



ISO 27001 Certified

## National Clearing Company of Pakistan Limited

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

NCCPL/CM/DECEMBER-16/11

December 23, 2016

### Eligibility Criteria- Margin Eligible Securities

Dear Clearing Members,

Please find attached herewith a letter SMD/SE/2(7)/2002 received from the Securities and Exchange Commission of Pakistan (SECP) which is self explanatory for your information.

For any further queries or concerns, please feel free to contact the Customer Support Services of your respective locations.

City	Telephone Number	UAN Number	Fax Number
Karachi	021-32460811-19 Ext. 209, 214, 217, 218 & 224 Dir. 021-32438531-32-33	021-111-111-622	021-32462825
Lahore	042-36280815-7		042-36280818
Islamabad	051-2895460-62		051-2895463

Regards,

sd  
Rehan Saif  
Head of PD & CSS



Securities and Exchange Commission of Pakistan  
Securities Market Division  
Policy, Regulation and Development Department

SMD/SE/2(7)/2002

December 19, 2016

**Mr. Muhammad Lukman**  
Chief Executive Officer  
National Clearing Company of Pakistan Limited  
8<sup>th</sup> Floor, Stock Exchange Building  
Stock Exchange Road  
Karachi.

**Subject: Eligibility Criteria - Margin Eligible Securities**

Dear Sir,

This is with reference to the Securities and Exchange Commission of Pakistan's (SECP) earlier letter dated July 29, 2016 whereby the National Clearing Company of Pakistan Limited (NCCPL) was advised to review the existing eligibility criteria and applicable haircuts in case of Margin Eligible Securities (MES) acceptable as collateral. In the interim, the SECP has also conducted a detailed analysis, based on which the following needs to be implemented:

1. The MES criteria should be subject to a thorough review every six months by NCCPL, along-with the criteria for securities eligible for Margin Trading System (MTS), futures markets, Securities Lending and Borrowing and Margin Financing.
2. As is the case with MTS eligible securities, the starting point in MES eligibility criteria should be top 100 securities in terms of free float, market capitalization and turnover.
3. Impact cost threshold for MES is currently up to 2%, which should be harmonized with MTS criteria, that is 1%. A security should become ineligible if it fails to meet the impact cost criterion.
4. There is currently no free float requirement for MES whereas for MTS it is at least 35% or 60 million shares. Free float requirement should also be introduced for MES - a security which has less than 25% free float or 60 million shares, whichever is lower, should be subject to an additional haircut of 15%.
5. Presently, the trading history criterion for MES is such that a security should have been traded at least 80% of the trading days. This should be increased to 90% - to harmonize with MTS criteria. A security should become ineligible if it fails to meet the 90% criterion.
6. A security should become ineligible for MES if the auditor's opinion is qualified on the going concern assumption. Currently, no such criterion is applicable for MES.
7. Both interim and final reviews for MES and MTS should be done at the same frequency and should be carried out simultaneously.

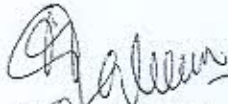


Securities and Exchange Commission of Pakistan  
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8. If a company does not earn profit before tax once in the last three years, it should be considered ineligible. Currently, MTS criteria requires profit twice in the last three years.
9. There should be an additional haircut of 15% if the principal activity of the company is trading /investing in securities. Currently, a security becomes ineligible for MTS if its principal activity is trading/investing in securities.
10. If a listed company is subject to winding up proceedings under section 301 of the Companies Ordinance 1984, it should be ineligible for MES. Also, the criterion should be applicable even if PSX doesn't place the company on its defaulters' segment upon initiation of winding up proceedings against the company.
11. A company with negative equity should be ineligible for the purposes of MES.

Post NCCPL assuming the role of a central counterparty and transfer of risk management to it, the eligibility criteria for MES needs to be included in the NCCPL Regulations. The revised criteria should to be implemented before the review date of January 2017, hence NCCPL is advised to submit necessary amendments to its regulations for SECP's approval.

Yours truly,

  
(Musarat Jabeen)  
Executive Director