

**Proposed Amendments in the NCCPL Regulations to incorporate the provisions prescribed under the Clearing House (Licensing and Operations) Regulations, 2016**

Existing	Proposed
<p><b>NATIONAL CLEARING COMPANY OF PAKISTAN LIMITED</b> NOTIFICATION Karachi, the September 01, 2015</p> <p>And whereas, the Company is licensed as clearing house under the Securities Act, 2015 (the “Act”);</p>	<p>And whereas, the Company is licensed as clearing house under the Securities Act, 2015 (the “Act” and the <i>Clearing House (Licensing &amp; Operations) Regulations, 2016</i>;</p>
<p><b>2.7B Other Terms</b></p> <p>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.</p>	<p><b>2.7B Other Terms</b></p> <p>All words or terms not defined in these Regulations shall have the same meaning as assigned to them in the Securities Act, 2015, Securities and Exchange Ordinance 1969, the Securities and Exchange Commission of Pakistan Act, 1997, the Securities and Exchange Rules, 1971, the Clearing House (Licensing &amp; Operations) Regulations, 2016 and the Companies Ordinance, 1984.</p>
<p>Definitions:</p>	<p><b>Definitions:</b></p> <p>“Act” shall mean Securities Act, 2015 and shall include any other amendments prescribed by the Commission from time to time</p> <p>“Clearing House Regulations” shall mean Clearing House (Licensing &amp; Operations) Regulations, 2016 and shall include any other amendments prescribed by the Commission from time to time</p> <p>“Senior Management Officer” shall have the same meaning as prescribed under the Clearing House Regulations</p>
<p><b>9.14 FIT &amp; PROPER CRITERIA FOR DIRECTORS OF THE COMPANY</b></p> <p>Any person desiring to act as a director on the Board of the Company shall be judged on the basis of the “Fit &amp; Proper Criteria”, as set out in Annexure-I of these Regulations.</p>	<p><b>9.14 – Governance Structure</b></p> <p><b>9.14.1 Fit and Proper Criteria</b></p> <p>The substantial share holders, directors and senior management officers of the Company shall at all time be fit and proper persons as per the criteria stipulated under the Annexure – I of the Clearing House Regulations.</p>

**Annexure- I**

**Fit & Proper Criteria for Directors:**

**Deleted**

**9.14.2 Composition of the Board of Directors**

1. The Board of Directors of the Company shall have following categories of the directors:
  - a) Independent directors;
  - b) Shareholder directors; and
  - c) Chief Executive Officer

Provided that above stated composition should at all times comply with requirements stipulated under the Clearing House Regulations with respect to the number of directors under each category, the mode and manner of appointment of directors under each category and any other terms or condition stipulated therein.

2. For the purpose of this clause the term “Independent Director” shall have the same meaning as assigned to it under Clearing House Regulations.
3. The provisions pertaining to quorum of the meeting and appointment of the chairman of the Board as stipulated under Clearing House Regulations shall be strictly adhered to.

**9.14.3 Code of Conduct**

Every director and senior management officer of the Company shall abide by the code of conduct formulated by Company in accordance with the guidelines specified in the Annexure- II of the Clearing House Regulations.

**9.14.4 Appointment of Employees**

The appointment, renewal of appointment and termination of the services of the Senior Management Officers and employees of the Company, as the case may be, shall be carried out in compliance with the provisions of the Clearing House Regulations.

Senior management position wherever referred to in these criteria includes:

- a. Any executive, including the chief executive or any officer acting as second to chief executive officer including chief operating officer or by whatever name called;
- b. chief financial officer, head of accounts or head of finance;

### **9.15 Manner of Outsourcing of Important Functions**

1. The Company shall only outsource its important functions in accordance with the provisions of the Clearing Houses Regulations, as amended from time to time.
2. The Company cannot outsource any of its functions without prior written approval of the Commission.
3. The Board of Directors of the Company shall be responsible for drafting and approval of an outsourcing policy highlighting therein the activities or the nature of activities that can be outsourced, the authorities for approving outsourcing and the process to be used for selecting the third parties to whom the function will be outsourced.
4. The records relating to all activities outsourced shall be preserved centrally by the Company to ensure that the same is readily available for review by the board of directors, the commission or any other authorized person.
5. The Company shall be fully liable and accountable for the activities that are being outsourced to the same extent as if the service were provided in-house.
6. The Company shall take appropriate steps to ensure that third parties protect confidential information of the Company, its Clearing Members and other parties involved from intentional or inadvertent disclosure to unauthorized persons.
7. The Company however cannot outsource its core business activities and compliance functions.

**\* Senior management officer includes the persons mentioned in Securities Act, 2015 and the Clearing House Regulations, 2016.**

<p>c. head of internal audit;  d. head of credit or risk management;  e. head of operations;  f. head of treasury or chief investment officer;  g. head of law, company secretary or compliance officer; and  h. any other position, by whatsoever name called, which may be construed as a senior management position.</p>	
<p><b>12.10 Risk Management Committee</b></p> <p>12.10.1 The Board of the Company shall constitute a Risk Management Committee in accordance with requirements of the regulations framed under the Securities Act, 2015 for licensing of clearing houses.</p> <p>Provided that the members nominated on the Risk Management Committee shall possess the relevant experience with respect to compliance and risk management.</p> <p>12.10.2 The members of the Risk Management Committee representing the management may include the persons holding the position of head of Internal Audit, Head of Risk, Head of Compliance or the Chief Executive Officer. However, the Risk Management Committee shall not include more than two members from the management.</p> <p>12.10.3 The Chairman of the Risk Management Committee shall also be nominated by the Board and shall preferable be an independent director. The secretary of the Risk Management Committee shall be from amongst the management representatives.</p>	<p><b>12.10 Risk Management Committee</b></p> <p>12.10.1 The Board of the Company shall constitute a Risk Management Committee in accordance with requirements <b>prescribed under the Securities Act, 2015 and the Clearing House Regulations.</b></p> <p><del>Provided that the members nominated on the Risk Management Committee shall possess the relevant experience with respect to compliance and risk management.</del></p> <p>12.10.2 <b>The Committee shall comprise of independent directors, industry experts, chief executive officer and chief regulatory officer of the NCCPL.</b></p> <p>12.10.3 The Chairman of the Risk Management Committee shall <del>also be nominated by the Board and shall preferable be an independent</del> <b>be an independent director</b>. The secretary of the Risk Management Committee shall be from amongst the management representatives.</p>

<p>12.10.5 The Risk Management Committee shall consider seeking feedback of Clearing Members on matters relating to risk management and default management for improvements therein for the review and consideration of the Risk Management Committee on an annual basis. The Risk Management Committee may determine and select the Clearing Members for seeking feedback based on factors including but not limited to the asset classes cleared, volume cleared and the level of contribution to the Settlement Guarantee Fund.</p>	<p><b>Deleted.</b></p>
<p>12.10.6 The Risk Management Committee shall be responsible for reviewing the overall risk management framework and make recommendations to the Board on all risk related matters.</p>	<p><b>Deleted.</b></p>
<p>12.10.7 The Risk Management Committee shall be responsible for performing the following tasks:</p> <ul style="list-style-type: none"> <li>(a) Reviewing any significant changes of the risk model of the Company;</li> <li>(b) Reviewing and finalizing any changes to the default procedures;</li> <li>(c) Review of any changes to the categories of admissible Clearing Members and to the admission criteria.</li> <li>(d) Review of clearing of new classes of instruments;</li> <li>(e) Review the framework to</li> </ul>	<p><b>New Clause</b></p> <p>12.10.7 The Risk Management Committee shall be responsible for performing the following:</p> <ul style="list-style-type: none"> <li>a) framing of risk management policies and procedures for the clearing house operations in line with international standards and best practices;</li> <li>b) ensuring that the risk management system has the tools to identify and manage all risks including the legal, credit, liquidity, general business and operational risks including control measures and safeguards with respect to large exposures by clearing members and matters connected thereto;</li> </ul>

<p>determine the minimum size of Clearing Fund and amount of other financial resources;</p> <p>(f) Review of the internal policy framework defining types of extreme but plausible market conditions NCCPL could be exposed to;</p> <p>(g) Review any material revisions and adjustments to the models, their methodologies and the liquidity risk management framework used to quantify, aggregate, and manage the risks. The Head of Risk will periodically report to the Risk Management Committee the stress testing results and related analysis;</p> <p>(h) Review of material revisions and adjustments to the Company's policies used to test its margins, Clearing Fund and other financial resources methodologies and framework for calculating liquid financial resources;</p> <p>(i) Review of the Company's model for margining. The Head of Risk will periodically report to the Risk Management Committee the back testing and the sensitivity testing results and the related analysis;</p> <p>(j) Review of the reverse stress tests developed by the Company. The Head of Risk will periodically report to the Risk Management Committee the reverse stress testing results and related analysis;</p>	<p>c) ensuring that margin requirements are commensurate with the risks of each product and portfolio, address procyclicality, avoid concentration and provide adequate coverage in conformity to international benchmarks;</p> <p>d) ensuring that risk management function has the capacity to obtain timely information necessary to apply risk management policies and procedures which allow for the accurate and timely measurement and aggregation of risk exposures;</p> <p>e) conducting or arranging to conduct studies, researches or analysis with respect to any or all of the components of risk management system of the clearing house;</p> <p>f) formulating policies and procedures to ensure continuous adequacy of the risk management model and its adherence to international standards including the policies for regular back testing, stress testing, reverse back testing and sensitivity analysis;</p> <p>g) formulating policies for ensuring that a full validation of risk management model is performed atleast annually;</p> <p>h) to meet atleast once in each quarter to review adequacy of risk management system, policies and procedures and matter connected thereto; and</p> <p>i) to submit its recommendation(s) to the board of directors together with the explanation of their purposes and likely effect, including their effect on the clearing house,</p>
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<p>(k) Review of the annual actuarial valuation report prepared by the actuary with respect to the determination of the required size of the SGF including the underlying assumptions; and</p> <p>(l) Take any such measure as it considers appropriate to improve the efficiency and operations of the risk management systems and policies implemented by the Company and accordingly make recommendations to the Board.</p>	<p>clearing members and investors in sufficient details.</p>
<p><b>CHAPTER 27: NCSS REVIEW</b></p> <p><b>27.1 NCSS Review</b></p> <p>27.1.1 The Company shall require an independent Firm to conduct an annual review of the NCSS and that review will comprise:</p> <p>(a) reviewing the Company's information processing facilities and security of the NCSS including:</p> <p>(i) maintenance of integrity and confidentiality over the data of the NCSS;</p> <p>(ii) physical security over the NCSS operation;</p> <p>(iii) business continuity procedures; and</p> <p>(iv) system access controls;</p> <p>(b) assessing the integrity and accuracy of information generated by the NCSS including, without limitation:</p> <p>(i) internal control over data input by the Company; and</p>	<p><b>CHAPTER 27: NCSS REVIEW / Audit and Accounts</b></p> <p><b>27.1 NCSS Review</b></p> <p>27.1.1 The Company shall require an independent Firm to conduct, <b>in addition to other system and regulatory audits</b>, an annual <b>audit review</b> of the NCSS <b>in accordance with the applicable provisions of the Annexure III of the Clearing House Regulations</b>:</p> <p><del>(e) reviewing the Company's information processing facilities and security of the NCSS including:</del></p> <p><del>(v) maintenance of integrity and confidentiality over the data of the NCSS;</del></p> <p><del>(vi) physical security over the NCSS operation;</del></p> <p><del>(vii) business continuity procedures; and</del></p> <p><del>(viii) system access controls;</del></p> <p><del>(d) assessing the integrity and accuracy of information generated by the NCSS including, without limitation:</del></p>

<p>(ii) processing and reporting of transaction data</p> <p>27.2 The Company shall provide a copy of the report to the Commission within 1 calendar month of receiving it.</p> <p>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</p>	<p><del>(iii) internal control over data input by the Company; and</del></p> <p><del>(iv) processing and reporting of transaction data</del></p> <p><del>27.1.2 The Company shall provide a copy of the report to the Commission within 1 calendar month of receiving it.</del></p> <p><del>27.1.3 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</del></p>
	<p><b>27.2 Information Security</b></p> <p>27.2.1 The Company shall put in place necessary controls and safeguards to ensure cyber security, unauthorized access to confidential information and alteration, destruction, disclosure or dissemination of records and data without authority. Further, the Company shall obtain certification form a chartered accountant firm or consultancy firm of excellent reputation and sufficient prior experience on annual basis.</p>
	<p><b>27.3 Financial resource Requirement</b></p> <p>27.3.1 The Company shall maintain the financial resource requirement in terms of the paid-up capital and net worth as determined under the Clearing House Regulations. Further, in pursuance of the above stated regulations the Company shall within such time as may be prescribed by the Commission submit a report by an independent expert to evaluate current and projected risks associated with Company's operations and recommend optimal levels of capital for the Company. The Commission will determine paid-up capital and net worth requirement, where required, to be complied in a progressive manner after review of the report of expert submitted by the Company.</p>
	<p><b>27.4 Maintenance of Accounting Records</b></p> <p>27.4.1 The Company shall maintain such accounting</p>



	records and in such manner as are prescribed under the Clearing House Regulations.
	<p><b>27.5 Appointment of Auditors and related matters</b></p> <p>27.5.1 The Company shall appoint the auditors in accordance with the requirements stipulated under the Clearing House Regulations. The auditor so appointed shall have responsibilities and powers conferred upon them under above stated regulations including all other applicable rules and regulations pertaining to appointment of auditors.</p> <p>27.5.2 The auditor's report shall state all the matters as are required to be stated in accordance with the requirements of the ordinance and additionally must state with respect to the matters stipulated under Clearing House Regulations.</p>
	<p><b>27.6 Annual Operational &amp; Regulatory Audit / Special Audit</b></p> <p>27.6.1 The Company shall appoint an auditor with the prior approval of the Commission to carry out an annual operational and regulatory audit in accordance with the terms of reference prescribed under the Annexure – III of the Clearing House Regulations.</p> <p>27.6.2 The Commission may appoint an auditor to carry out a special audit of the Company with respect to all or any specific matter as specified in Annexure – III of the Clearing House Regulations or any matter specified by the Commission at the time of appointment of the auditor. The audit shall be carried out for such period as commission may direct at the time of appointing the auditor.</p>
	<p><b>27.7 Audited Financial Statements / Annual Report</b></p> <p>27.7.1 The Company shall submit its audited Financial Statements and annual report to the Commission within the period prescribed and containing such information prescribed under the Securities Act, 2015 and Clearing House Regulations.</p>

	<p>27.7.2 Additionally, the Company shall also place the annual report on its website as prescribed under the Securities Act, 2015 and Clearing House Regulations.</p>
	<p><b>27.8 Submission of information and returns</b></p> <p>27.8.1 The Company with the approval of its Board shall submit such information and returns as prescribed under the Securities Act, 2015 and Clearing House Regulations.</p>
<p><b>CHAPTER 29: Settlement Guarantee Fund (SGF)</b></p> <p>29.1.1 The Company has established and is maintaining a fund called the NCC Clearing &amp; Settlement Fund (“NCSF”) in respect of clearing and settlement of trades and transactions of its Clearing Members to be reported, cleared and settled through the NCC Systems. In order to ensure timely settlement of trades and transactions in the event of failure of any Clearing Member to settle its obligations towards the Company the scope of NCSF shall be enhanced as prescribed in this Chapter. The NCSF shall now be called the Settlement Guaranteed Fund (“SGF”).</p>	<p><b>CHAPTER 29: Settlement Guarantee Fund (SGF)</b></p> <p>29.1.1 The Company has established and is maintaining a fund called the NCC Clearing &amp; Settlement Fund (“NCSF”) in respect of clearing and settlement of trades and transactions of its Clearing Members to be reported, cleared and settled through the NCC Systems. In order to ensure timely settlement of trades and transactions in the event of failure of any Clearing Member to settle its obligations towards the Company <b>and in order to comply with the provisions stipulated under the Securities Act, 2015 and the Clearing House Regulations</b>, the scope of NCSF shall be enhanced as prescribed in this Chapter. The NCSF shall now be called the Settlement Guaranteed Fund (“SGF”) <b>and shall remain maintained under an irrevocable trust constituted through the Trust Deed.</b></p>