

PROPOSED CHANGES IN THE NCCPL REGULATIONS PERTAINING TO ELIGIBILITY CRITERIA FOR MARGIN ELIGIBLE SECURITIES

Reference	Existing Regulations	Proposed Changes	Rational
	Chapter 7A – Securities Lending and Borrowing		
7.A.3.3	<p>Interim Review</p> <p>The satisfaction of criteria described in clauses 1 through 3 of Regulation 7A.3.2(a) (Eligibility Criteria) above are subject to 45 days review and any security which does not meet any of these criteria shall be excluded from the list of SLB Eligible Securities after giving notice of 30 days to NCC Participants.</p>	<p>Interim Review</p> <p>The satisfaction of criteria described in clauses 1 through 3 of Regulation 7A.3.2(7A.3.2 (a) (Eligibility Criteria) above are subject to 45 days review. <u>Such review shall be carried out at the same frequency and simultaneously with the interim review carried out for MT eligible securities and Margin Eligible Securities.</u> andWhere any security which does not meet any of these criteria it shall be excluded from the list of SLB Eligible Securities after giving notice of 30 days to NCC Participants.</p>	<p>The point number 7 given in the letter received from SECP dated December 19, 2016 requires that the interim and final review of the MTS and MES should be carried out simultaneously and at same frequency.</p> <p>The existing criteria applicable to SLB eligible securities has been amended to align it with the interim review period proposed for MES and MT eligible securities.</p>
7A.3.4	<p>Eligibility Review</p> <p>The list of SLB Eligible Securities will be reviewed by the Company every six months and such review shall be undertaken before the end of such duration and shall be based upon the data of last six months made available by Pakistan Stock Exchange. In consequence of any additions and/or deletions to the existing list, the Company will give at least 30 days prior notice to the NCC Participants for introduction</p>	<p>Eligibility Review</p> <p>The list of SLB Eligible Securities will be reviewed by the Company <u>in the first 15 days of January and July every year based on their trading data of immediate preceding 6 calendar months made available by Pakistan Stock Exchange.</u> <u>Such review shall be carried out at the same frequency and simultaneously with the review carried out for MT eligible securities, MF</u></p>	<p>Kindly refer the comment above.</p>

	<p>of incoming and phasing out of outgoing SLB Eligible Securities. After expiry of the said notice period, SLB positions in the outgoing securities shall be frozen and will be available only for release for the purposes of settlement or squaring-up. Any unreleased position in an SLB Contract on the expiry of notice period relating to outgoing securities shall stand released on its respective Maturity Date(s) or Accelerated Maturity Date(s).</p>	<p><u>eligible securities and Margin Eligible Securities</u> every six months and such review shall be undertaken before the end of such duration and shall be based upon the data of last six months made available by Pakistan Stock Exchange. In consequence of any additions and/or deletions to the existing list, the Company will give at least 30 days prior notice to the NCC Participants for introduction of incoming and phasing out of outgoing SLB Eligible Securities.</p> <p>After expiry of the said notice period, SLB positions in the outgoing securities shall be frozen and will be available only for release for the purposes of settlement or squaring-up. Any unreleased position in an SLB Contract on the expiry of notice period relating to outgoing securities shall stand released on its respective Maturity Date(s) or Accelerated Maturity Date(s).</p>	
Chapter 7B – Margin Financing System			
7B.3.1.3	<p>Eligibility Review</p> <p>This list of MF Eligible Securities will be reviewed by the Company every six months and such review shall be undertaken before the end of such duration and shall be based upon the data of last six months available at the Pakistan Stock Exchange. In consequence of any additions and/or deletions to the existing list, the Company will give at</p>	<p>Eligibility Review</p> <p>This list of MF Eligible Securities will be reviewed by the Company <u>in the first 15 days of January and July every year based on their data of immediate preceding 6 calendar months made available by Pakistan Stock Exchange. Such review shall be carried out at the same frequency and simultaneously</u></p>	<p>The point number 7 given in the letter received from SECP dated December 19, 2016 requires that the interim and final review of the MTS and MES should be carried out simultaneously and at same frequency.</p>

	<p>least 60 days prior notice to the NCC Participants for introduction of incoming and phasing out of outgoing MF Eligible Securities. After expiry of the said notice period, MF positions in the outgoing securities shall be frozen and will be available only for release for the purposes of settlement or squaring-up.</p>	<p><u>with the review carried out for MT eligible securities, SLB eligible securities and Margin Eligible Securities</u>every six months and such review shall be undertaken before the end of such duration and shall be based upon the data of last six months available at the Pakistan Stock Exchange. In consequence of any additions and/or deletions to the existing list, the Company will give at least 60 days prior notice to the NCC Participants for introduction of incoming and phasing out of outgoing MF Eligible Securities. After expiry of the said notice period, MF positions in the outgoing securities shall be frozen and will be available only for release for the purposes of settlement or squaring-up.</p>	<p>The existing criteria applicable to MF eligible securities has been amended to align it with the interim review period proposed for MES and MT eligible securities.</p>
Chapter 7C – Margin Trading System			
7C.1.1	<p>Definitions</p> <p>Margin Eligible Securities</p> <p>means securities notified to be acceptable as Collateral pursuant to Regulation 7C.6.3 (<i>Approved Collaterals</i>).</p>	<p>Margin Eligible Securities</p> <p>means securities notified to be acceptable as Collateral pursuant to Regulation 7C.6.1 (<i>Approved Collaterals</i>).</p>	<p>As the term Margin Eligible Security has already been defined in Chapter 12, these definition are removed.</p>
7C.3.2 (9)	<p>Interim Review of Securities</p> <p>Clause No. 1,2,4,6,7 & 8 of the criteria to be reviewed after each 45 days and any security which does not meet any of these criteria shall be excluded from the list after giving notice of at least 60 days to market participants.</p>	<p>Interim Review of Securities</p> <p>Clause No. 1,2,4,6,7, 2,4,6,7 & 8 of the criteria shall be reviewed after each 45 days. <u>Such review shall be carried out at the same frequency and simultaneously with the interim review carried out for</u></p>	<p>As per the letter received from SECP under point 7 there is a requirement to conduct interim reviews of MES and MTS simultaneously. To include this, the necessary</p>

		SLB eligible securities and Margin Eligible Securities. and any security which does not meet any of these criteria shall be excluded from the list after giving notice of at least 60 days to market participants.	amendments have been proposed.
7C.3.2 (10)	Final Review for Securities This list of eligible securities will be revised in the first 15 days of January and July every year based on their data of immediate preceding 6 calendar months.	Final Review for Securities This list of MT_eEligible s Securities will be revised in the first 15 days of January and July every year based on their data of immediate preceding 6 calendar months made available by Pakistan Stock Exchange. Such review shall be carried out at the same frequency and simultaneously with the review carried out for SLB eligible securities, MF eligible securities and Margin Eligible Securities.	Kindly refer the comments given under 7C.3.2(9).
7C.3.2(13)	Operating Profit Operating profit before tax as per audited financial statements in any two of the last three years.	Operating Profit Operating Profit before tax as per audited financial statements in any two of the last three years.	The term profit before tax has been used in the point number 8 of the SECP's letter dated December 19, 2016. Therefore, to align the requirement , this amendment has been proposed. Further, SECP vide its letter dated _____ directed NCCPL to replace the term Operating Profit before tax with the term Profit before Tax.

7C.6.1	<p>Approved Collaterals</p> <p>Margin Eligible Securities</p> <p>The Company shall notify from time to time, as declared by the stock exchange under their respective regulations, the securities that are acceptable to the Company for the purpose of Exposure Margins and any other margins that may be required by the Company from time to time, except Marked-to-Market Losses.</p>	<p>Approved Collaterals</p> <p>Margin Eligible Securities</p> <p>The Company shall notify from time to time <u>pursuant to the provisions contained under Chapter 12 of the NCCPL Regulations</u>, as declared by the stock exchange under their respective regulations, the securities that are acceptable to the Company for the purpose of Exposure Margins and any other margins that may be required by the Company from time to time, except Marked-to-Market Losses.</p>	<p>The Margin Eligible Securities are now required to be determined by NCCPL, accordingly the Regulations has been amended to reflect the change.</p>
Chapter 12 – Risk Management by the Company			
12.1	<p>Definitions</p> <p>Margin Eligible Security means:</p> <p>(a) Such Security that meets the quantitative and qualitative criteria laid<u>lay</u> down by the Company and approved by the Commission from time to time. Such criteria shall inter alia include selection of Securities on the basis of highest daily turnover and lowest impact cost during the last 6 months;</p> <p>(b) Treasury Bills (T-Bills), , Pakistan Investment Bonds (PIBs) and listed National Saving Bonds valued in accordance with the methodology prescribed by the Company from time to time with prior approval of the Commission.</p>	<p>Definitions</p> <p>Margin Eligible Security means:</p> <p>(a) Such Security that meets the quantitative and qualitative criteria laid down by the Company and approved by the Commission from time to time <u>as provided in Schedule III of this Chapter</u>. Such criteria shall inter alia include selection of Securities on the basis of highest daily turnover and lowest impact cost during the last 6 months;</p> <p>(b) Treasury Bills (T-Bills), , Pakistan Investment Bonds (PIBs) and listed National Saving Bonds valued in accordance with the methodology prescribed by the Company from time to time with prior approval of the Commission. T-</p>	<p>The amendments have been made to incorporate the provisions stipulated in the letter received from SECP dated December 19, 2016 proposing changes in the selection criteria for margin eligible securities.</p>

	<p>T-Bills shall be valued using the following valuation methodology while accepting as collateral and:</p> <p>(i) 2.5% hair cut on daily valuation shall be applicable;</p> <p>(ii) T-Bills can be of any tenure;</p> <p>(iii) All T-Bills shall be released before 3-working days of their respective maturities; and</p> <p>(iv) All T-Bills shall be valued on daily basis based on the prices published by the Reuter.</p> <p>(c) Any other highly liquid security allowed by the Company with prior approval of the Commission.</p> <p>Haircut</p> <p>means<u>Means</u> the percentage rates on which the Margin Eligible Securities are discounted for valuation purpose based on their liquidity and volatility.</p>	<p>Bills shall be valued using the following valuation methodology while accepting as collateral and:</p> <p>(i) 2.5% hair cut on daily valuation shall be applicable;</p> <p>(ii) T-Bills can be of any tenure;</p> <p>(iii) All T-Bills shall be released before 3-working days of their respective maturities; and</p> <p>(iv) All T-Bills shall be valued on daily basis based on the prices published by the Reuter.</p> <p>(c) Any other highly liquid security allowed by the Company with prior approval of the Commission.</p> <p>Haircut</p> <p>means<u>Means</u> the percentage rates <u>prescribed under Schedule III of this Chapter at</u> which the Margin Eligible Securities are discounted for valuation purpose based on their liquidity and volatility. <u>However, the Company may from time to time may make revisions, with the prior approval of the Commission in the applicable Haircuts,</u></p>	
12.5.5	<p>CONDITIONS APPLICABLE TO ALL MARGIN DEPOSITS:</p> <p>All margins deposited by the</p>	<p>CONDITIONS APPLICABLE TO ALL MARGIN DEPOSITS:</p> <p>All margins deposited by the</p>	<p>Please refer to explanation provided under regulation 12.1 above.</p>

	<p>Clearing Members with the Company pursuant to these Regulations shall be subject to the following conditions:</p> <p>(a) The Company may from time to time prescribe, with the prior approval of the Commission, Haircuts applicable to each Margin Eligible Security however, in case of MT (R) Transaction Margins, the maximum number of acceptable MT Eligible Securities shall be the same as notified by the Company in 7C.3.2 of these Regulations;</p> <p>(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 Clearing Member/ SLB/MT Participant wide and/or market wide limits of deposit of such Margin Eligible Security as prescribed in Schedule-III hereto;</p> <p>(c) The Security is in book entry form;</p> <p>(d) The issuer of Security is not placed on the defaulter<u>sdefaulter's</u> segment of the Pakistan Stock Exchange;</p> <p>(e) The Corporate Clearing Member listed on the Pakistan Stock Exchange will not be allowed to deposit against the Exposure margins and MtM Losses of their own company<u>scompany's</u> shares</p> <p>(f) The Company may from time to</p>	<p>Clearing Members with the Company pursuant to these Regulations shall be subject to the following conditions:</p> <p>(a) The Company <u>shall apply the Haircuts prescribed under these Regulations</u> may from time to time prescribe, with the prior approval of the Commission, Haircuts applicable to each Margin Eligible Security. however, in case of MT (R) Transaction Margins, the maximum number of acceptable MT Eligible Securities shall be the same as notified by the Company in 7C.3.2 of these Regulations;</p> <p>(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 Clearing Member/ SLB/MT Participant wide and/or market wide limits of deposit of such Margin Eligible Security as prescribed in Schedule-III hereto;</p> <p>(c) The Security is in book entry form;</p> <p>(d) The issuer of Security is not placed on the defaulter<u>sdefaulter's</u> segment of the Pakistan Stock Exchange;</p> <p>(e) The Corporate Clearing Member listed on the Pakistan Stock Exchange will not be allowed to deposit against the</p>	
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	<p>time prescribe, with the prior approval of the Commission, the maximum number of acceptable Margin Eligible Securities;</p> <p>(g) Any other criterion prescribed by the Company and approved by the Commission from time to time;</p> <p>(h) The Company shall give at least 30 days prior notice to the Clearing Members before including or excluding any security from the list of Margin Eligible Securities; and/or</p> <p>(i) The Company shall carry out every June and December a review of Margin Eligible Securities on the basis of data available for preceding six months. Any resulting change in the Securities shall be notified one month in advance.</p>	<p>Exposure margins and MtM Losses of their own company<u>company's</u> shares</p> <p>(f) The Company may from time to time prescribe, with the prior approval of the Commission, the maximum number of acceptable Margin Eligible Securities;</p> <p>(g) Any other criterion prescribed by the Company and approved by the Commission from time to time;</p> <p>(h) The Company shall give at least 30 days prior notice to the Clearing Members before including or excluding any security from the list of Margin Eligible Securities; and/or</p> <p>(i) The Company shall carry out every June and December a review of Margin Eligible Securities on the basis of data available for preceding six months. Any resulting change in the Securities shall be notified one month in advance <u>as per the provisions stipulated under Schedule III of this Chapter.</u></p>	
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Chapter 12
Annexure
III

MARGIN ELIGIBLE SECURITIES

The following limits shall be applied for the maximum number of shares in any eligible scrip that may be deposited by a Clearing Member or SLB/MT Participants for collateral purposes:

	VAR BASED MARGIN PERCENTAGES	MAXIMUM NUMBER OF SHARES IN A SYMBOL THAT MAY BE DEPOSITED AS COLLATERAL
CLEARING MEMBER*	VaR ≤ 20%	2% of Free-Float
	VaR > 20%	0.5% of Free-Float
SLB/MT Participants**	0 < 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 scrips deposited as security i.e. margin held by the Company cannot exceed 50% of Free-Float of such scrip.

The Company will notify the market when 70%, 80% and 90% limits in scrip are reached.

** A maximum limit per Margin Eligible Security, as a percentage of free float, shall apply to all Margin Eligible Securities

MARGIN ELIGIBLE SECURITIES

1. Eligibility Criteria

Eligibility criteria of Margin Eligible Securities shall include the following:

1.1 Maximum Number of Securities:

Top 100 book-entry securities will be selected by giving 50% Weight to Average Daily Free Float Market Capitalization and 50% Weight to Average Daily Turnover during the previous six (6) months and same will be filtered based on the following criteria:

a) Impact Cost: Securities that have average daily Impact Cost of Less than 1% during the previous six months.

b) Public Float Securities that have a Free Float of more than 25% of issued capital or 60 million free float shares. Securities which have less than 25% of free float or 60 million shares, whichever is lower, shall be subject to additional haircut of 15%.

c) Trading History Securities that have traded at least 90% of the trading days during last six months.

d) Auditors Opinion Securities of the Company

The additions have been made to incorporate the provisions stipulated in the letter received from SECP dated December 19, 2016 proposing changes in the selection criteria for margin eligible securities.

	<p>deposited as margin held by the Company i.e. margin held by the Company cannot exceed 25% of free float of such Margin Eligible Security.</p>	<p><u>should not have qualified opinion on going concern assumption in Auditor's report on the Company's most recent audited annual Financial Statements.</u></p> <p><u>e) Profit before Tax</u> <u>Profit before tax as per audited financial statements in any one of the last three years of operations.</u></p> <p><u>f) Eligibility of companies with principle activity in investment/trading of securities</u> <u>There should be an additional haircut of 15% if the principal activities of the Company is trading/ investing in securities.</u></p> <p><u>1.2 Ineligibility</u></p> <p><u>g) Winding up Proceedings</u> <u>Where a listed company is subject to winding –up proceedings under relevant provisions of the Companies Ordinance, 1984, it shall be ineligible, even if the same has not been placed on defaulter's counter segment by the Pakistan Stock Exchange upon initiation of winding-up proceedings.</u></p> <p><u>h) Equity</u> <u>A company with negative equity should be ineligible for the purpose of Marginal Eligible security.</u></p> <p><u>1.3 Eligibility Review</u></p>	
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		<p><u><i>a) Interim Review of Securities</i></u></p> <p><u>Sub Regulations 1.1 (a), (b) and (c) of the criteria to be reviewed after each 45 days. Such review shall be carried out at the same frequency and simultaneously with the interim review carried out for MT eligible securities and SLB eligible securities. Any security which does not meet any of these criteria shall be excluded from the list after giving notice of at least 30 days to market participants.</u></p> <p><u><i>b) Final Review for Securities</i></u></p> <p><u>This list of Margin Eligible Securities will be revised in the first 15 days of January and July every year based on their data of immediate preceding 6 calendar months made available by Pakistan Stock Exchange. Such review shall be carried out at the same frequency and simultaneously with the review carried out for MF eligible securities, MT eligible securities and SLB Eligible Securities. For any resulting change in the securities, the Company shall give at least 30 days prior notice to the Clearing Members before including or excluding any security from the list of Margin Eligible Securities.</u></p> <p><u>1.4 Admissibility</u></p> <p><u>All Margin Eligible Securities selected on the basis as per aforementioned criteria will be acceptable against margins for</u></p>	
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market segments provided under Schedule II of this Chapter.

2. Haircut percentage

The following haircuts will be applicable on the Margin Eligible Securities selected based on above criteria:

<u>VaR based Margin Bucket</u>	<u>Haircut applicable on daily closing rate in the Ready Market</u>		
<u>00.00% to < 12.50%</u>	<u>15.00%</u>		
<u>12.50% to < 15.00%</u>	<u>17.50%</u>		
<u>15.00% to < 20.00%</u>	<u>22.50%</u>		
<u>20.00% to < 25.00%</u>	<u>27.50%</u>		
<u>25.00% to < 30.00%</u>	<u>32.50%</u>		
<u>30.00% to < 40.00%</u>	<u>42.50%</u>		
<u>Greater than 40%</u>	<u>60.00%</u>		

* The Haircuts specified in sub Regulation 1.1 (b) and (f) of Schedule III shall be applied in addition to the Haircut rates specified in the above table.

3. Acceptable Quantity

The following limits shall be applied for the maximum number of shares in any eligible scrip that may be deposited by a Clearing Member or SLB/MT Participants for collateral purposes:

	VAR BASED MARGIN PERCENTAGE S	MAXIMUM NUMBER OF SHARES IN A SYMBOL THAT MAY BE DEPOSITED AS COLLATERAL
CLEARING MEMBER*	VaR ≤ 20%	2% of Free- Float
	VaR > 20%	0.5% of Free- Float
SLB/MT Participants**	0 < 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 scrips deposited as security i.e. margin held by the Company cannot exceed 50% of Free-Float of such scrip.

The Company will notify the market when 70%, 80% and 90% limits in scrip are reached.

** A maximum limit per Margin Eligible Security, as a percentage of free float, shall apply to all Margin Eligible Securities deposited as margin held by the Company i.e. margin held by the Company cannot exceed 25% of free float of such Margin Eligible Security.