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## **National Clearing Company of Pakistan Limited**

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

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**NCCPL/SLB/MARCH-17/01**

**March 02, 2017**

### **Modifications in Securities Lending and Borrowing (“SLB”) System**

Dear Clearing Members,

This is with reference to the implementation of Securities Lending and Borrowing System (“SLB”) by National Clearing Company of Pakistan Limited (“NCCPL”) in a capacity of an Authorized Intermediary effective from March 21, 2011.

In this respect, we are pleased to inform you that **effective from Monday March 06, 2017,** following changes will be implemented in SLB System so as to promote liquidity in SLB Market:

#### **A. SLB Contract Period:**

1. Presently, the Maturity Date in respect of SLB Contract is the twenty-third (23rd) Business Day from the SLB Transaction Date. In the revised mechanism, for each SLB Eligible Security, separate SLB Contracts shall be made available in SLB Market from one Business Day to next 14 Business Days except where book-closure of SLB Eligible Security falls within 14 Business Days.
2. Each SLB Contract shall have a fixed maturity date. At the maturity of each SLB Contract, SLB System will automatically initiate SLB (R) Transaction. In case of an earlier release of SLB Contract on any Business Day prior to the Maturity Date by the Borrower, the Cost of Lending shall be determined on the basis of actual duration of SLB Contract Period instead of using SLB (R) Transaction Date.

#### **B. Rate of Lending**

Presentably, the rate of lending/borrowing on SLB Transaction is one month KIBOR + 8% per annum. In the revised mechanism, determination of lending/borrowing rates shall be at the disposal of the SLB Participants. However, such rate shall not be greater to one month KIBOR + 15% per annum.

#### **C. Special Margin to replace with Concentration Margin**

Presently, Special Margin is applicable on SLB Contacts which is required to be deposited in accordance with Schedule-II Chapter 12 (RISK MANAGEMENT BY THE COMPANY) of the NCCPL Regulations. In the revised mechanism, Special Margin will not be applicable and the SLB Participants shall deposit Concentration Margins in accordance with Schedule-II



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and Schedule-VI Chapter 12 (RISK MANAGEMENT BY THE COMPANY) of the NCCPL Regulations.

### D. SLB Market Timings

Presently, SLB Market is closed before 15 minutes of closure of Ready Market. In the revised mechanism, the SLB Market shall also be made available to the SLB Participants after the closure of Ready Market as per the Designated Time Schedule of NCCPL attached as Annexure-A.

The approved amendments in the NCCPL Regulations pertaining to SLB are attached as Annexure-B. For any further queries or concerns, please feel free to contact the **Customer Support Department** of your respective locations:

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

Regards,

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**Rehan Saif**  
**Head of PD & CSS**

CC:

1. Executive Director - Policy, Regulation and Development Department - SMD  
Securities & Exchange Commission of Pakistan - Islamabad
2. Managing Director - Pakistan Stock Exchange Limited
3. Chief Executive Officer - Central Depository Company of Pakistan Limited
4. Chief Executive Officer - Mutual Fund Association of Pakistan
5. Chairman - Pakistan Banking Association



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### Annexure – A

#### NATIONAL CLEARING COMPANY OF PAKISTAN LIMITED SECURITY LENDING & BORROWING (SLB) DESIGNATED TIME SCHEDULE (DTS)

S. No.	Activity	Monday to Thursday			Friday		
		Start Time	End Time	Duration Hrs.	Start Time	End Time	Duration Hrs.
1	SLB Market	9:30 AM	3:45 PM	6:15 AM	9:30 AM	12:00 PM	2:30
					2:30 PM	4:45 PM	2:15
2	SLB Release Session	9:15 AM	4:00 PM	6:45	9:15 AM	5:00 PM	7:45
3	SLB Spot Market	4:30 PM	5:00 PM	0:30	4:30 PM	5:00 PM	0:30
4	<b>DEMAND OF EXPOSURE MARGIN, SPECIAL MARGIN &amp; MTM LOSSES</b>						
	Demand Notice available in Release System for Collateral Requirements of NCC	By 5:00 PM			By 6:00 PM		
5	<b>COLLECTION &amp; RELEASE OF COLLATERALS</b>						
	<b>Payment of deposit against Exposure Margin, Special Margin &amp; MTM Losses :</b>						
	Automated collection of MTM from SLB Participants through NCSS	5:00 PM	5:30 PM	0:30	6:00 PM	6:30 PM	0:30
	Deposit of cash by SLB Participant into NCCPL Bank Account.	9:00 AM	5:30 PM	8:30	9:00 AM	6:30 PM	9:30
	<b>Company to receive request for release of deposit against Exposure Margin, Special Margin &amp; MTM Losses:</b>						
	Withdrawal request of Cash Deposit	9:00 AM	5:45 PM	8:45	9:00 AM	6:15 PM	9:15
	<b>Company to process request for release of deposit against Exposure Margin, Special Margin &amp; MTM Losses:</b>						
In case of Deposit in Cash - Company to issue cheque marked "A/c Payee Only" in favor of CMs	9:00 AM	6:30 PM	9:30	9:00 AM	7:00 PM	10:00	
6	<b>OTHER ACTIVITIES</b>						
	CMs to submit written request to NCCPL for borrowing of un-delivered securities (if any) on settlement day through SLB Spot Market	4:00 PM	4:30 PM	0:30	4:00 PM	4:30 PM	0:30
	Data available for Download on TWS terminals	9:30 AM	5:00 PM	7:30	9:30 AM	6:00 PM	8:30
	Data available for Download on Ultra Reporting System	9:00 AM	6:00 PM	9:00	9:00 AM	7:00 PM	10:00



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### Annexure – B

#### Approved Amendments to the NCCPL Regulations pertaining to Securities Lending & Borrowing “SLB” by SECP

<b>Changes Approved by SECP</b>
<b>CHAPTER 5: APPLICATIONS FOR ADMISSION AND ADMISSION CRITERIA FOR NCSS PARTICIPANTS</b>
<b>5.1 Application for admission to the NCSS as Clearing Member</b>
(h) An insurance company registered with the Commission which has been allocated minimum insurer financial strength long-term rating of A+;
<b>CHAPTER 7A: SECURITIES LENDING AND BORROWING</b>
<b>7.A.1 Definitions</b>
<p><b>KIBOR</b> 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.</p> <p><b>Maturity Date</b> means, in respect of SLB Contract, Business Day on which the NCSS will automatically initiate a SLB (R) Transaction before the opening of business, which shall be settled in accordance with the NCSS Procedures.</p> <p><b>SLB Contract Price</b> means the product of applicable Premium specified in the Bid, the SLB Transaction Value and SLB Contract Period. Provided that, in case where SLB (R) Transaction is initiated on Accelerated Maturity Date, the actual duration of SLB Contract Period shall be used instead of using SLB (R) Transaction Date.</p> <p><b>SLB Contract Period</b> means the period lapsed from (and including) the SLB Transaction Date until and including the SLB (R) Transaction Date. For each SLB Eligible Security, separate SLB Contracts shall be made available in SLB Market from one Business Day to next 14 Business Days except where book-closure of a security falls within 14 Business Days.</p> <p><i>Explanation:</i> if the SLB (R) Transaction Date is same as the SLB Transaction Date, the SLB Contract Period shall be one day.</p>
<b>7A.2. Admission and Eligibility Criteria for SLB Participants</b>
<b>7.A.2.1 Eligibility Criteria for SLB Participant</b>
A Clearing Member will be eligible to apply to the Company for admission as Lender and/or



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### Changes Approved by SECP

Borrower if such Clearing Member fulfills the criteria as laid down in Chapter V of the Rules and, in case of:

- (i) a Broker Clearing Member, fulfills the capital adequacy requirements specified in Chapter 12's Schedule I;
- (ii) a banking company within the meaning of the Banking Companies Ordinance, 1962 (LVII of 1962), it has been allocated minimum short-term credit rating of A3;
- (iii) a financial institution to which Section 3A of the Banking Companies Ordinance, 1962 (LVII of 1962) is applicable, it has been allocated minimum short-term credit rating of A3;
- (iv) an investment finance company licensed by the Commission to provide investment finance services, it has been allocated minimum management quality rating of AM3 minus;
- (v) an insurance company registered with the Commission and it has been allocated minimum insurer financial strength long-term rating of A+;
- (vi) any other corporate entity 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 a SLB Participant;

### 7A.4. SLB Contracts and Settlement

#### 7.A.4.8 Forced Release

All SLB Contracts shall be force released on the working day before the start of a Spot Period relating to the SLB Eligible Security.

#### 7.A.4.13 Cost of Lending

The applicable rate of Premium on SLB Transactions shall be determined by the matching of Offer and Bids. Such rate, however, shall not be greater than one month KIBOR (prevailing at the close of immediately preceding working day) plus 15% per annum.

## CHAPTER 12: RISK MANAGEMENT BY THE COMPANY

### 12.4 EXPOSURE AND NETTING

#### 12.4.8

~~Special Margin also be payable by Borrowers on daily basis only where the average transaction price of the Borrower's proprietary position or his client's position in a SLB Eligible Security in SLB Market is different from 26 weeks moving average price of that SLB Eligible Security in the Ready Delivery Contract Market. In case where the average transaction price of a Borrower's proprietary position or his client's position in a SLB Eligible Security in SLB Market is less than the 26 weeks moving average price of that SLB Eligible Security in the Ready Delivery Contract Market by more than 10% then special margins shall be payable equal to the difference between average transaction price of the gross sell position of such Borrower (including proprietary and client positions) and 26 weeks moving average price of that SLB Eligible Security in the Ready Delivery Contract Market.~~



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### Changes Approved by SECP

#### 12.7 OTHER MARGINS

##### 12.7.1 CONCENTRATION MARGINS:

Concentration margins shall be payable by:

- (a) a Clearing Member in respect of a Security in Deliverable Future Contracts and Cash-Settled Futures Contracts Markets determined in accordance with Schedule-VI. Concentration Margin shall be calculated at the end of each Trade Date; and
- (b) a Finanee till settlement of MT (R) Transaction in respect of a MT Eligible Security in MT Market determined in accordance with Schedule-VI and shall be calculated at the end of each Business Day.
- (c) SLB Participants till settlement of SLB (R) Transaction in respect of a SLB Eligible in SLB Market determined in accordance with Schedule-VI and shall be calculated at the end of each Business Day.

12.7.14 Where a SLB Participant fails to deposit any margin, MtM Losses or Concentration Margin as provided in these Regulations or fails to comply with any other requirement of these Regulations, the Company shall initiate default proceedings against such SLB Participant in accordance with these Regulations. Where a SLB Participant fails to deposit Collaterals against exposure margins and MtM Losses and where applicable, Concentration Margins, and fails to settle SLB Transaction and SLB (R) Transaction, as the case may be, or fails to comply with any other requirement(s) of these Regulations, the Company shall initiate default proceedings in accordance with the provisions of Chapter 13 (Money Default Management) and other relevant provisions of these Regulations and Procedures.

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### Schedule-II

#### FORM OF EXPOSURE MARGINS, MTM LOSSES, SPECIAL MARGINS, CONCENTRATION MARGINS, LIQUIDITY MARGINS AND ADDITIONAL MARGINS DEPOSITS

SR NO.	MARKET	EXPOSURE MARGINS	MTM LOSSES	SPECIAL MARGIN	CONCENTRATION MARGINS	LIQUIDITY MARGINS	ADDITIONAL MARGINS
1	Ready Delivery Contract Market	100% in Cash and/or Margin Eligible Securities and/or Bank Guarantee and/ or Irrevocable Undertaking and/or T-Bills provided by the respective Clearing Member	100% in Cash and/or Margin Eligible Security and/or bank guarantee and/ or Irrevocable Undertaking	Not Applicable	Not Applicable	100% in Cash and /or Margin Eligible Securities and/or Bank Guarantee	Not Applicable
*2	Leveraged Buys financed through MT Market						100% in Cash and /or Margin Eligible Securities and/or Bank Guarantee and/ or Irrevocable Undertaking and/or T-Bills provided by the respective Clearing Member
3	Futures Trading in Provisionally Listed Companies Market	100% in Cash and/or bank guarantee and/ or Irrevocable Undertaking	100% in Cash	Not Applicable	Not Applicable	Not Applicable	Not Applicable
4	Deliverable Futures Market	50% in Cash and/or Bank Guarantee and/ or Irrevocable Undertaking and 50% in Margin Eligible Securities as per Procedures and these Regulations	100% in Cash/ Bank Guarantee	Not Applicable	100% in Cash and/or bank guarantee and/ or Irrevocable Undertaking	Not Applicable	Not Applicable
5	Cash-Settled Futures Market	100% in Cash and/or Bank Guarantee	100% in Cash	Not Applicable	100% in cash and/or Bank Guarantee	Not Applicable	Not Applicable
6	Stock Index Futures Contracts Market	100% in Cash and/or Bank Guarantee	100% in Cash	100% in Cash and/or Bank Guarantee	Not Applicable	Not Applicable	Not Applicable
7	Index Option Market	100% in Cash and/or Bank Guarantee	100% in Cash	Not Applicable	Not Applicable	Not Applicable	Not Applicable



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8	SLB Market	100% in Cash and/or Margin Eligible Securities and/or Bank Guarantee and/ or Irrevocable Undertaking and/or Treasury Bills (“T-Bills”) provided by the respective SLB Participant	100% in Cash	<del>Not Applicable provided by the respective SLB Participants</del>	<u>100% in Cash and/or Bank Guarantee and/or Irrevocable Undertaking</u> <del>not applicable</del>	Not applicable	Not applicable
9	Debt Market	100% in Cash and/or Bank Guarantee and/ or Irrevocable Undertaking by the respective Clearing Member	100% in Cash and/or Bank Guarantee and/ or Irrevocable Undertaking provided by the respective Clearing Member	Not applicable	Not applicable	Not applicable	Not applicable

**Note:**

1. In Deliverable Futures Market, in case where Exposure is due to sale of a particular security by a UIN, 50% net-sold position of such security can be deposited by the same UIN to meet full Exposure Margin requirements.
2. The Company shall allow return to Clearing Member on the cash amount deposited with the Company as Exposure Margin, MtM Losses and other margins, if applicable, at the rate paid by the respective banks opted by the Clearing Member after retaining 1% as service charges by the Company.
3. Irrevocable Undertaking shall be acceptable collateral from Non-Broker Clearing Member and Non-Broker Trading Financier

\* All Margins and MtM Losses for Leveraged Buys executed through special function key by the Broker Clearing Members and committed to be financed through MT Market will be collected by the Company as applicable in Ready Delivery Contract Market till settlement on T+2. Subsequent to that FPR, MtM Losses and any other margins on relevant MT Transactions shall be collected by Company only in cash in accordance with these Regulations. MT Eligible Securities, as notified by the Company from time to time, are acceptable to the Company for the purpose of MT (R) transaction Margins to be collected from Finantee only, except Marked-to-Market Losses.





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### Schedule VI (continued)

CONCENTRATION MARGIN SLABS in MTS <u>AND</u> SLB MARKET					
%AGE OF MTS/ <u>SLB</u>		AND	%AGE OF MTS/ <u>SLB</u> POSITION TO FREEFLOAT OF SCRIP		CONCENTRATION MARGINS
<b>MARKET WIDE SECURITY CONCENTRATION MARGIN SLABS AND RATES</b>					
Greater than	2	“	Greater than	2.9	1.61
Greater than	6	“	Greater than	4.3	3.23
Greater than	8	“	Greater than	5.7	4.84
Greater than	10	“	Greater than	8.6	6.45
Greater than	12	“	Greater than	14.3	8.06
Greater than	14	“	Greater than	20	9.68
<b>CLEARING MEMBER WIDE SECURITY CONCENTRATION MARGIN SLABS AND RATES</b>					
Greater than	5	“	Greater than	0.6	1.61
Greater than	10	“	Greater than	0.9	3.23
Greater than	20	“	Greater than	1.1	4.84
Greater than	30	“	Greater than	1.4	6.45
Greater than	40	“	Greater than	1.7	8.06
Greater than	60	“	Greater than	2.0	9.68
<b>UIN WIDE SECURITY CONCENTRATION MARGIN SLABS AND RATES</b>					
Greater than	1	“	Greater than	0.17	0.81
Greater than	2	“	Greater than	0.25	1.61
Greater than	4	“	Greater than	0.33	2.42
Greater than	8	“	Greater than	0.42	4.03
Greater than	16	“	Greater than	0.50	5.65

**Note:** All three tier Concentration Margins will be applied on ‘AND’ basis and shall be applicable on the basis of average of the margins corresponding to the two applicable slabs.