and executed.

#### 7.4.5 Settlement of CFS Mk-II Transactions

Each CFS Mk-II Transaction and CFS Mk-II (R) Transaction shall be settled in the NCSS in accordance with these Regulations and the Procedures.

#### 7.4.6 Settlement on Maturity Date

On the Maturity Date, a CFS Mk-II (R) Transaction shall be settled in the NCSS in accordance with these Regulations and the Procedures.

#### 7.4.7 Settlement on Accelerated Maturity Date

A Finanee may initiate a CFS Mk-II (R) Transaction on an Accelerated Maturity Date and the same shall be settled in the NCSS in accordance with these Regulations and the Procedures on such Accelerated Maturity Date.

#### 7.4.8 Irrevocability of CFS Mk-II (R) Transactions

Neither the Finanee nor the Authorised Financier will be allowed to modify and/or cancel any part of a CFS Mk-II (R) Transaction.

#### 7.4.9 Pre-Trade Verification

The matching of a Bid with an Offer, shall be subject to the condition that the Finanee making such Bid has an underlying long position in the Ready market at that time of that day. Provided, however, that the requirement for having such an underlying long position in the Ready market shall not be applicable where such CFS Mk-II Contract is solely for the purpose of rolling-over of an existing CFS Mk-II Contract and relates to the CFS Mk-II Financed Securities forming subject-matter of such CFS Mk-II Contract or the balance of such CFS Mk-II Financed Securities for which the CFS Mk-II Contract is being rolled over.

#### 7.4.10 Settlement Mechanism

The CFS Mk-II Transactions and CFS Mk-II (R) Transactions shall be settled under Balance Order System as prescribed in these Regulations and the Procedures as follows:

- (i) in the case of CFS Mk-II Transaction, the Authorised Financier shall be obliged to pay the

CFS Mk-II Transaction Value and the Financee shall be obliged to deliver the CFS Mk-II Financed Securities;

- (ii) in the case of CFS Mk-II (R) Transaction, the Financee shall be obliged to pay the CFS Mk II Contract Price and the Authorised Financier shall be obliged to deliver the CFS Mk II Financed Securities.

#### 7.4.11 Roll Over

Roll-over in CFS Mk-II Contract shall be allowed in the following circumstances:

- I. Release of a CFS MK-II Contract by Financee on Accelerated Maturity Date; and
- II. Release of a CFS MK-II Contract on its Maturity Date;

Provided that during the Spot Period, CFS MK-II Participants shall not be allowed to enter into CFS MK-II Contract.

#### 7.4.12 Functions of the Company

The Company shall act as the CFS Mk-II Facilitation Agent for settlement of the CFS Mk-II Contracts between the CFS Mk-II Participants and for delivering securities to and receiving securities from and for receiving or paying any amounts payable to or payable by such CFS Mk-II Participants in connection with any of the CFS Mk-II Contracts and to do all things necessary or proper for carrying out the foregoing purposes in accordance with these Regulations without incurring any liability or obligations as principal.

#### 7.4.13 Liability of Company

The Company shall not be deemed to guarantee the title, ownership, genuineness, regularity or validity of any security or any other documents or instrument passing through the NCSS and the only obligation of the Company with regard to the settlement of the CFS Mk-II Contracts shall be to facilitate the delivery and payment in respect of the CFS Mk-II Contracts between the CFS Mk-II Participants in accordance with these Regulations.

#### 7.4.14 Liability of the CFS Mk-II Participants

All outstanding CFS Mk-II Transactions and CFS Mk-II (R) Transactions shall be binding upon the CFS Mk-II Participants until settled in accordance with these Regulations.

#### 7.4.15 Transaction Costs

All CFS Mk-II Participants shall pay prevailing transaction costs to the Company in accordance with Fees, Charges and Security Deposit Schedule for all transactions relating to CFS Mk-II Contracts. All CDC costs relating to CFS Mk-II Transactions shall be paid by the CFS Mk-II Participants directly to CDC.

### **7.5. CFS Mk-II Financing**

#### 7.5.1 Financing Commitment

Each Authorised Financier shall commit to offer the amount of funding to the CFS Mk-II Market as stated in the respective Authorised Financier Agreement. The Financing Commitment shall be irrevocable except as expressly provided otherwise in these Regulations.

### 7.5.2 Cancellation

1. The Authorised Financier shall not be allowed to cancel either partially or totally its Financing Commitment except by giving a written notice to the Company at least ninety (90) days before the effective date of cancellation. Such ninety (90) days period shall commence from the date of receipt of notice by the Company.
2. Any CFS Mk-II Contracts arising from acceptance of Offers of such Authorised Financier during the notice period referred to in paragraph 1 above, shall not be affected by such cancellation.
3. From the effective date of cancellation, the Financing Commitment of such Authorised Financier shall stand reduced to the extent of the amount so cancelled and the Authorised Financier shall no longer be obliged to make any Offers to the extent of such cancelled amount.

### 7.5.3 Additional Financing

The Authorised Financier may provide financing in addition to its Financing Commitment. Such additional financing shall remain available at the sole discretion of the Authorised Financier and can be withdrawn at any time before a CFS Mk-II Transaction is executed.

### 7.5.4 Cost of Funding

1. The applicable rate of return on CFS Mk-II financing shall be determined by the Authorised Financiers. Such rate, however, shall be subject to a floor of KIBOR (prevailing at the close of immediately preceding working day) plus 4%.
2. An Authorised Financier may, at its discretion, make the CFS Mk-II financing available at the rate of return below the rate specified in paragraph 1 above.

### 7.5.5 Utilisation of Financing Commitment

The Authorised Financier shall make reasonable efforts to ensure that its Financing Commitment is fully utilized by the CFS Mk-II Market.

### 7.5.6 Penalty for Under-utilisation

Each Authorised Financier shall pay to the Company on a monthly basis a penalty equal to 2% of the average Available Commitment during such month, provided that such penalty shall not be payable if either of the following conditions is fulfilled:

- (i) The average Available Commitment during such month was equal to or less than 10%; or
- (ii) the Offers for the entire Available Commitment of such Authorised Financier remained available at the floor rate prescribed in Regulation 6.4 (Cost of Funding) or lower during the entire month.

## 7.6. CFS Mk-II Protection Fund

### 7.6.1 Establishment of the Fund

In order to manage the losses that a CFS Mk-II Participant may incur CFS Mk-II Market, the

Company will establish and maintain a CFS Mk-II Protection Fund.

#### 7.6.2 Contributions to the Fund

CFS Mk-II Protection Fund shall comprise the following:

- (i) One half of the annual fee paid by Authorised Financiers;
- (ii) Initial contribution to be agreed by the three Stock Exchanges and approved by the Commission;
- (iii) One half of all amounts collected from Authorized Financier as protection levy of 0.003% of the daily CFS Mk-II Transactions and CFS Mk-II (R) Transactions.
- (iv) Under-utilisation penalty levied on the Authorised Financiers pursuant to Regulation 7.5.6 (*Penalty for Under-utilisation*)

#### 7.6.3 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 CFS Mk-II Protection Fund or may elect to invest the same in a manner specified by the Board of the Company from time to time.

### 7.7. Risk Management

#### 7.7.1 Capital Adequacy Requirements - Finances

1. The aggregate Exposure of each Finanee, (including outstanding Positions on the Ready market, the Futures market and the CFS Mk-II market) shall not exceed 25 times of its net capital balance.
2. The aggregate Exposure of each Finanee in respect of CFS Mk-II Market shall not exceed 15 times of its net capital balance.
3. The Company shall monitor the net capital balance of each Finanee on a pre-trade basis, assigned to the CFS Mk-II Market intimated to the Company at the time of admission. Any revision to this assigned portion shall be intimated to the Company in writing by the Finanee. The CFS MK-II System will not allow any Finanee to enhance its Exposure over and above the prescribed capital adequacy limits and will accordingly reject such orders.

#### 7.7.2 Separate Markets

The Ready Market, the CFS Mk-II Market and the Futures Market are separate Markets and accordingly, no netting shall be allowed between and/or among these Markets.

#### 7.7.3 Exposure and Margins

1. Security-wise and client-wise Exposure of each CFS Mk II Participant will be calculated by the Company at any point in time, subject to the applicable netting rules as prescribed by these Regulations.
2. All trades in any CFS Mk II Eligible Security 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 permission of the Commission, from time to time prescribe in addition hereto.

3. The VaR based margins for each CFS Mk II Security shall be calculated by the Company applying VaR Estimates calculated by the RiskMeter® at the end of each trading day.
4. (a) The Exposure margins shall be deposited by a CFS Mk II Participant within such time as may be determined by the Company from time to time but in no case later than the opening of trade on the next trading day.
- (b) Exposure margins deposited by a CFS Mk II Participant under these Regulations must be kept separately, segregated from the Ready Market and the Futures Market margins by the Company. Such CFS Mk II related margins will be utilized for the benefit of CFS Mk II Participants only in the event of default.
5. Margins payable by a CFS Mk II Participant under these Regulations will be accepted by the Company as specified in Annexure 1.
6. All margins deposited by the CFS Mk II Participants with the Company pursuant to these Regulations shall be subject to the following conditions:
  - (a) The Company may from time to time prescribe, with the prior approval of the Commission, Haircuts applicable to each Margin Eligible Security;
  - (b) The Company shall not accept any Margin Eligible Security for the purpose of margin requirements if acceptance of Margin Eligible Security taken together with the margins already held will exceed CFS Mk II Participant wide and/or market wide limits of deposit of such Margin Eligible Security as prescribed below;

<b>VAR based margin percentages</b>	<b>Maximum No. of Margin Eligible Security that may be deposited by a CFS Mk-II Participants</b>
$0 \leq x < 20\%$	1% of Free Float
$x > 20\%$	0.25% of Free Float

A maximum limit per scrip, as a percentage of free float, shall apply to all scrip's deposited as security i.e. margin held by the company cannot exceed 25% of free float of such scrip

- (c) The security is in book entry form.
- (d) The issuer of security is not placed on the defaulter's counter of the Exchanges
- (e) CFS Mk-II Participants listed on the Exchanges will not be allowed to deposit their own shares against margin deposits.
- (f) The Company may from time to time prescribe, with the prior approval of the Commission, the maximum number of acceptable Margin Eligible Securities.

- (g) Any other criterion prescribed by the Company and approved by the Commission from time to time.
7. The CFS Mk-II Participant depositing margin in the form of Margin Eligible Securities shall always maintain the value thereof, after application of the relevant Haircuts, at not less than the margin amount for the time being required to be covered by them by providing further Margin Eligible Securities or depositing cash to the satisfaction of the Company which shall always determine the said value and whose valuation shall conclusively fix the amount of any deficiency to be made up from time to time. If at any time during a trading day, the required margins against Exposure of a CFS Mk-II Participant exceed the already deposited margins, such CFS Mk-II Participant shall deposit with the Company the margin computed by the Company within the time specified by the Company, but not later than opening of the market on the next trading day.

#### 7.7.4 Netting Regime for Exposure Margins in CFS MK II Market

1. Authorised Financier shall deposit exposure margins in respect of the CFS Mk-II Transaction on the day that the same is executed. The margins will be held till CFS Mk-II Transaction is settled by the Authorised Financier. After settlement and deposit of CFS Mk-II Financed Securities in blocked CFS account exposure margin shall be released to the Authorised Financier.

After settlement of CFS Mk-II Transaction, Authorised Financier shall not pay any exposure margin on the corresponding CFS Mk-II (R) Transaction, provided that CFS Mk-II Financed Securities have been delivered and held in the CDC account of the Authorised Financier in Blocked Status.

A Broker Authorised Financier shall be entitled to pledge its proprietary CFS Mk-II Financed Securities held in Blocked Status to meet its margin requirements with the Company. Such Broker Authorised Financier shall be required to deposit with the Company, exposure on all outstanding CFS Mk-II Contracts with respect to such pledged CFS Mk-II Financed Securities.

Broker Authorised Financiers creating such pledges shall ensure that these pledges are released before the commencement of Spot Period in respect of the pledged CFS Mk-II Financed Securities and such Broker Authorised Financiers shall meet their margin requirements with the Company, with other securities acceptable to the Company in accordance with these Regulations. In case of a Broker Authorised Financier's failure to release the pledges as aforesaid, such Broker Authorised Financier shall be liable to pay a penalty as specified by the Company from time to time.

2. Ready Market purchase when financed on CFS MK-II Market, margins shall then be applicable on CFS Mk-II Transaction immediately. Upon settlement of the CFS Mk-II Transaction, the margins shall remain applicable on CFS Mk II (R) Transaction till settlement date, unless there is a corresponding sale in the Ready or CFS Mk II Market on the same day of release, of the same client in the same security with the same settlement date, in which case no margins will be held.

The margins on Ready Market purchase, held by a Stock Exchange, shall be deemed to be the margin of the Company on CFS Mk-II Transaction, once a CFS Mk-II Transaction is executed in respect of such Ready Market purchase. Provided, however, that the

Collaterals deposited with a Stock Exchange to cover exposure margins in respect of Ready Market will be accepted to cover Exposure of the Finanee in the CFS Mk-II Market if such Stock Exchange confirms to the Company (in accordance with the procedure agreed between the stock exchanges and the Company) that the Collaterals deposited with the Stock Exchange shall be retained by such Stock Exchange under first and paramount lien of the Company. The CFS Mk-II Participant shall replace such margins, held by the Stock Exchange, with cash margin where the CFS MK-II financing attains the levels specified in Annexure-1 of these Regulations before opening of the market on the next trading day.

- 3. Save as specifically provided above, no other netting such as across markets, across clients, across different CFS Mk-II Eligible Securities, across settlement dates or between exposure of Authorised Financier and Finanee shall be allowed whatsoever, to any CFS Mk-II Participant.**

#### 7.7.5 Marked-to-Market Losses

1. Marked-to-Market Loss (or profit) shall be calculated on trade to trade basis, separately for each CFS Mk-II Eligible Security, for each CFS Mk-II Participant on the basis of the Closing Prices.
2. Marked-to-Market Losses deposit by each CFS Mk-II Participant shall be made to the Company at any point in time as demanded by the Company or at the end of each trading day but not later than prior to opening of trading on the next day.
3. Authorised Financiers shall deposit their respective Marked-to-Market Losses on same basis as Financees, on the trading day that such Authorised Financier's offer is accepted and CFS Mk-II Transaction is executed. The Marked-to-Market Losses will be collected till such time that CFS Mk-II Transaction is settled. Thereafter, Marked-to-Market Losses shall not be collected from Authorised Financier on CFS Mk-II (R) Transaction. Financees however will continue to pay Marked-to-Market Losses until CFS MK II (R) Transaction is settled.
4. While determining the Marked-to-Market Losses payable by a CFS MK-II Participant, netting shall be permissible across trades in different securities for the same UIN, in the same settlement date. Save as specifically provided above, no other netting such as across clients, across markets, across contract periods, across securities, across settlement dates etc shall be allowed whatsoever.
5. Deposit against Marked-to-Market Losses will be accepted by the Company as specified in Annexure-1.

#### 7.7.6 Special Margin required from Finanee

1. Special Margin shall be payable on daily basis only where the average transaction price of the Finanee's proprietary position or his client's position in a CFS Mk-II Eligible Security in CFS MK-II Market is different from 26 weeks moving average price of that CFS Mk-II Eligible Security in the Ready Market.
2. In case where the average transaction price of a CFS Mk-II Participants **proprietary** position or his client's position in a CFS Mk-II Eligible Security in CFS MK-II Market exceeds the 26 weeks moving average price of that CFS Mk-II Eligible Security in the Ready Market by more than 10% then special margins shall be payable equal to the

difference between average Transaction Price of the gross buy position of that client and 26 weeks moving average price of that CFS Mk-II Eligible Security in the Ready Market.

#### 7.7.7 Valuation of Collateral held by the Company as Margin

1. Shares of listed companies shall be valued in the manner specified in Regulation 7.7.3 hereto.
2. Treasury Bills (“T-Bills”) and Pakistan Investment Bonds (“PIBs”).

T-Bills and PIBs shall be valued at the daily market value based on the Financial Market Association data provided to Reuters.

3. Bank guarantees (callable without any conditions and payable on demand) shall be accepted if these are issued by banks that have a minimum of an Investment Grade rating issued by Moody’s and/or Standard & Poor; or a minimum rating of A issued by a credit rating company licensed by the Commission. The Board of the Company shall approve all banks whose guarantee will be acceptable.

#### 7.7.8 Position Limits

1. Position of CFS Mk-II-Participants shall not exceed the following:

<b>Market wide position limit</b>	40% of free-float for each security
<b>Member wide position limit</b>	10% of the above-mentioned market wide position limit for each security
<b>Client wide position limit</b>	5% of the above-mentioned market wide position limit for each security. Client position will be universal and determined on UIN basis.

2. Each Finanee’s Position in a CFS Mk-II Eligible Security at any point in time shall comprise of all outstanding CFS Mk-II (R) Transactions.

#### 7.7.8 Lien on Deposits

The monies, CFS Mk-II Eligible Securities and other securities and assets deposited by a CFS Mk-II Participant by way of Exposure margins, Marked-to-Market Losses and Special Margins under these Regulations shall be subject to a first and paramount lien and pledge, with a right of sale and set off in each case in accordance with these Regulations, for any sum due to the Company by such CFS Mk-II Participant and for the due fulfilment of such CFS Mk-II Participant’s engagements, obligations and liabilities arising out of or incidental to any CFS Mk-II Contract and other contracts made subject to these Regulations or anything done in pursuance thereof.

#### 7.7.9 Obligation of CFS Mk II Participant to collect margins from their clients

1. It shall be obligatory upon the CFS Mk-II Participants trading/taking exposure in CFS Mk-II Market under these Regulations to take margins from their respective clients in accordance with the rates as prescribed by the Company based on VaR Estimates. Such prescribed margins shall be the minimum margins that must be taken by the CFS Mk-II Participants from their respective clients while trading/taking exposure on behalf of such client.
2. The collection of any type of margin by a CFS Mk-II Participant from its client/client(s) shall be the sole responsibility of such CFS Mk-II Participant; nevertheless any failure of

the client to pay such margin shall not affect the obligation of the CFS Mk-II Participant to pay such margin to the Company.

#### 7.7.10 Withdrawal or Release of Collateral

On submission by a CFS MK-II Participant of written request, duly signed by an authorized person, the Company may release any Collateral held against the Collateral requirement of such CFS MK-II Participant, provided that such release of Collateral shall not create any deficiency in the value of the Collateral required to be deposited by such CFS MK-II Participant with the Company in terms of this Chapter.

#### 7.7.11 Suspension/Default

Where a CFS Mk-II Participant fails to deposit Collaterals against exposure margins, Mark to Market Losses and, where applicable, special margins, as provided in these Regulations or fails to comply with any other requirement of these Regulations, the Company shall initiate default proceedings against such CFS Mk-II Participant in accordance with these Regulations.

### 7.8. CFS Mk-II Market Information

#### 7.8.1 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) Number of Authorised Financiers together with the cumulative amount of financing provided for all CFS Mk-II Eligible Securities;
  - (ii) Aggregate amount of Available Financing Commitments after reporting day's utilisation;
  - (iii) Aggregate amount of Financing Commitment of each Authorised Financier utilised for each CFS Mk-II Eligible Security together with its percentage share;
  - (iv) Aggregate funds due to be released in next 3 days on maturity of CFS Mk-II Contracts;
  - (v) Aggregate amount of Financing Commitments scheduled to be cancelled from CFS Mk-II market over next 90 days as per notices received, together with the dates when the same will be cancelled;
  - (vi) Aggregate amount of Financing Commitments released in the day;
  - (vii) Aggregate amount of Financing Commitments released for each CFS Mk-II Eligible Security;
  - (viii) Weighted average of rates of return charged in each of the CFS Mk-II Eligible Securities for the day;
  - (ix) Aggregate amount availed by the Financees and the number of Financees in the CFS Mk-II Market.

### 7.9. Transitional Provisions

1. With effect from the Go-Live Date for Stock Exchange, all outstanding CFS transactions in CFS

Mk-II Eligible Securities, in the CFS Market of such Stock Exchange shall automatically stand transferred to the CFS Mk-II Market and shall be treated and settled as CFS Mk-II Contracts in accordance with these Regulations subject to the following modifications:

- (a) the CFS Mk-II Contract Period for such CFS Mk-II Contracts shall commence from Go-Live Date for the respective Stock Exchange and Maturity Date shall be the twenty-third (23<sup>rd</sup>) Business Day from and including the respective Go-Live Date;
  - (b) such CFS Mk-II Contracts shall be based on the closing price of the relevant CFS Mk-II Eligible Security on the last Business Day immediately preceding the respective Go-live Date;
  - (c) mark-up of such CFS transactions accrued until the last day before the Go-Live Date shall be settled in accordance with the CFS regulations of the respective Stock Exchange.
2. Except as expressly provided in Paragraph 1 above, all other terms and conditions of the transferred CFS transactions shall remain the same.
  3. The Company may from time to time issue such clarifications as it may deem appropriate to remove any difficulties with regard to transition of CFS transactions into CFS Mk-II Market.

#### **7.10. Discontinuation of CFS MK-II Market**

1. The Board may at any time suspend and /or discontinue the CFS Mk-II Market for a temporary period or on a permanent basis subject to the prior written approval of the Commission.
2. The Commission may at any time direct the Company to suspend and/or discontinue the CFS Mk-II Market for a temporary period or on a permanent basis in the form and manner so specified. Any such direction shall be binding upon the Company.

## **CHAPTER 8: SECURITY DEPOSITS**

### **8.1 Obligation of Clearing Members to keep Security Deposit with the Company**

8.1.1 Each NCC Participant shall keep and maintain with the Company, according to the category to which he belongs in terms of Regulation 5.1.1 and Regulation 7.2, a certain sum of money in cash as set out in the Fees, Charges and Security Deposit Schedule, by way of security deposit which sums shall not be less than the Minimum Amount. Such security deposit shall secure the obligations of the NCC Participant under or arising from these Regulations, the Procedures and/or Clearing Member Agreement and the Tripartite Agreement and/or any other agreement or agreements entered into by the NCC Participant jointly with the Company and/or any other entity. The amount of the Security Deposit may be utilized and/or applied by the Company for any purpose set out in these Regulations, the Procedures and/or any of the said agreements. Each NCC Participant shall, by becoming a NCC Participant, agree to the utilization and application by the Company of his Security Deposit for any purpose set out in these Regulations, the Procedures and any of the said agreements.

### **8.2 Application of Security Deposits and investment of Security Deposits**

8.2.1 Any amount of the Security Deposits may be partially or wholly invested in Government Securities and/or term finance certificates (at least A rated by a recognized rating agency), and/or otherwise kept in deposit with nationalized commercial banks and other banks bearing minimum of A rating.

8.2.2 Any profits received from the investment and/or deposits under Regulation 8.2.1 of that part of the Security Deposit of a Clearing Member which is in excess of the Minimum Amount shall accrue to such Clearing Member.

8.2.3 No part of the Security Deposits shall be used by the Company for any purpose other than:

- (a) the investment in Government Securities and/or in term finance certificates and/or kept in deposit with banks as above stated in Regulation 8.2.1;
- (b) to satisfy any liability of a NCC Participant to the Company in respect of the fees and charges payable by such NCC Participant to the Company in terms of the Fees, Charges and Security Deposit Schedule, provided that the amount of the Security Deposit of such particular NCC Participant shall be used for this purpose;
- (c) to facilitate clearing and settlement activities in terms of the Regulations and/or the Procedures;
- (d) for any adjustment permitted by these Regulations and/or the Procedures;
- (e) for any other purpose as permitted by these Regulations and/or the Procedures; or
- (f) for return to a NCC Participant pursuant to Regulation 8.4.1.

### **8.3 Elimination of deficiency by Clearing Member in his Security Deposit**

8.3.1 If the Security Deposit of any NCC Participant is applied for any purpose set out in these Regulations and/or the Procedures and as a consequence the NCC Participant's Security Deposit or his remaining Security Deposit becomes less than the Security Deposit required to be

maintained by him under the Fees, Charges and Security Deposit Schedule, the NCC Participant shall, upon the Company's demand, deposit with the Company, within such time as the Company shall require, that which is necessary to eliminate any deficiency in his required Security Deposit. If the NCC Participant shall fail to do so, the Company may take disciplinary action against the NCC Participant pursuant to Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY). Any disciplinary action that the Company takes pursuant to Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY) or the voluntary or involuntary cessation of membership by the NCC Participant shall not affect the obligations of the NCC Participant to the Company or any remedy to which the Company may be entitled under applicable law.

#### **8.4 Refund of the Security Deposits by the Company**

8.4.1 A NCC Participant or his successor shall be entitled to the return of the actual amount of a NCC Participant's Security Deposit remaining with the Company (after adjustment of his liabilities, as a NCC Participant, under these Regulations and/or the Procedures and after adjustment of the Company's claim against him in respect of the fees and charges payable by him to the Company) 90 days after:

- (a) the NCC Participant ceases to be a NCC Participant ; and
- (b) all obligations to the Company for which the NCC Participant was responsible while a NCC Participant have been satisfied or, at the discretion of the Company, have been deducted by the Company from the Clearing Member's Security Deposit;.

PROVIDED that where the NCC Participant has ceased to be a NCC Participant as a consequence of his ceasing to be a member of any Stock Exchange(s), the amount of the NCC Participant's Security Deposit with the Company shall be paid by the Company to the respective Stock Exchange(s) where the respective Stock Exchange(s) has/have presented to the Company such indemnities or guarantees as the Company deems satisfactory. PROVIDED further that a NCC Participant's Security Deposit shall be paid to the NCC Participant, or his successor, where the NCC Participant ceases to be a NCC Participant voluntarily, and the NCC Participant, or his successor, has presented to the Company such indemnities or guarantees as the Company deems satisfactory or an other NCC Participant has been substituted on all transactions and obligations of the NCC Participant ceasing to be a NCC Participant voluntarily.

#### **8.5 Notice to NCC Participant for increase in his Security Deposit**

8.5.1 The Company shall Transmit a Notice on a Business Day to a NCC Participant, of any proposed increase in his required Security Deposit in terms of the Fees, Charges and Security Deposit Schedule. If a NCC Participant fails to give written Notice to the Company of his election to terminate his business with the Company within the period specified in the Company's Notice of the increase, he shall contribute to his existing Security Deposit that which is necessary to satisfy the increase notified by the Company.

8.5.2 In such event the NCC Participant's obligation to so contribute shall not be affected by his subsequent cessation of membership, whether voluntary or involuntary. At the time the increase becomes effective, the NCC Participant's obligations to the Company shall be determined in accordance with the increased quantum of his Security Deposit notified by the Company whether or not such increase has been made. If the NCC Participant fails to pay any additional amount

towards his Security Deposit in accordance with the Company's Notice under Clause 8.5.1, the Company may take disciplinary action against the NCC Participant pursuant to Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY). Any disciplinary action that the Company takes pursuant to Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY) or the voluntary or involuntary cessation of membership by the NCC Participant shall not affect the obligations of the NCC Participant to the Company or any remedy to which the Company may be entitled under applicable law.

## **8.6 Determination of NCC Participant's required Security Deposit**

- 8.6.1 Except as provided in these Regulations, the Company shall determine and notify by Transmitting a Notice to each NCC Participant by the Designated Time on each Business Day whether the amount of the NCC Participant's Security Deposit is in excess of the NCC Participant's required Security Deposit in terms of the Fees, Charges and Security Deposit Schedule. At a NCC Participant's written request, the Company shall cause to be returned to the NCC Participant the excess amount, or such lesser amount as may be requested by the NCC Participant, provided that no portion of the Minimum Amount shall be returned;
- 8.6.2 Provided, however, that such excess shall not be returned if the Company determines that this should not be done until any amount which is required to be charged to the NCC Participant is paid by the NCC Participant or is otherwise recovered in terms of these Regulations and/or the Procedures.

## **CHAPTER 9: GENERAL PROVISIONS**

### **9.1 Clearing Data and Compared Contracts**

9.1.1 Valid Exchange trade and/or Exchange transaction data covering the “buy side” and the “sell side” (excluding Non-Deliverable Future Contracts of any contract may be (a) sent by a Stock Exchange to the Company, or (b) in the case of Non-Exchange transactions between Clearing Members who are members of any Stock Exchange recorded with the Company through its broker-to-broker delivery module, or (c) in the case of Non-Exchange transactions (i) between any Clearing Member who is a member of any Stock Exchange and any other Clearing Member who is also a member of any Stock Exchange, or (ii) between any Clearing Member who is a member of any Stock Exchange and a Clearing Member who is not a member of any Stock Exchange, recorded with the Company through its margin financing module, or (d) in the case of Non-Exchange transactions between a Clearing Member who is a member of a Stock Exchange and a Clearing Member who is not a member of a Stock Exchange, recorded with the Company through its institutional delivery system:

(a) such contracts shall be considered compared;

(b) compared contracts for Balance Order Securities and other transactions in respect of Balance Order Securities submitted to the Company under these Regulations (“Balance Order Contracts”) shall be accounted for in the Balance Order System.

9.1.2 Delivery of Balance Order Securities shall be made and payment therefore shall be made in accordance with the Procedures.

### **9.2 Official Date of comparison operations etc.**

9.2.1 The official date of the comparison operation, the accounting operation and the settlement of contracts is the Settlement Date for such contracts, and summaries, Security balance orders, Security orders, cheques relating thereto, except as may be otherwise directed by the Company, either in general or in particular instances, shall bear that date even though they may be issued on a preceding day.

### **9.3 Additional Services for Settlement of trades or transactions**

9.3.1 The Company may provide additional services for the settlement of trades or transactions, or their related contracts. These contracts will first be processed through an appropriate comparison system if necessary or, when required, processed as “locked in” contracts and will be subsequently processed by the Company in the appropriate settlement cycle.

### **9.4 NCC Participants to designate Authorised Person(s)**

9.4.1 Every NCC Participant shall designate one or more representative(s) as Authorised Persons to act on behalf of the NCC Participant under these Regulations and/or the Procedures. Specimen signature of the Authorised Persons shall be supplied to the Company.

### **9.5 Requirement of the Company for NCC Participant's staff on non- Business Day.**

9.5.1 The Company may, in its discretion require NCC Participant s to provide appropriate staff in their offices during specified hours on non Business Days when such is deemed necessary by the

Company to ensure the integrity of its systems, up-gradation in NCC Systems and/or for the protection of the Company.

## **9.6 Treatment of benefits on Retrieved Securities.**

- 9.6.1 Where any Securities delivered to any Clearing Member are retrieved by the Company on account of 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 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.
- 9.6.3 Notwithstanding anything contained above in this Regulation 9.6, the Company shall not be responsible for accepting and subscribing any offers of rights Securities received on the Securities referred to in Regulations 9.6.1 and 9.6.2 or to allow the concerned Clearing Member to accept and subscribe for the same. The Company shall not be liable to the concerned Clearing Member, or to any other person, for any losses, damages and/or expenses arising from non-acceptance and non-subscription of any such rights Securities.

## **9.7 Unique Identification Number**

- 9.7.1 Every Broker Clearing Member shall provide to the Company the Client UIN Registration Details through UIN Registration Screen in NCSS as per the Procedures.
- 9.7.2 The Broker Clearing Member shall be responsible for the correctness and completeness of the Client UIN Registration Details provided to the Company and entered in UIN Registration Screen in the UINs Database. The Broker Clearing Member shall be required to obtain from and maintain the documentary evidence of UIN for each of his clients. Where requested by the Company, a Broker Clearing Member shall provide to the Company all required documentary evidence of the UIN of any of his clients entered in the UIN Registration Screen. The Company may reject such evidence at its sole discretion for any reason whatsoever. Notwithstanding acceptance by the Company of any such documentary evidence by the Broker Clearing Member, the Broker Clearing Member shall remain responsible for the correctness and completeness of the Client UIN Registration Details provided to the Company.

The Broker Clearing Member shall be responsible for obtaining all necessary authorizations from his clients for the purposes of creating UINs in the UINs Database. The Company shall not be responsible for any unauthorized creation of UIN or for misuse of any UIN by the Broker Clearing Member. Each Broker Clearing Member shall indemnify and hold harmless the Company from and against any claims, losses, damages, costs and expenses suffered and/or incurred by the Company as a consequence of the creation and use of any UIN in the UINs Database.

- 9.7.3 The UIN Registration Details of Clients of every Broker Clearing Member will be accessible by the Stock Exchange(s) in NCSS as per the transmission mechanism described in the Procedures.

**9.8 Entries in the Money Account in respect of Non-Deliverable Future Contracts, Deliverable Future Contracts and/or futures trading in provisionally listed companies market**

9.8.1 Data in respect of marked-to-market amount of loss to be collected from a Clearing Member and/or the amount of profit to be disbursed to a Clearing Member in respect of Non Deliverable Futures Contracts and/or Deliverable Future Contracts and/or futures trading in provisionally listed companies market representing the daily variation margin or the margin determined upon closing of any such contracts may be Transmitted by a Stock Exchange to the Company by the Designated Time on a Trade Date, and the Company shall, before the End of Day on such Trade Date:

- (a) debit the Money Account of the Clearing Member with the marked-to-market amount in respect of Non Deliverable Futures Contracts and/or Deliverable Future Contracts and/or futures trading in provisionally listed companies market to be collected from such Clearing Member; and
- (b) credit the Money Account of the Clearing Member with the marked-to-market amount in respect of Non Deliverable Futures Contracts and/or Deliverable Future Contracts and/or futures trading in provisionally listed companies market to be disbursed to such Clearing Member.

Provided that marked-to-market losses of Non Deliverable Futures Contracts and/or Deliverable Future Contracts and/or futures trading in provisionally listed companies market shall be collected from the respective Clearing Members on the Trade Date i.e. T+0. However, profit on such contracts shall be disbursed to the respective Clearing Members in accordance with the mechanism described in the relevant regulations of the Stock Exchanges.

**9.9 Data to be uploaded by the Company in CDS in respect of CFS Financed Securities**

9.9.1 Where any CFS Financed Securities are to be delivered from a CDC CFS Account to a CDC CFS Designated Account and from a CDC CFS Designated Account to a CDC CFS Account under and in terms of Regulation 9A.4 of the CDC Regulations, the Company shall, subject to the Procedures, before the Designated Time on the day before the Book Closure Date in respect of such CFS Financed Securities upload in the CDS the following data and information:

- IDs of the CFS Financier Clearing Member and of the CFS Finanee Clearing Member;
- UINs of the CFS Financier Clearing Member and of the CFS Finanee Clearing Member;
- Security symbol of the CFS Financed Securities;
- The name of the Stock Exchange on which the relevant CFS transaction was executed;
- Location where CFS MK-II Contract was executed; and
- The number of CFS Financed Securities to be delivered by CDC under Regulation 9A.4 of the CDC Regulations.

9.9.2 The Company shall not be liable to any CFS Financier Clearing Members or CFS Finanee Clearing Members or to any other persons for any inaccuracy of the data uploaded in CDS by the Company under Regulation 9.9.1 if such inaccuracy is based on any inaccurate data received from

a Stock Exchange or Stock Exchanges on which the relevant CFS transactions were executed.

9.9.3 The capitalised terms used in Regulations 9.9.1 and 9.9.2 shall, unless defined in Regulation 2.8.1 of these Regulations, have the meanings set out below:

Book Closure Date	shall have the same meaning as set out in Regulation 2.11.1 of the CDC Regulations.
CDC CFS Account	means a “CFS Account” as defined in Chapter 9A of the CDC Regulations and established on CDS.
CDC CFS Designated Account	means a “CFS Designated Account” as defined in Chapter 9A of the CDC Regulations and established on CDS.
CFS Financee Clearing Member	means a Clearing Member who has entered into a CFS transaction as a financee.”

## **9.10 Daily Purchase and Sales Report**

- 9.10.1 Exchange trades, Exchange transactions and/or CFS MK-II Contract provided for in Regulation 9.1.1 (excluding Non-Exchange transactions) are considered as pre-compared or “locked in” trades and transactions and require no additional action by either the seller or buyer Clearing Member. The Company will provide evidence of the Exchange trades, Exchange transactions and CFS MK-II Contract it has received and the Non-Exchange transactions recorded with the Company through a daily purchases and sales Report. This Report will provide details of each specific contract including the settlement cycle through which it will be processed in.
- 9.10.2 It is the responsibility of each Clearing Member to review this Report and to notify the Company of any discrepancy requiring a correction and/or any additional Exchange trade, Exchange transaction or CFS MK-II Contract. Such notification must be made to the Company by the Designated Time by the Clearing Members who are parties to locked in Exchange trades, Exchange transactions or CFS MK-II Contract. If such notification is made after the Designated Time such notification will be ignored by the Company.

**CHAPTER 10: BALANCE ORDER SYSTEM****10.1 Deliver Security balance order and receive Security balance order under Balance Order System**

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 obligations of each Clearing Member in each Security, allot and match the offsetting obligations of Clearing Members and prepare Balance Order and Transmit to Clearing Members at Designated Time on the Settlement Date:

- (a) a separate 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 receive Security balance order for each such deliver Security balance order showing the settlement quantity in respect thereof established by the Company.

**10.2 Obligation to deliver and receive payment for Securities**

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 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.

**10.3 Deliveries**

10.3.1 All deliveries of Securities pursuant to a deliver balance order produced in the Balance Order System shall be subject to the provisions of Regulations 10.4 to 10.10 of this Chapter.

**10.4 Book entry delivery**

10.4.1 Deliveries will be by way of book entry delivery in a Central Depository.

**10.5 Delivery date**

10.5.1 Deliveries will be made on Settlement Date by Designated Time as determined by the Procedures.

**10.6 Securities buy-in by the Company**

If a delivering Clearing Member shall not make delivery of all the Securities to be delivered pursuant to a Security deliver order (Balance Order Settlement) by the Designated Time on a Settlement Date, the Company may cause such Securities as are not so delivered to be bought-in as provided for in the Procedures. Any resulting loss or gain and related expenses shall be entered by the Company in the Money Account of such Clearing Member.

**10.7 Securities sell-out by the Company**

10.7.1 If a receiving Clearing Member fails to take up and pay for all the Securities delivered to him 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. 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 him, the Company shall retrieve all the Securities delivered to him 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.

## **10.8 Partial delivery**

10.8.1 The receiving Clearing Member shall accept a partial delivery on any Balance Order and the portion remaining undelivered may include an odd-lot volume.

## **10.9 Liability of Clearing Member for any costs**

10.9.1 The Clearing Member in default shall be liable for any costs that may arise from buy-in or selling-out.

## **10.10 Delivery of Securities**

10.10.1 Unless otherwise specified by the Company before the time of sale, it shall be deemed to have been agreed between the parties to give and take delivery of Securities in marketable lots as well as in odd-lots as the case may, as described in Procedures.

## **10.11 Non-delivery Charges**

10.11.1 Without prejudices to or in any manner limiting the obligations of a delivering Clearing Member as set out in these Regulations and/or the Procedures arising from his failure to deliver any Securities by the Designated Time on a Settlement Date pursuant to a security delivery order (Balance Order Settlement) or pursuant to squaring-up process, the Clearing Member shall pay to the Company (in addition to his above referred obligations) non-delivery charges for each non-delivery per Security at the rate of 0.5% of the System Price established on Settlement Date of the undelivered securities, subject to a minimum of Rs. 2,000/- (Rupees: Two thousand only). Whereas such delivery default occurs in Debt Market Securities, non delivery charges for each non-delivery per Security at the rate of 1% of the System Price established on Settlement Date of the undelivered Security, subject to a minimum of Rs. 10,000/- (Rupees: Ten thousand only). If as a consequence of the non-delivery of any Securities, the Company causes such Securities to be bought-in by squaring up process and the delivering Clearing Member from whom the said Securities are bought-in defaults in making delivery, such Clearing Member shall pay to the Company (in addition to his other obligations under these Regulations) non-delivery charges at the rate of 1% and 2% per Security and Debt Market Security of the System Price established on the squaring up date of the un-delivered Securities subject to a minimum of Rs. 4,000/- (Rupees four thousand only) and Rs. 20,000 (Rupees twenty thousand only) for Debt Market Security respectively.

## CHAPTER 11: SETTLEMENT

### 11.1 Settlement Statement(s) and Settlement by Clearing Member

11.1.1 Settlement of money payments with respect to transactions or matters covered by these Regulations shall be made as provided in this Chapter and the Procedures.

11.1.2 At Designated Time, the Company shall Transmit to every Clearing Member on each Business Day, which is a Settlement Date, settlement statements which will show:

- (a) debits and credits which have been entered into a Clearing Member's Money Account in accordance with the Procedures; and
- (b) a net amount payable to or payable by the Company.

Each Clearing Member and/or the Company, as the case may be, will settle, by the Designated Time on the said Business Day, through a Settling Bank, in accordance with Procedures, the net amount reflected in such settlement statements.

11.1.3 A Clearing Member fails to settle when his Settling Bank shall fail to pay by the Designated Time on any Business Day the net amount referred to in Regulation 11.1.2(b) due from such Clearing Member to the Company and, where applicable, in further notices of the Company in accordance with these Regulations and/or the Procedures settling out the money obligations of the Clearing Member.

11.1.4 If the Company does not produce any settlement statement referred to in Regulation 11.1.2 on a Business Day, the debits and credits which were entered in a Clearing Member's Money Account and the net amount payable to or by the Company on such Business Day shall be entered in the settlement statements produced by the Company for the next Business Day which is a Settlement Date.

11.1.5 At Designated Time on each Business Day, which is a Settlement Date, the Company shall produce and Transmit a final settlement statement which shall reflect the information contained in that Business Day's prior settlement statements, and adjustments to those amounts and the payments made to or by the Company.

11.1.6 A Clearing Member that fails to timely settle shall be subject to:

- (a) action by the Company pursuant to Chapter 13 (MONEY DEFAULT MANAGEMENT), and/or
- (b) action by the Company pursuant to Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY), and/or
- (c) Chapter 23 (HEARING AND APPEAL PROCEDURES).

Provided that a **Broker** Clearing Member that fails to timely settle in full or in part that part of the net amount reflected in a settlement statement which represents the net amount payable by the **Broker** Clearing Member in respect of the marked-to-market loss to be collected from the **Broker** Clearing Member in respect of the Non-Deliverable Futures Contracts and/or Deliverable Future Contracts shall not be subject to the action by the Company as above stated, and full particulars of the shortfall shall be communicated by the Company to the Stock Exchange concerned by the Designated Time on the Business Day on which the shortfall takes place along with any part payment collected out of the net amount payable by the **Broker** Clearing Member in respect of the marked-to-market loss recoverable from him, and the shortfall

shall be dealt with by such Stock Exchange in accordance with the regulations and procedures of the Stock Exchange.

**Explanation:** In determining the payment or part payment or non-payment of that part of the net amount reflected in a settlement statement which represents the net amount payable by a **Broker** Clearing Member in respect of the marked-to-market loss in respect of Non-Deliverable Futures Contracts and/or Deliverable Future Contract to be collected from the **Broker** Clearing Member, the amount received from the Settling Bank of the Clearing Member on a Business Day on the basis of the settlement statement issued in respect of the **Broker** Clearing Member shall be adjusted in the first place against the net amount payable by the **Broker** Clearing Member in respect of the trades and transactions and other matters covered by these Regulations (excluding the net amount payable in respect of the said marked-to-market loss), and the balance, if any, shall be considered depending upon its amount as the amount paid in full or in part in respect of the said marked-to-market loss.

## **11.2 Delivery of Securities and right of the Company on Securities.**

- 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 an account of the delivering Clearing Member with CDC to an account 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.
- 11.2.2 In the event the Company, prior to the effective time, ceases to act for the Clearing Member with respect to transactions pursuant to Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY) or Chapter 23 (HEARING AND APPEAL PROCEDURES) for events prescribed in Regulation 18.2, the Company shall have the right in respect of Securities under Blocked Status to take such actions as specified in these Regulations and/or the Procedures.
- 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 account 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 CFS Financier Clearing Member, the CFS Financed Securities delivered to him, as CFS Financier Clearing Member, shall be kept by him in a separate Blocked Account or Sub-account with CDC which restricts his ability to deal with such Securities except for transfer from the special Main Account established for the CFS Financier Clearing Member for settlement of Securities obligations through NCSS
- 11.2.4 Notwithstanding any agreement between the Company and the Clearing Member to the contrary, the Company shall have the right at any time and from time to time to aggregate and net all or any balances due from the Company against all or any balances due to the Company.

**CHAPTER 12: RISK MANAGEMENT BY STOCK EXCHANGES****12.1 Monitoring & Management of the Clearing Members Exposure**

12.1.1 The Stock Exchanges shall continue to monitor and manage the exposure of their respective members as are Clearing Members as well in respect of Exchange trades and Exchange transactions in Balance Order Securities and in respect of Non Deliverable Futures Contracts and/or Deliverable Future Contracts, in accordance with their respective relevant regulations and procedures upto the time that such trades and transactions are settled on NCSS.

## CHAPTER 12A: RISK MANAGEMENT SYSTEM OF THE COMPANY FOR NON-BROKER CLEARING MEMBERS

### 12.A RISK MANAGEMENT SYSTEM OF THE COMPANY FOR NON-BROKER CLEARING MEMBERS

#### 12.A.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 A.1:

12.A.1.i “Approved eligible securities” or “Securities” means the securities described in Regulation 12A.5.4.ii of this Chapter which shall be acceptable to the Company as Collateral.

12.A.1.ia “Eligible term finance certificates” means listed term finance certificates, having acceptable credit rating and maturity criteria as set out in the Procedures.

Provided that where a Non Broker Clearing Member is a Company whose listed term finance certificates fall under the eligibility criteria set out above, such Non Broker Clearing Member shall not be allowed to deposit its own issued term finance certificates as Collateral to secure its Exposure margins and Mark-To-Market Losses obligations.

(a) A list of term finance certificates which shall be eligible for deposit with the Company as Collateral shall be prepared by the Company and shall be reviewed by the Company on quarterly basis.

(b) The valuation of term finance certificates, eligible for deposit with the Company as Collateral, shall be determined by the Company from time to time as per the Procedures

12.A.1.ii “CFS Account” shall have the same meaning as set out in Chapter 9A of the CDC Regulations.

12.A.1.iii “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-Market losses of such Clearing Member.

#### 12.A.1.iii.a Concentration Margins

Concentration Margin shall be applicable in accordance with regulations of the Stock Exchanges governing deliverable futures contract and risk management, as amended from time to time.

12.A.1.iv “Exposure Margin” means the amount of cash, approved securities, eligible term finance certificates, bank guarantee and / or irrevocable undertaking deposited by the Non Broker Clearing Member as security (which ever is applicable) against the Exposure as defined in these Regulations.

- 12.A.1.v Gross Volume means;
- (a) in ready market means the aggregate of total volume of security(ies) traded on a particular trade day;
  - (b) in CFS market means the aggregate outstanding CFS open position of security(ies) on a particular Settlement Date;
  - (c) in Future market means aggregate of total volume of security(ies) traded in a contract including trading carried out in new contract during overlapping period; and
  - (d) in CFS Mk II market means the aggregate outstanding CFS Mk II open position of security(ies) on a particular Settlement Date.

12.A.1vi “Non-Broker Clearing Member” means a person who is admitted as a Clearing Member to NCSS under Regulation 5.1.1 and is not a member of a Stock Exchange.

### 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. 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.

### 12.A.3 Determination of the Exposure

The Company shall determine the Exposure of the Non-Broker Clearing Members by applying a netting mechanism by which netting of open positions shall not be allowed across the affirmed IDS transactions based on Exchange trades and/or Exchange transactions in the ready market and deliverable futures contract market. In case of off-setting positions in two consecutive contracts of a particular scrip during the overlapping 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 Market:
- (a) Netting shall be allowed between buy and sell positions in the same scrip on the same day;
  - (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 scrips on the same day; and
  - (d) Netting shall not be allowed across settlement periods.

## 12.A.3.ii Within CFS Market

- (a) A CFS Financier Clearing Member, admitted by the Company in the capacity of Non-Broker Clearing Member, shall deposit his Exposure margin on the affirmation of an IDS transaction on the NCSS. The Exposure margin will be held till settlement of this transaction. After settlement of an IDS transaction as above stated, the Exposure margins shall be released by the Company.
- (b) A CFS Financier Clearing Member, admitted by the Company in the capacity of Non-Broker Clearing Member, shall not pay any Exposure margins on his unsettled second ticket open CFS positions.

## 12.A.3.iii Within Deliverable Futures Contract Market

- a) Netting shall be allowed between buy and sell positions in the same scrip on the same contract period;
- (b) Netting shall not be allowed across all the three Stock Exchanges.

The scrip-wise outstanding positions of the Non Broker Clearing Members will be revalued at relevant daily settlement price as prescribed in the Stock Exchanges regulations governing deliverable future contract and shall be transferred to the next trading day. The system shall consider such revalued amounts as the traded values, based on which exposures will be calculated.

## 12.A.3.iv Within Provisionally Listed Companies Market

- a) Netting shall be allowed between buy and sell positions in the same scrip on the same contract period;
- (b) Netting shall not be allowed across all the three Stock Exchanges

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

The Company shall calculate the Mark-To-Market Losses of its Non-Broker Clearing Members on the basis of the Closing Price without netting of profits and losses across affirmed IDS transactions which are based on the Exchange trades and/or Exchange transactions in the ready market and deliverable future contracts market. The Mark-To-Market Losses on such affirmed IDS transactions shall be paid by the Non-Broker Clearing Members to the Company as under:

## 12.A.4.i Within Ready Market:

The Mark-To-Market Losses and profits shall be netted across Securities but not across settlement periods. Such Mark-To-Market Losses shall be deposited by a 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.4.ii Within CFS Market:

The Mark-To-Market Losses and profits shall be netted across Securities but not across settlement periods. A CFS Financier Clearing Member, admitted by the Company in the capacity of Non-Broker Clearing Member, shall deposit Mark-To-Market Losses as of the affirmation of an IDS transaction on the NCSS. Such Mark-To-Market Losses will be held till settlement of this transaction. A CFS Financier Clearing Member, admitted by the Company in the capacity of Non-Broker Clearing Member, shall not be required to pay Mark-To-Market Losses on his unsettled second ticket open CFS positions.

12.A.4.iii Within Deliverable Future Contracts Market:

The Mark-To-Market Losses and profits shall be netted for same Securities and in the same contract period. Such Mark-To-Market Losses shall be deposited by a Non-Broker Clearing Member with the Company on a daily basis till the satisfaction of his settlement obligation on the relevant Settlement Date.

The Company shall withhold mark-to-market profits, if any, of a Non Broker Clearing Member in particular scrip until its Final Settlement. However such mark-to-market profits, if any, will be adjusted against the MtM Loss in the same scrip of such Non Broker Clearing Member.

12.A.4.iv Within Provisionally Listed Companies Market:

The Mark-To-Market Losses and profits shall be netted for same Securities and in the same contract period. Such Mark-To-Market Losses shall be deposited by a Non-Broker Clearing Member with the Company on a daily basis till the satisfaction of his settlement obligation on the relevant Settlement Date.

The Company shall withhold mark-to-market profits, if any, of a Non Broker Clearing Member in particular scrip until its Final Settlement. However such mark-to-market profits, if any, will be adjusted against the MtM Loss in the same scrip of such Non Broker Clearing Member.

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

12.A.5.1 Payment of Exposure margins and Mark-To-Market Losses by the Non-Broker Clearing Members shall be secured by such Clearing Members by deposit of the Collateral described below with the Company:

12.A.5.2 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 and/or Exchange transactions in the ready market and shall be deposited by the Non Broker Clearing 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.

- (b)(i)-a Collateral requirements against Exposure margins and Concentration Margins calculated by the Company across affirmed IDS transactions based on the deliverable future contracts market trades shall be deposited by the Non Broker Clearing Members in the form of cash, bank guarantees and/or irrevocable undertakings, whichever is applicable under the Procedure and this Chapter. Whereas, Mark-To-Market Losses on such affirmed IDS transactions shall be deposited by the Non Broker Clearing Members in the form of cash only.
- (b)(i)-b Collateral requirements against Exposure margins calculated by the Company across affirmed IDS transactions based on the provisionally listed companies market trades shall be deposited by the Non Broker Clearing Members in the form of cash, bank guarantees and/or irrevocable undertakings, whichever is applicable under the Procedure and this Chapter. Whereas, Mark-To-Market Losses on such affirmed IDS transactions shall be deposited by the Non Broker Clearing Members in the form of cash only.
- (b)(ii) In case where a Non Broker Clearing Member is a net-seller in a security under deliverable futures contract market, may deposit the net-sold securities with the Company. Consequently, Exposure Margin, Concentration Margin 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.
- b(iii) the total margins requirements (including Exposure margins, Concentration margins) and/or Mark-to Market losses added together, for particular scrip under a UIN should not exceed its Exposure amount in any case.
- 12.A.5.3 It shall be the responsibility of every Non Broker 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.
- 12.A.5.4 Following conditions shall be applicable where Collateral is deposited in the form of cash, securities, eligible term finance certificates, bank guarantees and/or irrevocable undertakings:
- 12.A.5.4.i Cash:
- The Non Broker Clearing Members may deposit cash as Collateral in order to satisfy their Collateral requirements against their Exposure margins and Mark-To-Market Losses.
- 12.A.5.4.ii Securities:

- (a) The eligibility criteria for securities acceptable as Collateral, shall be approved by the Board, with the prior approval of the Commission.

Provided that where a Non Broker Clearing Member is a listed company and its issued securities fall under the eligibility criteria set out above, such Non Broker Clearing Member shall not be allowed to deposit its own issued securities as Collateral to secure its Exposure margins and Mark-To-Market Losses obligations.

- (b) A list of companies the securities of which shall be eligible for deposit with the Company as Collateral shall be prepared by the Company and shall be reviewed by the Company on quarterly basis.
- (c) The process of valuation of securities eligible for deposit with the Company as Collateral shall be determined by the Company from time to time as per the Procedures.

#### 12.A.5.4.iii Bank Guarantees:

- a) The Non Broker 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 this Regulation, 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. Provided that, where bank has been allocated minimum credit rating of A the amount of such Bank Guarantee per NCC Participant is limited upto Rs. 400 million, whereas, incase of AA and above credit rated bank the amount of such Bank Guarantee per NCC Participant is limited upto Rs. 1 billion;
  - (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 Non Broker Clearing Members.

#### 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; and

- b) Any other public sector entity, controlled by the Government of Pakistan, approved by the Board from time to time

## **12.A.6 Withdrawal or Release of Collateral**

- 12.A.6.1 On submission by a Non Broker Clearing Member of written request, duly signed by an Authorized Person, the Company shall release any Collateral held against the Collateral requirement of such 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 Clearing Member with the Company in terms of this Chapter.

## **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, 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.
- 12.A.7.2 Where the Company suspends and/or and restricts the access of a defaulting Non Broker 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.A.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 Non Broker Clearing Member towards satisfying the net money obligations of such defaulting Non Broker Clearing Members determined under Regulation 13.2.

## **12.A.8 Other Risk Management Measures**

### **12.A.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 IDS transactions of all those Non Broker Clearing Members who have settled all their money and delivery obligations against such affirmed IDS transactions on that Settlement Date.

### **12.A.8.2 Transmission of Affirmed IDS Transactions to the Exchanges**

The Company shall Transmit, in accordance with the Procedures, to the respective Stock Exchanges information about the IDS transactions affirmed by any Non Broker Clearing Members in respect of which the required Collaterals securing the Exposure margins and Mark-To-Market Losses have been duly deposited by such Non Broker Clearing Members with the Company. Upon receipt of such information, the respective Stock Exchanges will be free to release the exposure margins and the mark-to-market losses deposited by those

members of such Stock Exchanges as had entered into the Exchange trades and/or Exchange transaction in respect of which the said IDS transactions were affirmed.

12.A.8.3 Stand alone clause for the collection of 20% additional margin of non-complaint NBCMs

The Company shall collect additional 20% VaR based margin, on all affirmed institutional delivery system transactions based on ready market trades and/or deliverable future contract market trades as determined by the Company prescribed in Regulation 12.A.3, from all Non-Broker Clearing Members who do not maintain the minimum credit rating criteria as prescribed in Regulation 5.1.

**Provided that if the NBCM fails to attain the minimum credit rating criteria as provided in Regulation 5.1 within the time period specified in the Procedures, the company may take appropriate action as prescribed in Regulation 18.1.**

12A.8.4 Power of imposing any additional margin in future

All affirmed institutional delivery system transactions 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.

## 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:

- (e) Netting shall be allowed between buy and sell positions in the same Security on the same day for the same client;
- (f) Netting shall not be allowed across all the three Stock Exchanges;
- (g) Netting shall not be allowed between buy and sell positions of different Securities on the same day even for the same client; and
- (h) 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
<b>Corporate Debt Securities</b>			
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 short term 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
TFC (having minimum short term 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 short term 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
<b>Government Debt Securities</b>			
National Saving Bonds > par (premium)	2.5% of the Exposure amount	25% amount of the excess market value	2.5% of the Exposure amount + 25% amount of the excess market value
National Saving Bonds < par (discount)	2.5% of the Exposure amount	12.5% of the amount of discount with par value	2.5% of the Exposure amount + 12.5% of the amount of discount with par value

**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 for listed Debt Market Securities 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.

## CHAPTER 13: MONEY DEFAULT MANAGEMENT

### 13.1 Failure of Settlement of Money Obligation by Clearing Member

13.1.1 A Clearing Member shall be considered to have “failed to settle his money obligations” upon receipt of confirmation by the Company by the Designated Time from the Designated Branch of his Settling Bank as to non or short collection as compared to the details set out in the Settlement Statements provided by the Company to such Clearing Member and to the Designated Branch on each Settlement Date. The above referred money obligations will include the pro rata losses allocated to a Clearing Member under Regulation 13.3 below.

Furthermore, a Clearing Member shall also be considered to have “failed to settle his money obligations” on the occurrence of a failure by such 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 Designated Time Schedule.

13.1.2 Where a Clearing Member fails to settle his money obligations within the Designated Time, the Company shall issue a notice to such Clearing Member and to all Stock Exchanges. This notice shall contain the details of the unpaid amount and shall require the Clearing Member to pay such amount within thirty (30) minutes of the receipt of the notice.

13.1.3 Where a Clearing Member fails to pay the amount as specified in the notice referred to in Regulation 13.1.2 within the deadline for its payment, 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 or restrict access of such Clearing Member (hereinafter in this Chapter referred to as the “Suspended Clearing Member”) to any or all of the services provided by the Company. Where the Company has allocated an additional ID to a Clearing Member pursuant to Regulation 4.3.1A and the Company has taken action against such Clearing Member under the preceding sentence of this Regulation in respect of the notice served on him under Regulation 13.1.2 with regard to his money obligations under either one of his IDs, the Company shall suspend or restrict such Clearing Member’s access to any or all of the services provided by the Company to the Clearing Member under both his IDs. The Company shall deliver suspension or restriction notice to (i) the Suspended Clearing Member, (ii) all Stock Exchanges, (iii) all Clearing Members and (iv) CDC.

Upon receipt of such notice, the relevant Stock Exchange shall also suspend such Clearing Member or restrict his access to the trading terminals of such Stock Exchange in accordance with its regulations.

### 13.2 Actions in the Event of Suspension or Restriction of the Suspended Clearing Member’s access to services offered by the Company

13.2.1 On the determination by the Company of the net money obligations of a Suspended Clearing member on the basis of the notice served by the Company under Regulation 13.1.2 on the Suspended Clearing Member and any amount received by the Company from the Suspended Clearing Member pursuant to such notice, the Company shall endeavor to satisfy such obligations as soon as practicably possible from the following sources:

(a) Funds constituting 50% of the total amount of the Security Deposits of the Clearing Members with the Company. Provided that the amount of the Security Deposit to the

extent stated above shall be applied on the security of the Securities retrieved or received from or on account of the Suspended Clearing Member and shall not exceed 85% percent of the value of the Securities so retrieved or received. Where the Security Deposits have been invested in any securities in terms of these Regulations, the said funds may be arranged from any bank or financial institution on the security of such Securities.

- (b) Funds constituting upto 25% of the total amount of the NCC Clearing and Settlement Fund. However, the mode of replenishment of such utilization shall be determined by the Board from time to time.
- (c) In respect of a Suspended Clearing Member who is a member of one or more Stock Exchanges, funds, out of the clearing house protection funds shall be made available by the respective Stock Exchange to cover shortfall which occurred due to the Suspended Clearing Member who is a member of that Stock Exchange, provided that if the Suspended Clearing Member is an affirming Clearing Member, then the Stock Exchange of the initiating Broker Clearing Member shall be requested by the Company to arrange funds against his obligations for underlying Exchange trades and/or Exchange transactions from the clearing house protection funds. This contribution by the each stock exchange shall not be less than Rs 50 million per default.
- (d) In respect of a Suspended Clearing Member, funds realized by using cash deposited by such Clearing Member as Collateral to the Company and /or to the respective Stock Exchange.

13.2.2 Notwithstanding Regulation 13.2.1, the Company may provide, on a particular Settlement Date, Settling Banks with revised settlement statements (credits) after holding back proportionate amounts in accordance with the credits due to all those Clearing Members to whom credits shall be due on that Settlement Date in the following manner:

1. In case such Suspended Clearing Member failed to satisfy his net money obligation pertaining to Debt market, the Company shall hold proportionate amounts in accordance with the credits due to all those Debt Market Clearing Members to whom credits shall be due on that Settlement Date;
2. In case such Suspended Clearing Member failed to satisfy his net money obligation pertaining to other Markets (excluding Debt market), the Company shall hold proportionate amounts in accordance with the credits due to all those Clearing Members to whom credits shall be due on that Settlement Date in respect of other markets; and
3. In case such Suspended Clearing Member failed to satisfy his net money obligation in all Markets, the Company shall hold proportionate amounts in accordance with the credits due to all those Clearing Members including Debt Market Clearing Members to whom credits shall be due on that Settlement Date.

Provided that where any funds are subsequently realised by the Company and/or become available to the Company under Regulation 13.2.1, such funds shall be disbursed on pro-rata basis to all those Clearing Members from whom any proportionate amounts were withheld as above stated.

13.2.3 Clearing Members shall have no claims whatsoever against the Company for holding back by the Company of proportionate amounts or delay in release of payments (credits) to such Clearing Members.

- 13.2.4 Notwithstanding the above provisions of Regulation 13.2.2, the right of the Company to hold back proportionate amounts or delay in release of payments (credits) to any Clearing Members shall not affect the right of the Company to make actual loss allocation to such Clearing Members in terms of this Chapter.
- 13.2.5 The Company shall refer the case to the NCC Default Management Committee. The Default Management Committee, shall initiate and/or cause to initiate squaring-up/ closing-out process on the Suspended Clearing Member's unsettled Balance Orders, Positions and other Collaterals (such as Securities, Bank Guarantee, Eligible Term Finance Certificates and /or Irrevocable Undertaking) held by the Company and/or by the respective Stock Exchanges as the case may be and any other outstanding positions communicated by the Stock Exchanges. The squaring-up/closing-out shall be undertaken by the Default Management Committee in accordance with these Regulations and Procedures. The amount realized shall be applied towards (i) the repayment to the Company of the outstanding amount of the Security Deposit utilized under Regulation 13.2.1(a) and (ii) the NCC Clearing and Settlement Fund in repayment of the outstanding amount of that Fund utilized under the said Regulation. The Final loss of the Suspended Clearing Member shall be determined after utilizing of and application of the funds realized by the Company through squaring-up / closing-out of the Suspended Clearing Member's unsettled Balance Orders and Positions and liquidation and enchasing of margins, as above stated. However, in case of default by an Authorized Financier, all his open CFS Mk II transactions will be funded by NCCPL and would be closed out when released by the Financee as defined under Chapter 7 of these Regulations. The relevant provisions of the Procedures dealing with squaring-up / closing-out process are contained in Chapter 4 of the Procedures.
- 13.2.6 Upon determination of the final loss of a Suspended Clearing Member, the Company shall serve a loss notice on the Suspended Clearing Member in accordance with these Regulations demanding payment within the banking hours by the next Business Day and shall send copies of such notice to all Stock Exchanges. On non-compliance of any such notice, the Company shall declare such Clearing Member as a defaulter (hereinafter in this Chapter referred to as the "Defaulter Clearing Member") and the Company shall terminate the Defaulter Clearing Member's admission to NCC Systems and his access to the services offered by the Company. A notice of the declaration by the Company of a Clearing Member as a defaulter shall be sent by the Company to the Defaulter Clearing Member, the Stock Exchange, all Clearing Members, CDC and the Commission.
- 13.2.7 Upon receiving of a notice from the Company under the last sentence of Regulation 13.2.6 the relevant Stock Exchange shall also declare such Clearing Member in case of a member of that Stock Exchange, as a defaulter under its relevant regulation in all markets and CDC shall also suspend and/or restrict such defaulter Clearing Member's access to its accounts in the CDS. Moreover, where in case the defaulter Clearing Member is an Authorized Financier, the CDC shall also transferred, with immediate effect, all the CFS Financed Securities in the name of the Company. Subsequently, such CFS Financed Securities shall be utilized by the Company for the fulfillment of delivery obligation so created in the event of CFS MK-II (R) Transactions.
- 13.2.8 After the declaration by the Company of a Broker Clearing Member as a defaulter and by the relevant Stock Exchange, all the assets, including but not limited to any cash deposits held, margins (exposure margins, MTM losses, concentration margins, special margins and any other margins) membership card of the Stock Exchange and premises occupied at the Stock Exchange of such defaulting Broker Clearing Member under the control of such Stock Exchange and / or the Company shall be liquidated by that Stock Exchange and / or the

Company and the proceeds shall be proportionately allocated to the net losses of such Broker Clearing Member in all the markets.

However, before allocation, as stated above, the Company shall:

- a. Contribute upto 25% of the NCC Clearing and Settlement Fund provided that the funds received from the stock exchanges under 13.2.1(c) shall also be utilized before allocation of final loss.

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.

### **13.3 Allocation of net losses by the Company upon terminating a Clearing Member's access to the Services offered by the Company**

13.3.1 On termination of a Defaulter Clearing Member's access to the services offered by the Company, the Company shall allocate and recover net losses, if any, of the Defaulter Clearing Member as follows:-

(a) Where the Defaulter Clearing Member is a Broker Clearing Member:

(1) The Company shall ascertain such Defaulter Clearing Member's Stock Exchange-wise, respective market-wise and Security-wise net losses, Provided that:

(i) the net profit, if any, of the Defaulter Clearing Member ascertained in any Security in any market at any Stock Exchange shall be applied on pro-rata basis against the net losses, if any, of the Defaulter Clearing Member in that market of that Stock Exchange in any other Securities on a particular Settlement Date;

(ii) the net profit, if any, of the Defaulter Clearing Member in one market in a Stock Exchange shall be applied on pro-rata basis against the net losses, if any, of the Defaulter Clearing Member ascertained in other market(s) in that Stock Exchange on a particular Settlement Date;

(iii) where the Defaulter Clearing Member is a member of more than one Stock Exchange, the net profit, if any, of the Defaulter Clearing Member ascertained at any Stock Exchange shall be applied on pro-rata basis against the net losses, if any, of the Defaulter Clearing Member ascertained at other Stock Exchange(s) on a particular Settlement Date, and

(2) In order to ascertain the basis of allocation, the Company shall prepare a statement of Clearing Members' gross volumes of the Exchange trades, Exchange transactions and Non Exchange Transactions in the Security which caused losses to the Defaulter Clearing Member of:

(a) all the Broker Clearing Members any one or more of whom had initiated any IDS transactions in such Security from that particular Stock Exchange on that Settlement Date and were involved in Exchange trades and Exchange transactions in that particular Stock Exchange in the Security which caused losses to the Defaulter Clearing Member; and

- (b) all Non-Broker Clearing Members who had entered into any Non Exchange Transactions in such Security on that Settlement Date.

Provided that IDS transactions shall be excluded from the Gross Volumes of the Exchange trades and Exchange transactions

- (3) The Company shall recover the allocated losses of the Defaulter Clearing Member from all those Clearing Members who were involved in Exchange trades, Exchange transactions and Non Exchange Transactions in the Security which caused losses to the Defaulter Clearing Member in proportion to their gross trading volume in such Security as per the statement referred to in the preceding paragraph (2) above. The amounts of the allocated losses shall be collected through the Settling Banks in accordance with the Procedures.

- (b) Where the Defaulter Clearing Member is a Non-Broker Clearing Member and had affirmed any Non Exchange Transactions on NCSS:

- 1. The Company shall determine the amount of the loss of the Defaulter Clearing Member attributable to his executed Non Exchange Transactions for a particular Settlement Date, provided that:

- (i) the net profit, if any, of the Defaulter Clearing Member ascertained in any Security in any market shall be applied on pro-rata basis against the net losses of the Defaulter Clearing Member in that market in any other Securities on a particular Settlement Date;

- (ii) the net profit, if any, of the Defaulter Clearing Member in one market shall be applied on pro-rata basis against the net losses of the Defaulter Clearing Member ascertained in other market(s) in that Stock Exchange on a particular Settlement Date;

- 2. In order to ascertain the basis of allocation of the loss attributable to the Non Exchange Transactions affirmed by a Defaulter Clearing Member, the Company shall prepare a statement of the gross volumes of the Exchange trades, the Exchange transactions and the Non Exchange Transactions in the Security which caused losses to the Defaulter Clearing Member of:

- (a) all the Clearing Members as are members of a Stock Exchange any one or more of whom had initiated any IDS transactions in such Security on that Settlement Date and were involved in Exchange trades and Exchange transactions in the Security which caused losses to the Defaulter Clearing Member; and

- (b) all Non-Broker Clearing Members who had entered into any Non Exchange Transactions in such Security on that Settlement Date.

Provided that in preparing a statement of the gross volumes as above stated IDS transactions along with its underline Exchange trades and Exchange transactions shall be excluded from the gross volumes of the Exchange trades and Exchange transactions.

- 3. The Company shall recover the allocated losses of the Defaulter Clearing Member from those Clearing Members, including Non-Broker Clearing Members, as are referred to in preceding paragraph (2) in proportion to their gross volumes in the Security which caused losses to the Defaulter Clearing Member as per the statement referred to in the said

paragraph. The amounts of the allocated losses shall be collected through the Settling Bank in accordance with the Procedures.

- 13.3.2 Payments by Clearing Members to whom a Defaulter Clearing Member's losses have been allocated by the Company shall be treated as their "claims" (hereinafter referred to as the "Claims") against such Defaulting Clearing Member and, if the default was caused on account of a default by any client(s) of such Defaulting Clearing Member, against such client(s). The Company will have no liability in respect of the Claims. Provided that where the Defaulter Clearing Member is a Non-Broker Clearing Member and any funds or assets of such Non-Broker Clearing Member come into the possession of the Company (for the recovery of which the Company shall have no liability), the Company shall apply such funds or assets in settlement of the Claims on pro rata basis (after deducting the Company's costs and expenses) and such Non-Broker Clearing Members shall be deemed to have authorised the Company for this purpose.

#### **13.4 Miscellaneous**

- 13.4.1 Any costs or charges incurred by the Company in arranging funds for inter Settling Banks movements due to delay in payment by a Clearing Member and the delayed payment charges/non payment charges referred to in Regulation 13.4.5 shall be charged to such Clearing Member.
- 13.4.2 The Company shall make every possible effort to release funds to Clearing Members having credit balances on the same Settlement Date on which a default occurred but delays in release of payments (credits) to Clearing Members may nevertheless occur as envisaged in Regulation 13.2.3 above. Such Clearing Members shall have no claim whatsoever against the Company for delay in release of or holding back of payments (credits) due to them.
- 13.4.3 Due to net squaring-up / closing out of a Suspended Clearing Member's unsettled Balance Order and Positions, deliveries to receiving Clearing Members may be delayed. Such Clearing Members shall have no claim whatsoever against the Company for delay in deliveries to them.
- 13.4.4 For the purpose of allocation of losses and ascertaining the basis of allocation thereof to any Clearing Members, the Exchange transactions which are released on any Business Day shall be accounted for on that Business Day.
- 13.4.5 Without prejudice to or in any manner limiting the obligations of a Clearing Member as set out in these Regulations and/or the Procedures arising from his failure to make payment, within the deadline for its payment, of the amount set out in the notice issued to the Clearing Member under Regulation 13.1.2, the Clearing Member shall pay to the Company (in addition to the amount set out in the said notice and other amounts payable under these Regulations and/or the Procedures) delayed payment charges / non-payment charges calculated at the rate of 0.50% of the amount not paid, subject to a minimum of Rs. 2,500/- (Rupees Two thousand and five hundred only).
- 13.4.6 Default Management Committee
1. The Default Management Committee shall comprise the following members:
    - (a) Chairman and / or a person nominated by the Board of Directors of the stock exchange(s), whose member has defaulted;

- (b) Managing Director of the stock exchange(s), whose member has defaulted;
  - (c) Chairman and / or a person nominated by the Board of Directors of the Company;
  - (d) Chief Executive Officer of the Company;
  - (e) Chairman and / or a person nominated by the Board of Directors of the Pakistan Banks' Association;
  - (f) Chairman and / or a person nominated by the Board of Directors of the Mutual Funds Association of Pakistan;
2. The Chairman of the Committee shall be selected by majority of the members.
  3. The Chief Executive Officer of the Company shall act as the secretary of the Default Management Committee.
  4. Three members of the Default Management Committee will constitute the quorum for a meeting of the Default Management Committee.
  5. The Default Management Committee shall meet as often as necessary. The meetings of the Default Management Committee shall be convened by a notice in writing issued by the secretary of the Default Management Committee.
  6. All decisions and recommendations of the Default Management Committee shall be expressed by way of a resolution passed by a majority of the members of the Default Management Committee present and voting at the meeting.
  7. The resolutions passed by the Default Management Committee shall be valid notwithstanding any defect in the appointment of any of its members or existence of any vacancy in its membership.

Provided that all members of the aforementioned Committee who have any conflict of interest, whatsoever, shall explicitly disclose, such conflict of interest, to the Committee during the course of the said Committee meeting (s), which shall also be documented in the minutes of the meeting.

8. Such person having conflict of interest in any matter, shall not vote in respect of such matter, nor shall be accounted for in the quorum of the meeting.
9. The scope of the Committee shall be to monitor & supervise all acts and functions carried out under chapter 7 of these Regulations.

**CHAPTER 14: POWER TO IMPOSE DISCIPLINARY CHARGES ETC.****14.1 Imposition of disciplinary charges and other actions**

14.1.1 If the Company receives information in respect of a NCC Participant which in the reasonable opinion of the Chief Executive Officer discloses any contravention of any provisions of these Regulations and/or the Procedures by the NCC Participant or errors, delays or other conduct of the NCC Participant embarrassing or adversely affecting the operations of NCC Systems, the Chief Executive Officer may by order in writing:

- (a) ensure the NCC Participant;
- (b) impose a disciplinary charge, not exceeding an amount as fixed by the Board, on the NCC Participant;
- (c) if because of the contravention, the Company has suffered loss or damage (other than any loss or damage specifically mentioned in any specific provisions of these Regulations and/or the Procedures and to be recovered in accordance with such provisions), to pay to the Company such loss or damage;
- (d) if because of the contravention, any other NCC Participant has suffered loss or damage (other than any loss or damage specifically mentioned in any specific provisions of these Regulations and/or the Procedures and to be recovered in accordance with such provisions), to pay to such other NCC Participant an amount not exceeding the amount of that loss or damage.

**14.2 Imposition of disciplinary charges by Chief Executive Officer**

14.2.1 Notwithstanding Regulation 14.1.1, the Chief Executive Officer shall be authorised, by order in writing, to impose any disciplinary charges on any NCC Participant which the Company is authorised to impose under any other provisions of these Regulations and/or the Procedures.

**14.3 Notice to NCC Participant before taking action**

14.3.1 Before passing an order under Regulation 14.1 or 14.2 of this Chapter, the Chief Executive Officer shall:

- (a) give Notice to such NCC Participant of the charges against the NCC Participant and calling upon the NCC Participant to show cause on or before a date specified therein as to why any action under Regulation 14.1.1 or Regulation 14.2.1 shall not be taken by the Chief Executive Officer; and
- (b) give the NCC Participant an opportunity of being heard and of placing before the Chief Executive Officer facts and material in support of his contention.

**14.4 Right of Hearing**

14.4.1 Any NCC Participant aggrieved by any order made by the Chief Executive Officer under Regulations 14.1.1 and 14.2.1 may request for a hearing under Chapter 23 (HEARING AND APPEAL PROCEDURES). A request for a hearing must be in writing and filed within seven (07) Business Days after receipt from the Company of the order of the Chief Executive Officer under Regulations 14.1.1 and 14.2.1.

## **CHAPTER 15: WHEN THE COMPANY RESTRICTS, SUSPENDS OR TERMINATES ITS SERVICES TO A NCC PARTICIPANT**

### **15.1 Notice to NCC Participant when the Company ceases to act for him**

15.1.1 When the Company takes any action in respect of a NCC Participant pursuant to Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY), it shall provide to that NCC Participant with a Notice to this effect and a general Notice to all NCC Participants, the Stock Exchanges and CDC of the action taken by the Company.

15.1.1(a) Notice shall also be sent to the Commission in case the NCC Participant is terminated due to default.

15.1.2 Any Notice required to be given to a NCC Participant pursuant to Regulation 15.1.1 shall state therein, or in a subsequent Notice, any consequent steps to be taken and as to how pending Exchange trades, Exchange transactions and Non-Exchange transactions shall be effected.

15.1.3 When the Company has taken any action in respect of a NCC Participant, as aforesaid, the NCC Participant may be permitted restricted access to the NCC Systems within the limitations prescribed by the Company to the intent that the liability of the NCC Participant is reduced. Any further Exchange trades, Exchange transactions and/or Non-Exchange transactions of the NCC Participant Transmitted to the Company or recorded with the Company during such restricted access to NCC Systems and which have the effect of increasing the liability of the NCC Participant may be ignored and excluded from all operations of the Company, provided that any unreleased Exchange transactions Transmitted to the Company which may increase the liability of such NCC Participant shall not be ignored or excluded.

15.1.4 Any Exchange trades and/or Exchange transactions so excluded shall be settled by the relevant Stock Exchange in appropriate manner deemed necessary by such Stock Exchange and not through the Company.

15.1.5 All Balance Order Transactions not excluded pursuant to Regulation 15.1.3 shall be handled as provided for in these Regulations and/or Procedures.

### **15.2 Balance Order Securities deliverable to Clearing Member in respect of whom the Company has taken action.**

15.2.1 Except as otherwise may be determined by the Company in any particular case, Balance Order Securities deliverable to the Clearing Member in respect of whom the Company has taken any action pursuant to Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY) shall be retrieved by NCSS and the Company shall cause sell-out of such Securities in accordance with the Procedures. The Balance Order Securities deliverable by such a Clearing Member shall be caused to be bought-in by the Company in accordance with the Procedures and delivered to the Clearing Member to whom such Securities are to be delivered. If any profit or loss, as the case may be, accrues to the Company as a result of the purchases or sales effected as above stated under the Balance Order Settlement System, such profit or loss shall be credited or debited to the Clearing Member's Money Account, provided that payment of profit shall be subject to the approval of the relevant Stock Exchange.

**15.3 Rights of the Company**

- 15.3.1 After the Company has taken any action against a NCC Participant pursuant to Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY) either in respect to a particular transaction or transactions generally, the Company shall nevertheless have the same rights and remedies in respect to any Debit Balance due from such NCC Participant or any liability incurred on his behalf as though it had not taken any such action against the said NCC Participant.
- 15.3.2 As security for any and all liabilities existing or arising at any time of a NCC Participant to the Company, the Company shall have a lien on:
- (a) the Security Deposit of the NCC Participant;
  - (b) all cash received by the Company for delivery to such NCC Participant; and
  - (c) any Securities which are retrieved by the Company in terms of these Regulations and/or the Procedures.

**CHAPTER 16: SUSPENSION OF REGULATIONS / PROCEDURES****16.1 Waiver or suspension by the Board**

- 16.1.1 The time fixed by these Regulations and/or the Procedures for the doing of any act or acts may be extended or the doing of any act or acts required by these Regulations and/or the Procedures by the Company may be waived or any provision of these Regulations or the Procedures may be suspended by the Board whenever, in its judgment, such extension, waiver or suspension is necessary or expedient.
- 16.1.2 A written Report of any such extension, waiver or suspension (other than an extension of time of less than eight hours), stating the pertinent facts, the identity of the person or persons who authorized such extension, waiver or suspension and the reason such extension, waiver or suspension was deemed necessary or expedient, shall be promptly made and filed with the Company's records and shall be available for inspection by any NCC Participant during regular business hours on a Business Days. Any such extension or waiver may continue in effect after the event or events giving rise thereto but shall not continue in effect for more than 60 calendar days, unless the Board may, in a meeting or meetings, grant further extension or extensions or waiver or waivers.

**CHAPTER 17: CHARGES FOR SERVICES RENDERED****17.1 Fees and charges**

- 17.1.1 The Company shall recover and the NCC Participants shall pay such fees and charges to the Company as shall be specified in the Fees, Charges and Security Deposit Schedule, subject to the Procedures.

## **CHAPTER 18: RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY**

### **18.1 Restriction, suspension or termination of access to services**

18.1.1 The Company may restrict, suspend or terminate a NCC Participant with respect to access to services offered by the Company in the event that:

- (a) being a stockbroker, his registration is cancelled by the Commission;
- (b) being a member of one Stock Exchange, he is suspended or ceases to be a member of that Stock Exchange, provided that where he is a member of more than one Stock Exchange and is suspended by or ceases to be a member of one Stock Exchange whilst remaining an active member of any other Stock Exchange, the Company shall not (except if any other paragraphs of this Regulation applies to such NCC Participant restrict, suspend or terminate his access to the services offered by the Company in respect of his Exchange trades and Exchange transactions on such Stock Exchange and Non-Exchange Transactions on NCC Systems;
- (c) the NCC Participant has ceased to be a NCC Participant or an Account Holder of Central Depository or he is suspended by the Central Depository, or any such Restrictions are imposed on him by the Central Depository which make it impossible for him to act as a NCC Participant under these Regulations and/or the Procedures. The term “Restrictions” as used above in this Regulation shall have the same meaning as set out in the CDC Regulations making it impossible for the NCC Participant to move Securities from his account with CDC or from any other account with CDC which is controlled by the NCC Participant ;
- (d) such NCC Participant is in money default in terms of Chapter 13 (MONEY DEFAULT MANAGEMENT);
- (e) such NCC Participant is in such financial or operating difficulty, that the Company determined, in its discretion, that such action is necessary for the protection of the Company, NCC Participant s , and/or investors;
- (f) the Company has reasonable grounds to believe that such NCC Participant is subject to a legal disability by virtue of which it cannot act as a Clearing Member;
- (g) the Company determines that such NCC Participant does not meet the applicable qualifications for membership set forth in Chapter 5 and Chapter (APPLICATION FOR ADMISSION AND ADMISSION CRITERIA);
- (h) the NCC Participant has given a Notice to the Company under Regulation 19.1.1 or the Company treats the NCC Participant as an insolvent under Regulation 19.2.1;
- (i) the NCC Participant has given a 07 (seven) days Notice to the Company of his intention to terminate his business with the Company; or
- (j) in any other circumstances in which, in the discretion of the Company, adequate cause exists to do so.

### **18.2 Notice to NCC Participant before taking action**

18.2.1 Before restricting, suspending or terminating, as the case may be, a NCC Participant access to services offered by the Company pursuant to this Chapter, the Company shall notify such NCC

Participant pursuant to Regulation 18.2.2, except where action has been taken by the Company pursuant to paragraphs (a), (b) (c), (d), (h) and (i) of Regulation 18.1.1.

18.2.2 Any Notice required to be given by the Company pursuant to Regulation 18.2.1 shall set forth the specific grounds upon which any restriction, suspension, or termination, as the case may be, of access may be based and shall call upon the NCC Participant to show cause as to why his access to the services offered by the Company should not be restricted, suspended or terminated, as the case may be, on account of the grounds set out in the said Notice. If a reply to such Notice is not received by the Company within seven Business Days after it is received by the NCC Participant or such a reply is received but is not found satisfactory by the Company, the Company may by a further two Business Days Notice to the NCC Participant restrict, suspend or terminate, as the case may be, the NCC Participant's access to the services offered by the Company. The NCC Participant shall have a right to request a hearing against such action of the Company. Such request shall be required to be filed by such NCC Participant pursuant to Chapter 23 (HEARING AND APPEAL PROCEDURES) within seven Business Days after he has received the said further Notice from the Company. Notwithstanding such request for hearing, the restriction, suspension or termination, as the case may be, of the NCC Participant's access to the services offered by the Company shall remain effective, unless the decision of the Tribunal in the hearing does not uphold the action of the Company.

18.2.3 In the event that the Company has restricted, suspended or terminated, as the case may be, a NCC Participant's access to the services offered by the Company pursuant to Regulation 18.2, the Company shall take such action(s) as are set out in Chapter 15 (WHEN THE COMPANY RESTRICTS, SUSPENDS OR TERMINATES ITS SERVICES TO A NCC PARTICIPANT), except as otherwise provided in these Regulations.

### **18.3 Summarily restriction, suspension or termination**

18.3.1 Notwithstanding Regulation 18.2.1 the Company may summarily restrict, suspend or terminate, as the case may be, a NCC Participant's access to services offered by the Company in the event that either one or more of conditions (a), (b), (c), (d), (h) and (i) of Regulation 18.1.1 apply to such NCC Participant.

18.3.2 In the event that the Company has summarily restricted, suspended or terminated, as the case may be, a NCC Participant's access to the services offered by the Company, the Company shall take such action(s) as are set out in Chapter 15 (WHEN THE COMPANY RESTRICTS, SUSPENDS OR TERMINATES ITS SERVICES TO A NCC PARTICIPANT), except as otherwise provided in these Regulations.

### **18.4 Liability of the Company upon suspension or termination of a NCC Participant with respect to services offered by the Company**

18.4.1. In the event of suspension or termination of a NCC Participant with respect to services offered by the Company under these Regulations and/or the Procedures, the Company shall close out or cause to be closed out the Positions of the NCC Participant at the time any of the said action is taken by the Company.

### **18.5 Liability of NCC Participant upon his restriction, suspension or termination with respect to services offered by the Company**

18.5.1 In the event of the restriction, suspension or termination of a NCC Participant with respect to services offered by the Company such an event shall not release him from the unsatisfied obligations to the Company and other NCC Participants.

**CHAPTER 19: INSOLVENCY****19.1 Insolvency Notice by NCC Participant**

- 19.1.1 A NCC Participant who fails to perform his contracts or obligations or determines that he is unable to do so or is insolvent shall immediately notify the Company pursuant to Regulation 19.2.1.
- 19.1.2 Any Notice required to be given to the Company by a Clearing Member pursuant to Regulation 19.1.1 shall be given in writing as soon as possible after the NCC Participant fails to perform his contracts or obligations or determining that he is unable to do so or is insolvent.

**19.2 Events in which NCC Participant will be treated insolvent**

- 19.2.1 A NCC Participant shall be treated by the Company in all respects as insolvent:
- (a) upon receipt of written Notice, pursuant to Regulation 19.1.1, or
  - (b) in the event of the entry of a decree or order by a Court having jurisdiction in the premises adjudging the NCC Participant bankrupt or insolvent or approving as properly filed a petition seeking reorganization, arrangement, adjustment (otherwise than by way of amalgamation) or composition of or in respect of the NCC Participant under or any applicable Federal or Provincial law or appointing a receiver, liquidator, assignee, trustee, (or other similar official) of the NCC Participant or of any substantial part of his property or ordering the winding up or liquidation of the NCC Participant or of his affairs, or
  - (c) the institution by the NCC Participant of proceedings, as the case may be, to be wound-up or to be adjudicated as bankrupt or insolvent, or
  - (d) Upon the consent by him to the institution of bankruptcy, insolvency or winding up proceedings against him, or
  - (e) Upon the filing by him of a petition or consent in seeking reorganization or relief under or any applicable Federal or Provincial law, or
  - (f) Upon the consent by him to the filing of any such petition, or to the appointment of a receiver, liquidator, assignee, trustee, (or other similar official) of the NCC Participant or of any substantial part of his property, or
  - (g) the making by him of an assignment for the benefit of creditors, or
  - (h) the admission by him in writing of his inability to pay his debts generally as they become due, or
  - (i) the taking of corporate action by the NCC Participant in furtherance of any action above mentioned.

**19.3 Notice by the Company of action taken**

- 19.3.1 The Company shall notify NCC Participants pursuant to the provisions of Regulation 19.3.2 of actions taken by the Company pursuant to Regulation 18.1.1(i) of Chapter 18 (RESTRICTION, SUSPENSION OR TERMINATION OF ACCESS TO SERVICES OFFERED BY THE COMPANY).

- 19.3.2 Notice by the Company pursuant to Regulation 19.3.1 to all NCC Participant s shall be given as soon as possible after the receipt of a NCC Participant 's Notice under Regulation 19.1.1 or as soon as possible after the NCC Participant is determined by the Company to be insolvent under Regulation 19.2.1, whichever is earlier; and shall state whether the Company has ceased to act for the insolvent NCC Participant (that is to say, terminated the Clearing Member's access to the services offered by the Company) as well as how the pending matters will be affected and what steps will be taken in connection therewith.

## **CHAPTER 20: ADMISSION TO PREMISES OF THE COMPANY POWER OF ATTORNEY, ETC.**

### **20.1 Representative of NCC Participant**

- 20.1.1 No person will be permitted to enter the premises of the Company as the representative of any NCC Participant unless he has first been approved by the Company and has been issued such credentials as the Company may from time to time prescribe and such credentials have not been canceled or revoked. Such credentials must be shown on demand, and may limit the portions of the premises to which access is permitted thereunder. Any credentials issued pursuant to this Regulation may be revoked at any time by the Company in its discretion, and prompt Notice of such revocation shall be given to the employer of the person whose credentials have been so revoked.
- 20.1.2 Any NCC Participant shall, if any person in its employment to whom any credentials have been issued pursuant to this Regulation or to whom a power of attorney or other authorization has been given to act for it in connection with the work of the Company shall for any reason cease to be so employed, give to the Company immediate Notice in writing of such termination of employment and if any such power of attorney or other authorization is otherwise revoked or canceled, shall likewise give to the Company immediate Notice in writing of such revocation or cancellation. All credentials issued pursuant to this Regulation shall be immediately surrendered to the Company upon their revocation by the Company or by the employer or upon the termination of the employment of the holder thereof.
- 20.1.3 Unless revoked by the Company, all credentials, authorizations, and powers of attorney issued pursuant to this Regulation or in connection with the work of the Company shall remain in full force and effect until the Company shall have received written Notice of the revocation thereof or of the termination of the holder's employment.
- 20.1.4 All approvals, credentials, powers of attorney and/or authorizations, as above-mentioned, issued and/or granted pursuant to the corresponding provisions of the 2001 NCSS Regulations and in force at the time of the coming into force of these Regulations shall, subject to Regulation 20.1.3, continue to remain in force and deemed to have been issued and/or granted under this Chapter.

**CHAPTER 21: FORMS****21.1 Prescribing of Forms**

- 21.1.1 In connection with any transactions or matters handled through, with or by the Company under or pursuant to the Regulations and/or the Procedures, such forms and other documents shall be used as the Company may from time to time prescribe, and additions to, changes in and elimination of any such forms or documents may be made by the Company at any time in its discretion provided that the forms and other documents referred to in this Regulation as were prescribed by the Company pursuant to the corresponding provisions of the 2001 NCSS Regulations shall be deemed to be the forms and other documents prescribed by the Company under this Regulation.

**CHAPTER 22: AMENDMENTS IN THE REGULATIONS****22.1 Amendment in, addition to or substitution of the Regulations**

22.1.1 The Company may at any time make amendments to, including additions to or deletions from or substitution of these Regulations. Any such amendment, addition or substitution shall take effect as of the date of approval thereof by the Commission and shall be binding on all NCC Participant and others to whom these Regulations are applicable. Such date shall be notified in the Gazette of Pakistan.

22.1.2 The provisions of the Regulations and Procedures relating to the posting of collateral by the NCC Participating will not be changed and / or substituted by the Company without circulating the proposed changes and / or the new provisions to the concerned Clearing Members and soliciting comments of the concerned Clearing Members on such changes and / or new provisions. In order to undertake the aforementioned process, a Committee shall be formed which shall consist of:

- (i) Chairman and the Chief Executive of the Company;
- (ii) Chairman or a person nominated by the Board of Directors of the stock exchanges;
- (iii) Chairman or a person nominated by the Pakistan Bank Association; and
- (iv) Chairman or a person nominated by the Mutual Funds Association of Pakistan.

The Committee shall make its recommendations to the Company with regard to the proposed amendments and new provisions. Subject to compliance with this requirement where applicable, the Company shall be fully empowered under Regulation 22.1 to amend or substitute these Regulations and Procedures and final decision with regard to any such amendments or substitution shall remain with the Company.

**CHAPTER 23: HEARING AND APPEAL PROCEDURES****23.1 Request for Hearing**

23.1.1 A NCC Participant Clearing Member or an applicant for admission as a NCC Participant (hereinafter in this Regulation referred to as the “Interested Person”) may, when permitted by these Regulations, request a hearing by filing with the Company, within the applicable time period specified by these Regulations, a written request for a hearing setting forth:

- (a) the action or proposed action of the Company or of the Chief Executive Officer with respect to which the hearing is requested, and
- (b) the name of the representative of the Interested Person who may be contacted with respect to the hearing.

23.1.2 Except as may be otherwise provided in any specific provisions of these Regulations, within 10 Business Days after the Interested Person files such written request with the Company, the Interested Person shall submit to the Company a clear and concise written statement setting forth with particularity:

- (a) the action or proposed action of the Company or of the Chief Executive Officer with respect to which the hearing is requested;
- (b) the basis for objection to such action;
- (c) whether the Interested Person intends to attend the hearing; and
- (d) whether the Interested Person chooses to be represented by counsel at the hearing.

23.1.3 The failure of the Interested Person to file the written request referred to above within the time period required by these Regulations and/or the failure of the Interested Person to submit the written statement within the time period specified above will be deemed to be an election to waive the right to a hearing.

23.1.4 The Company shall notify the Interested Person in writing of the date, place and hour of the hearing at least 5 Business Days prior to the hearing (unless a shorter period is specified in any specific provisions of these Regulations or the parties agree to waive the 5 Business Days requirement).

**23.2 Tribunal**

23.2.1 The hearing will be before a Tribunal (hereinafter called the “Tribunal”) constituted as set out in Regulations 23.2.2 and 23.2.3.

23.2.2 A Tribunal shall consist of a President or a Deputy President appointed under Regulation 23.2.2 and two members selected by the President out of a panel (“Panel”) constituted by the Board under Regulation 23.3:

- (a) The Board shall appoint:
  - (i) a member of the Panel as the President of the Tribunal; and

(ii) a member of the Panel as the Deputy President of the Tribunal,

and shall determine the period for which, and the terms and conditions (including as to remuneration) on which the President and Deputy President shall hold office. The President and the Deputy President of the Tribunal appointed by the Board under the 2001 NCSS Regulations shall continue to hold their respective offices till replaced by the Board, and shall be deemed to have been appointed under this Regulation.

(b) If for any reason (including conflict of interest) the President of a Tribunal is unable or unwilling to perform any of the functions of the President in relation to a hearing, the Deputy President of the Tribunal may act in the President's place in relation to that hearing.

(c) Where the Deputy President of a Tribunal acts in place of the President, under paragraph (b) of this Regulation the Deputy President shall constitute the President of the Tribunal and he shall then co-opt on the Tribunal another member of the Panel as the Deputy President of the Tribunal.

23.2.3 If for any reason (including conflict of interest) the President and the Deputy President of the Tribunal are both unable or unwilling to perform the functions of the President in relation to a hearing, the Board may nominate a member of the Panel who shall act in the President's place in relation to that hearing.

### **23.3 Establishment of the Panel**

23.3.1 The Board shall establish a Panel from which members of the Tribunal shall be chosen in accordance with these Regulations. The Panel established by the Board under the 2001 NCSS Regulations shall, till changed by the Board, continue to remain in place and shall be deemed to have been established under this Regulation.

23.3.2 The Board shall appoint persons to the Panel from amongst its members and/or from a list of other persons approved by the Board from time to time for appointment to the Panel.

23.3.3 The Board shall appoint persons to the Panel from time to time so that the Panel has not less than 5 members at any time. The persons appointed by the Board to the Panel shall remain members of the Panel till replaced by the Board, and shall be deemed to have been appointed to the Panel under this Regulation.

23.3.4 The Board may determine the period for which, and the terms and conditions (including as to remuneration) on which persons are appointed to the Panel.

23.3.5 If:

(a) a member of the Panel is asked to serve on the Tribunal; and

(b) at any time while the member serves on that Tribunal, the member becomes aware of any material interest the member has in the subject matter of hearing before that Tribunal, the member shall forthwith declare the existence of that interest, and decline to serve on the Tribunal.

### **23.4 Appeals**

23.4.1 An Interested Person or the Company may Appeal against the decision of the Tribunal by giving an Appeal Notice to the Company Secretary of the Company that complies with Regulation 23.4.2.

23.4.2 An Appeal Notice shall:

- (a) identify the decision or part of a decision of the Tribunal against which the Appeal is made;
- (b) sets out the grounds of Appeal; and
- (c) be given no later than 10 Business Days after receipt by the appellant party of the decision of Tribunal under Regulation 23.6.12.

23.4.3 If the Company Secretary of the Company:

- (a) receives an Appeal Notice from an Interested Person; or
- (b) receive an Appeal Notice from the Company,

the Company Secretary shall promptly give a copy of the Appeal Notice to the Commission and request that the Commission appoints a date, time and place for the hearing of the Appeal.

23.4.4 If the Commission receives a copy of an Appeal Notice from the Company Secretary of the Company, the Commission shall, as soon as practicable:

- (a) appoint a date, time and place for the hearing of the Appeal; and
- (b) give reasonable Notice to the Interested Person and to the Company of the date, time and place for the hearing.

## **23.5 Hearing and determination of Appeals**

23.5.1 An Appeal shall be conducted in accordance with Regulation 23.6.

23.5.2 The Appeal shall not be conducted as a re-hearing of the hearing giving rise to the decision of the Tribunal Appealed from, but the Commission may review, and depart from, any findings of the Tribunal.

23.5.3 The Commission may:

- (a) affirm;
- (b) vary in any respect, including as to any fine or disciplinary charge imposed or direction given; or
- (c) set aside and substitute with another determination,

the decision of the Tribunal to which the Appeal relates.

23.5.4 If the Commission determines that a contravention by a NCC Participant of Regulations and/or Procedures or errors, delays or other conduct of the Clearing Member adversely affecting the operations of NCC Systems has occurred and varies or sets aside the determination of the Tribunal the Company shall take enforcement action in accordance with the determination of the Commission.

23.5.5 If an Appeal is allowed in full, the reasonable costs of the appellant Party shall be borne by the other Party. In any other case, the Commission may, in its discretion, direct a Party to pay the reasonable costs, or a specified part or proportion of the costs, of the other Party to the Appeal.

### **23.6 Hearings before the Tribunal and the Commission**

23.6.1 The President of Tribunal or the Commission, as the case may require, may cancel a hearing date for which Notice has previously been given and appoint a substitute hearing date provided reasonable Notice of the substitute hearing date is given to the Parties.

23.6.2 A Tribunal or the Commission, as the case may require, may adjourn and re-convene a hearing as it thinks fit.

23.6.3 Subject to Regulation 23.6.2, hearings before a Tribunal or the Commission, as the case may require, shall take place in private.

23.6.4 A Party may be represented at a hearing before the Tribunal or the Commission by:

- (a) an officer or employee of the Party;
- (b) an advocate licenced to practice in a High Court in Pakistan;
- (c) any other professional adviser whose knowledge or qualifications are, in the opinion of the Tribunal or the Commission, as the case may require, relevant to the hearing; or
- (d) any other person approved by the Tribunal or the Commission.

23.6.5 If a Party does not wish to appear at a hearing before a Tribunal or the Commission, as the case may require, that Party may, not less than 10 Business Days before the day of the hearing (or such lesser time as is reasonable having regard to the prior Notice of the hearing which was given to that Party), lodge with the President of the Tribunal or the Commission, as the case may require, a written submission in relation to the hearing or Appeal, as the case may require.

23.6.6 Hearings before a Tribunal or the Commission, as the case may require, shall be conducted:

- (a) with as little formality and with as much expedition as a proper consideration of the matters before the Tribunal or the Commission permits; and
- (b) subject to the provisions of this Chapter, as the Tribunal or the Commission thinks fit.

23.6.7 The Tribunal or the Commission, as the case may require, may cause a transcript of Proceedings at a hearing to be taken. If a transcript is taken, the Tribunal or the Commission must make the transcript available to the Parties.

23.6.8 In a hearing, the Tribunal or the Commission, as the case may require, shall:

- (a) determine matters before it without bias;
- (b) give each Party a fair hearing; and
- (c) otherwise observe the rules of natural justice.

23.6.9 The Tribunal or the Commission, as the case may require, may obtain such legal or other professional advice as it requires, and may have its advisers present at a hearing.

- 23.6.10 Each member of a Tribunal shall exercise one vote and determinations of the Tribunal shall be by majority. The President of the Tribunal shall not have a casting vote.
- 23.6.11 If a Tribunal or the Commission, as the case may require, uphold the imposition of fine, disciplinary charge or payment of any other amount or directs that a payment be made (including payment of any costs), the Tribunal or the Commission may specify a date by which payment must be made.
- 23.6.12 The Tribunal or the Commission, as the case may require, shall, within 15 Business Days after the conclusion of a hearing, give to each Party its written decision setting forth the specific grounds upon which the decision is made.
- 23.6.13 Subject to Regulation 23.5.5, each Party to a hearing before a Tribunal or Appeal shall bear its own costs in relation to the hearing before the Tribunal or the Commission.

### **23.7 Indemnification of members of Tribunal**

- 23.7.1 To the fullest extent permitted by law, the Company shall indemnify:
- (a) each member of the Tribunal; and
  - (b) each officer of the Company acting in connection with hearing before the Tribunal or before the Commission in an Appeal, against any liability arising in connection therewith.

### **23.8 Savings**

- 23.8.1 Any request for hearing, any hearing, any Appeal Notice and/or any Appeal and/or any other action or proceeding under the corresponding provisions of this Chapter of the 2001 NCSS Regulations and pending on the date of coming into force of these Regulations shall be acted upon, continued and disposed of under this Chapter.

**CHAPTER 24: RELEASE OF CLEARING DATA****24.1 Disclosure of Clearing Data**

- 24.1.1 Except as provided in any other law for the time being in force, neither the Company nor any director or officer of the Company whether during his tenure of office or during his employment or thereafter, and no other person who has by any means knowledge of any Clearing Data (as referred to in Regulation 24.1.6 below) shall give, divulge, reveal or otherwise disclose such Clearing Data to any other person.
- 24.1.2 A person who has any Clearing Data which to his knowledge has been disclosed in contravention of Regulation 24.1.1 shall not in any manner howsoever disclose it to any other person.
- 24.1.3 The provisions Regulation 24.1.1 shall not entitle the Company to refuse to disclose any Clearing Data :
- (j) of a Clearing Member to such Clearing Member;
  - (k) of a Clearing Member which such Clearing Member has authorised in writing to disclose;
  - (c) in case where Clearing Member, being an individual, is declared an insolvent or, being a firm, company or other body corporate is being or has been wound up within or outside Pakistan to the person who have a right to receive Clearing Data relating to a Clearing Member arising from such development.
  - (d) in the case of any litigation or other legal proceedings, subject to a proper court order;
  - (e) to any person duly authorised by a competent court, by the Commission or any other competent authority holding any inquiry or investigating into any offence under any law for the time being in force;
  - (f) for the purpose of enabling or assisting the Commission to exercise any power conferred on it by these Regulations or by any law for the time being in force;
  - (g) for the purpose of enabling or assisting any competent authority or other Government functionary to exercise any power conferred on it by any law for the time being in force;
  - (h) for the purpose of enabling or assisting a Stock Exchange or a Central Depository or any other Governmental or other competent authority to discharge its functions;
  - (i) for the purpose of enabling or assisting auditors of the Company or of a Clearing Member to discharge their functions; or
  - (j) to the Commission or any other competent authority if the disclosure is required in the interest of investors or in the public interest.
  - (k) For the purpose of enabling or assisting the Stock Exchange(s) or Commission on the request of Managing Director(s) of the Stock Exchange(s) or the authorized officer(s) of the Commission, as the case may be, to effectively enhance the market monitoring and surveillance capacity of Stock Exchange(s) and Commission. The Company shall provide

the Clearing Data having the Client UIN Registration Detail of a Broker Clearing Member which the Stock Exchange(s), or the Commission, as the case may be has requested. Such Clearing Data will be provided on the condition that the Stock Exchange or the Commission, as the case may be, will ensure confidentiality of this data and will use it only for the purpose for which the data was required.

24.1.4 Absent valid legal process or as provided in Regulation 24.1.5 hereof, the Company will only release Clearing Data relating to Exchange trades, Exchange transactions and Non-Exchange transactions of a particular Clearing Member to such Clearing Member upon his written request to the extent that it can be disclosed in terms of any restriction on disclosure notified by any competent authority. Provided that nothing in this Regulation shall prevent the Company from releasing Clearing Data to others, provided that such data shall be in a form as to prevent the disclosure, whether patently or in easily discernible format, of proprietary and/or confidential financial, operations or trading data of any Clearing Member or Clearing Members.

24.2.5 With respect to the foregoing, except as regards the release of any Clearing Data pursuant to an order of a Court, the Commission, the relevant Stock Exchange or other competent authority, the release of any Clearing Data to a person shall be conditional upon either:

- (a) a written request, or
- (b) the execution of a written agreement with the Company,

whichever is appropriate in the Company's discretion, and the Company, in its discretion, shall establish the conditions under which such data shall be released and the fees, if any, to be paid for such data.

24.1.6 The term "Clearing Data" shall mean, for the purposes of this Chapter, trade and/or transaction data with the Company for inclusion in the clearance and/or settlement process of the Company, or such data, Reports or summaries thereof which may be produced as a result of processing such trade and/or transaction data.

## **24.2 Usage and addition to the UINs Database**

24.2.1 CDC will be provided access by the Company to its UINs Database in respect of UINs to ascertain the requisite UINs and UIN Registration Details of the Account Holders of CDC entered into the UINs Database. Where CDC requests for the creation of UINs or UIN Registration Details for any of its Account Holders in the UINs Database, CDC shall provide to the Company the UIN Registration Details of such persons for the purposes of creation of new UINs for such persons and inclusion into the UINs Database as per the Procedures.

24.2.2 The UIN Registration Details of the Account Holders of CDC will be entered by the Company into its UINs Database on the condition that CDC shall be responsible for the correctness and completeness of the UIN Registration Details provided to the Company and entered by the Company into its UINs Database, and on the further condition that CDC shall be required to obtain from and maintain the documentary evidence of UINs for each of its Account Holders and where requested by the Company, CDC shall provide to the Company any additional documentary evidence of the UINs of any of the Account Holders of CDC entered into the UINs Database. The Company may, at its sole discretion, reject documentary evidence for any reason whatsoever. Notwithstanding acceptance by the Company of any such documentary evidence submitted by CDC, CDC shall remain responsible for the correctness and completeness of the UIN Registration Details of the Account Holders of CDC provided by CDC to the Company.

- 24.2.3 CDC shall be responsible for obtaining all necessary authorizations from its Account Holders for the purposes of creation of UINs of such Account Holders by the Company in the UINs Database. The Company shall not be responsible for the misuse of any UINs by CDC. CDC shall indemnify and hold harmless the Company from and against any claims, losses, damages, costs and expenses suffered and/or incurred by the Company as a consequence of the creation and use of any UINs in the UINs Database and as a consequence of ascertainment by CDC of the UINs and UIN Registration Details of any of its Account Holders by accessing the UINs Database.
- 24.2.4 The UINs Database access provided, to the CDC by the Company, on the condition that the CDC will ensure confidentiality of this Database and will use it only for the purpose for which the data was required.
- 24.2.5 The Company will, at the request of the NCEL, verify the UINs entered by the NCEL, against the existing UIN records in the UINs Database, through an interface provided by the NCEL to the Company.
- 24.2.6 Where the UINs created by the NCEL do not exist in the Company UINs Database, the Company shall, in the case of UINs for Individual Pakistani citizens (being their CNIC numbers) verify the same through the terminal provided by the NADRA.
- 24.2.7 In the case of non-individuals, the NCEL will be provided by the Company with necessary information from the UINs Database such as name, UIN and type of the client for the purpose of creation of UIN(s) by the NCEL. Where the UIN(s) created by the NCEL are not found / exist in the information stored in the UINs Database, the NCEL shall provide the necessary details to the Company. Upon being satisfied by such details provided by the NCEL, the Company will incorporate such details in its UINs Database so as to enable the NCEL to create UIN(s) at its end.
- 24.2.8 Where the details provided by the NCEL cannot be incorporated by the Company in its UINs Database, such fact will be notified to the NCEL together with the reasons thereof.
- 24.2.9 The UIN records found and approved by the Company shall duly become part of the UINs Database.
- 24.2.10 The NCEL shall be responsible for the correctness and completeness of the UIN Registration Details provided by it to the Company and entered by the Company into its UINs Database and the NCEL shall be required to obtain from and maintain the documentary evidence of UINs for each of its members.
- 24.2.11 The NCEL shall be responsible for obtaining all necessary authorisations from its members for the purposes of creation of UINs of such members by the Company in the UINs Database. The Company shall not be responsible for the misuse of any UINs by the NCEL. The NCEL shall indemnify and hold harmless the Company from and against any claims, losses, damages, costs and expenses suffered and/or incurred by the Company as a consequence of the creation and use of any UINs in the UINs Database.
- 24.2.12 The information of the UINs Database provided, to the NCEL by the Company, on the condition that the NCEL will ensure confidentiality of such information of the UINs Database and will use it only for the purpose for which the information was required.

**CHAPTER 25: LISTS TO BE MAINTAINED****25.1. List of Securities**

25.1.1. The Company shall maintain lists of the Securities (which may be the subject of contracts cleared through the Company), and may from time to time add securities to such lists or remove securities there from. The Company shall accept an issue of securities as a Security only upon a determination by the Company that it has the existing operational capability to do so and to continue successfully to provide its services to Clearing Members. The lists of the Securities maintained by the Company under the corresponding provisions of the 2001 NCSS Regulations shall continue to remain in force (unless changed by the Company) and shall be deemed to have been maintained by the Company under this Regulation.

25.1.2 A Security that the Company in its discretion determines no longer meets the requirements imposed pursuant to this Regulation shall cease to be a Security. In addition, the Company may determine that a Security shall cease to be a Security in the event that:

- (a) such Security shall have been suspended from trading on all Stock Exchanges on which it is listed;
- (b) the Company determines that there may exist a legal impediment to the validity or legality of the issuance or continued transfer or delivery of the Security;
- (c) the Company determines, after discussion with the Commission and Stock Exchanges, where possible, that continued clearance and settlement by the Company presents unacceptable risks to the Company and/or Clearing Members.

**25.2 List of Settling Banks**

25.2.1 The Company shall maintain a list of banks which satisfy the eligible criteria set out in these Regulations and have agreed to act as Settling Banks. The list of the Settling Banks maintained by the Company under the corresponding proceedings of the NCSS Procedures 2001 and NCSS Procedures 2003 shall continue to remain in force (unless changed by the Company) and shall be deemed to have been maintained by the Company under this Regulation.

## **CHAPTER 26: EFFECT OF SUBSTITUTION OF THE 2001 NCSS REGULATIONS BY THESE REGULATIONS**

### **26.1 Effect of substitution of the 2001 NCSS Regulations**

26.1.1 The substitution of the 2001 NCSS Regulations by these Regulations shall not, except as may be (and to the extent) provided in these Regulations:

- (a) affect the previous operations of the 2001 NCSS Regulations or any thing duly done or suffered thereunder;
- (b) affect any right, privilege, obligation or liability acquired, accrued, incurred and/or allocated under the 2001 NCSS Regulations; and
- (c) affect any fine imposed or other action taken or pending against any person under the 2001 NCSS Regulations.

26.1.2 Save as otherwise specifically herein provided, nothing in these Regulations shall affect or be deemed to affect any things done, actions taken, investigations, hearings or Appeals or any other proceedings taken or commenced, orders, Procedures, appointments, deeds, documents, agreements or other instruments made, fees and charges recovered or accrued, allocations made, directions given, any notices or documents issued under or in pursuance of the 2001 NCSS Regulations, and any such things, actions, investigations, hearings, Appeals or any other proceedings, orders, Procedures, appointments, deeds, documents, agreements, instruments, fees and charges, allocations, directions, notices or documents shall, if in force at the time of coming into force of these Regulations and not inconsistent with any of the provisions of these Regulations, continue to be in full force and have effect as if these were respectively done, taken, commenced, made, directed, passed, given, executed or issued under these Regulations.

26.1.3 Except as otherwise specifically herein provided, the substitution of these Regulations for the 2001 NCSS Regulations is not meant to create any gap or interruption in the services provided by the Company to the Clearing Member and the Exchange trades, Exchange transactions and/or Non-Exchange transactions received or recorded by or with the Company at the time of or after the coming into force of these Regulations shall be processed, subject to these Regulations and subject to the performance and compliance by the Clearing Members, the Stock Exchanges and the Settling Banks of their respective functions and/or obligations in terms of these Regulations and the Procedures, in the same efficient and expeditious manner as the same were processed under the 2001 NCSS Regulations.

**CHAPTER 27: NCSS REVIEW****27.1 NCSS Review**

27.1.1 The Company shall require an independent Firm to conduct an annual review of the NCSS and that review will comprise:

- (a) reviewing the Company's information processing facilities and security of the NCSS including:
  - (i) maintenance of integrity and confidentiality over the data of the NCSS;
  - (ii) physical security over the NCSS operation;
  - (iii) business continuity procedures; and
  - (iv) system access controls;
- (b) assessing the integrity and accuracy of information generated by the NCSS including, without limitation:
  - (i) internal control over data input by the Company; and
  - (ii) processing and reporting of transaction data

27.2 The Company shall provide a copy of the report to the Commission within 1 calendar month of receiving it.

27.3 Except as expressly provided in these Regulations, no NCSS Element shall have any right of access to, or right to inspect, the Company's records and systems.

## Form of Margin/ Marked to Market Losses/ Special Margin Deposits

## 1. Margining Regime for Finances

## A. During the period commencing from April 07, 2008 to June 30, 2008

Market	Margins	Mark to Market Losses	Special Margin
CFS Mk II Market	Initial Exposure Margins shall be collected 100% in the form of any acceptable Collateral as provided for in the Regulations.	<b>100% in the form of Cash.</b> Whereas, Collateral deposited in the form of bank guarantee shall be considered as equivalent to cash.	<b>100% in the form of Cash.</b> Whereas, Collateral deposited in the form of bank guarantee shall be considered as equivalent to cash.

## B. Effective from July 01, 2008

Market	Exposure Margins	Mark to Market Losses	Special Margin																	
CFS Mk II Market	Initial Exposure Margins shall be collected as per the following rule: <table border="1" data-bbox="359 1160 949 2009"> <thead> <tr> <th rowspan="2">Financing in CFS MK-II Market</th> <th colspan="2">*Margins</th> </tr> <tr> <th>Approved Collateral</th> <th>Cash as Collateral</th> </tr> </thead> <tbody> <tr> <td>Upto Rs 85 billion</td> <td>100% in any of approved form of Collateral</td> <td>Nil</td> </tr> <tr> <td>Exceeding Rs. 85 billion up to Rs.100 billion</td> <td>90% in any of approved form of Collateral</td> <td>10 % in the form of cash</td> </tr> <tr> <td>Exceeding Rs. 100 billion up to Rs.125 billion</td> <td>80% in any of approved form of Collateral</td> <td>20 % in the form of cash</td> </tr> <tr> <td>Exceeding Rs. 125 billion up to Rs.150 billion</td> <td>65% in any of approved form of Collateral</td> <td>35 % in the form of cash</td> </tr> </tbody> </table>	Financing in CFS MK-II Market	*Margins		Approved Collateral	Cash as Collateral	Upto Rs 85 billion	100% in any of approved form of Collateral	Nil	Exceeding Rs. 85 billion up to Rs.100 billion	90% in any of approved form of Collateral	10 % in the form of cash	Exceeding Rs. 100 billion up to Rs.125 billion	80% in any of approved form of Collateral	20 % in the form of cash	Exceeding Rs. 125 billion up to Rs.150 billion	65% in any of approved form of Collateral	35 % in the form of cash	<b>100% in Cash.</b> Whereas, Collateral deposited in the form of bank guarantee shall be considered as equivalent to cash.	<b>100% in Cash.</b> Whereas, Collateral deposited in the form of bank guarantee shall be considered as equivalent to cash.
Financing in CFS MK-II Market	*Margins																			
	Approved Collateral	Cash as Collateral																		
Upto Rs 85 billion	100% in any of approved form of Collateral	Nil																		
Exceeding Rs. 85 billion up to Rs.100 billion	90% in any of approved form of Collateral	10 % in the form of cash																		
Exceeding Rs. 100 billion up to Rs.125 billion	80% in any of approved form of Collateral	20 % in the form of cash																		
Exceeding Rs. 125 billion up to Rs.150 billion	65% in any of approved form of Collateral	35 % in the form of cash																		

	Exceeding Rs.150 billion	50% in any of approved form of Collateral	50 % in the form of cash		
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**\*Notes:**

- A. Where any of the abovementioned financing limits of the CFS MK-II Market is exceeded then the respective cash margin requirement becomes applicable and shall remain enforced irrespective of the fact that financing in the CFS Mk-II Market has reduced below that limit subsequently at any point of time.**
- B. Whereas Collateral deposited in the form of bank guarantee shall be considered as equivalent to cash.**

**2. Margining Regime for Authorized Financiers**

<b>Market</b>	<b>Exposure Margins</b>	<b>Mark to Market Losses</b>
CFS Mk II Market	Initial Exposure Margins shall be collected 100% in the form of any acceptable Collateral as provided for in the Regulations.	<b>100% in Cash.</b> Whereas, Collateral deposited in the form of bank guarantee and / or irrevocable undertaking (where applicable) shall be considered as equivalent to cash.

**NATIONAL CLEARING COMPANY OF PAKISTAN LIMITED**  
**AMENDMENT IN FEE, CHARGES AND SECURITY DEPOSIT SCHEDULE**

**NOTIFICATION****Karachi the 8 day of February 2010**

In exercise of the powers conferred by Regulation No. 3.6 of NCC Regulations, the National Clearing Company of Pakistan Limited has made with the prior approval of the Securities and Exchange Commission of Pakistan, the following amendments(s) in Fee, Charges and Security Deposits Schedule which shall come into force on approval by the Commission.

The following changes in Trade Fee shall be made in the Fee, Charges and Security Deposit Schedule. Accordingly, the amendments shall be Incorporated in the Fee, Charges and Security Deposit Schedule.

<b>SCHEDULE OF FEE</b>						
<b>S. No.</b>	<b>NAME</b>	<b>RATE</b>	<b>BASIS</b>	<b>LEVIED ON</b>	<b>COLLECTION</b>	
					<b>TIME</b>	<b>MODE</b>
1.	Trade Fee	Re. 0.81	Per Rs. 100,000 value of regular trade	Clearing Member	Month end	Through NCSS Pay & Collect
1a.	Trade Fee – Odd Lot Market	Rs. 2.00	Per odd lot trade	Clearing Member	Month end	Through NCSS Pay & Collect
1.b	*Trade Fee (Please refer Note C)	Rs. 1.00	Per Rs. 100,000 value of debt market trades	Clearing Member	Month end	Through NCSS Pay & Collect
2.	Trade Fee – SECP	Re. 0.30	Per Rs. 100,000 value of regular trade	Clearing Member	Month end	Through NCSS Pay & Collect
3.	Exchange Transaction Fee for CFS	Re.0.10	Per Rs. 100,000 value of CFS	Clearing Member	Month end	Through NCSS Pay & Collect
4.	Exchange Transaction Fee for CFSR	Re.0.10	Per Rs. 100,000 value of CFSR	Clearing Member	Month end	Through NCSS Pay & Collect
5.	Non-Exchange Transaction fee for BTB	Rs.1.50	Per Rs. 100,000 value of Non-Exchange Transaction	Clearing Member	Month end	Through NCSS Pay & Collect
6.	Non-Exchange Transaction fee for IDS	Rs.1.50	Per Rs. 100,000 value of Non-Exchange Transaction	Clearing Member	Month end	Through NCSS Pay & Collect
6b.	Non-Exchange Transaction fee for RMS on IDS	Rs. 1.00*	Per Rs. 100,000 value of Non- Exchange Transaction	Clearing Member	Month end	Through NCSS Pay & Collect
7	UIN Maintenance Fee	Rs. 100	Per UIN Record --- Client Code Wise	Clearing Member	Annually	Through NCSS Pay & Collect
8	Non- Deliverable Future Contract	Rs. 0.81	Per Rs. 100,000 value of Non- Deliverable Futures Contract	Clearing Member	Month End	Through NCSS Pay & Collect
9	Deliverable Future Contract / provisionally listed companies market	Rs. 0.81	Per Rs. 100,000 value of Deliverable Futures Contract / provisionally listed companies market	Clearing Member	Month End	Through NCSS Pay & Collect
10	Transaction fee for CFS MK-II (Please refer Note B)	Rs. 1.50	Per Rs. 100,000 value of CFS MK-II Transaction multiplied by No. days of CFS MK-II Contract	Authorized Financier and Finanee	Month end	Through NCSS Pay & Collect

## NCCPL Regulations

11	Contribution for CFS MK-II Protection Fund	Rs. 1.50	Per Rs. 100,000 value of CFS MK-II Transaction multiplied by No. days of CFS MK-II Contract	Authorized Financier	Month end	Through NCSS Pay & Collect
12	*CFS MK-II Annual Fee (Please refer Note B)	Rs. 1,000,000	Annual Fee for CFS MK-II	Non-Broker Authorized Financier	Annually	Through NCSS Pay & Collect
13	SECP Levy	Rs. 0.19	Per Rs. 100,000 value of CFS MK-II Transaction multiplied by No. of days of CFS MK-II Contract	Authorized Financier and Finantee	Month end	Through NCSS Pay & Collect
14	*Fixed Fee for IDS Facility	Rs. 15,000	Monthly tariff on IDS facility for all NBCMs	Non-Broker Clearing Members	Month end	Through NCSS Pay & Collect

### SCHEDULE OF CHARGES

S. No	NAME	RATE	BASIS	LEVIED ON	COLLECTION	
					TIME	MODE
1.	Delivery Default Charges – First Default	Re.0.50%	Delivery default value of each scrip, minimum Rs.2,000	Clearing Member	Month end	Through NCSS Pay & Collect
1.b	Delivery Default Charges (debt Securities) – First Default	Re.1.00%	Delivery default value of each scrip, minimum Rs.10,000	Clearing Member	Month end	Through NCSS Pay & Collect
2.	Squared-up Delivery Default Charges	Re.0.1.00 %	Delivery default value of each scrip, minimum Rs.4,000	Clearing Member	Month end	Through NCSS Pay & Collect
2.b	Squared-up Delivery Default Charges (debt Securities)	Re.2.00%	Delivery default value of each scrip, minimum Rs.20,000	Clearing Member	Month end	Through NCSS Pay & Collect
3.	Delayed Payment Charges	Re.0.50%	Delayed Payment amount, minimum of Rs.2,500 and maximum of Rs. 200,000	Clearing Member	Month end	Through NCSS Pay & Collect
4	*Penalty for Under-Utilization of Committed Fund in CFS MK-II (Please refer Note B)	Re.2%	2% per annum on average shortfall from the full commitment during the previous month	Authorized Financier	Month end	Through NCSS Pay & Collect

### SCHEDULE OF SECURITY DEPOSIT

S. No.	NAME	RATE	BASIS	COLLECTION	
				TIME	MODE
1.	Security Deposit from Broker CM	Rs.200,000	One time fixed, per Exchange membership	On signing of agreement	P. O. /Draft/Cheque
2.	Security Deposit from Broker CM	Rs.100,000	One time fixed for BTB / MF facility	On receiving request letter	P. O. /Draft/Cheque
3	Security Deposit from Broker CFS Financier CM	Rs.200,000	One time fixed	On signing of agreement	P. O. /Draft/Cheque
4	Security Deposit from Non-Broker CFS Financier CM / Non-broker Authorized Financier	Rs.1,000,000	One time fixed	On signing of agreement	P. O. /Draft/Cheque
5	Security Deposit from Non-broker CM for allowing IDS functionality on Regular Market Trades	Rs. 2,500,000	One time fixed	On signing of agreement	P.O. / Draft / Cheque
5a	* Security Deposit from Non-broker CM for allowing IDS functionality on debt market trades	Rs. 250,000	One time fixed	On signing of agreement	P.O. / Draft / Cheque
5b	*Security Deposit from Broker CM for debt market trades	Rs. 100,000	One time fixed	On signing of agreement	P.O. / Draft / Cheque

## NCCPL Regulations

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- Note A
- CFS= Continuous Funding System Transaction.
  - CFSSR=Continuous Funding System Release transaction.
  - BTB= Broker to Broker Delivery System.
  - IDS = Institutional Delivery System.
  - Broker CM= Who is a member of Stock Exchange.
  - Non-Broker CM= Who is not a member of Stock Exchange.
  - RMS = Risk Management System
- \*Note B**
- One half of the annual fee shall (as defined in S. No 12) be transferred to CFS MK-II Protection Fund in term of these Regulations.
  - One half of the transaction fee for CFS MK-II transaction fee (as defined in S. No 10) shall be transferred to CFS MK-II Protection Fund in term of these Regulations.
  - Full amount of Penalty for Under-Utilization of Committed Fund in CFS MK-II (as defined in S. No 4 of Schedule of Charges) shall be transferred to CFS MK-II Protection Fund in term of these Regulations.
- \*Note C**
- One fourth of the fee collected from Debt Market Clearing Members (as defined in S. No 1.b) shall be transferred to Debt Market Protection Fund in term of these Regulations.
- \*Note**
- One half of Non Exchange Transaction Fee for RMS on IDS (as defined in S. No 6b) shall be transferred to NCC Clearing and Settlement Fund.
- \*Note**
- 30% of monthly fee on IDS (as defined in S. No 14) shall be transferred to NCC Clearing and Settlement Fund.
  - 20% of monthly fee on IDS (as defined in S. No 14) shall be charged as SECP Levy.