



Ref #PCM/01/2021

Dated: January 18, 2021

**Subject: Working Model of Professional Clearing Member (PCM).**

Dear TREC Holders.

This is with reference to the amendments in the Securities Brokers (Licensing and Operations) Regulations, 2016 (Regulations) vide S.R.O. 342(I)/2020 dated April 27, 2020 and S.R.O. 77(I)/2020 dated February 03, 2020 relating to the new broker regime and the Securities and Exchange Commission (SECP) earlier letter of July 20, 2020.

Further, with reference to the letter No. SMD/SE/2(20)/2020 dated December 31, 2020, wherein SECP communicated the timelines for the changes under the amendments, **the three stakeholders of the first PCM Project, namely CDC, NCCPL and PSX jointly prepared a detailed working model for consideration of the market participants (find attached).**

Going forward the three SROs will also jointly conduct market consultation sessions in different cities to obtain the feedback of the Brokers (TREC Holders) and other concerned parties. Dates of the Consultative sessions will be announced separately.

Regards

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**Shariq Naseem**

Head of PD and Marketing -  
CDC

-sd-

**Jawad H. Hashmi**

GM, Trading & TREC Affairs -  
PSX

-sd-

**Muhammad Asif**

Head of Operation - NCCPL

# Professional Clearing Member – Working Model

Paper prepared by working group comprising of representatives of CDC,  
NCCPL & PSX (Dec 2020)

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**1. Appointment of Professional Clearing Member by Trading Only Broker**

- 1.1. The Trading Only Broker (TO), being a TREC Holder of Pakistan Stock Exchange (PSX), will be eligible to execute proprietary and client(s) trades. However, for Clearing, Settlement and Asset Custody, TO will appoint a Professional Clearing Member (PCM) to provide services. The rules and regulations shall be framed in a manner whereby PCM shall undertake the clearing and settlement of all trades of TO Broker/Client(s), However, the limits assigned to the TO/Client(s) will vary as per the assessment to be made by PCM.
- 1.2. Appointment of PCM will be made upon satisfactory completion of necessary requirements by the TO as defined in the Procedures.
- 1.3. With the appointment of PCM, the TO will have access to the Order Management System (OMS) of PCM for all activities related to Trading, Clearing, Risk Management, Settlement, Custody, Back Office and related features. Detailed features of OMS and its components are outlined in section 10.

## **2. Requirements for TO for Appointment of PCM**

2.1. Any TO appointing the PCM in accordance with the Procedures shall:

2.1.1. provide all the necessary information in respect of TO and client(s) to the PCM.

2.1.2. execute a Bilateral Agreement with the PCM, covering;

1. Roles and responsibilities of PCM as described under 3.1.4.2) Roles and Responsibilities of PCM.

2. Roles and responsibilities of TO w.r.t.:

a. ensuring that the client(s) fills in all relevant forms (such as CRF/KYC, Margin Trading form, Pledge form etc.).

b. performing Know Your Customer (KYC) and Customer Due Diligence (CDD) and confirming the probity and integrity of their client(s) through Proof of Identity and Proof of Address documents. In addition In-Person Verification (IPV) will be a mandatory requirement in line with existing regulatory framework. IPV matters shall be governed as per the relevant PSX and CDC regulations and KYC matters shall be governed as per the CKO rules and regulations.

c. indemnify that the KYC/CDD/IPV of the client(s) along with the verification of relevant documents has been ensured and PCM shall not be responsible for validating the KYC/CDD/IPV or authenticity or accuracy of client(s) documents/details and it will be the sole responsibility of the TO.

d. submit the duly filled and signed necessary documents along with the CRF and KYC Registration Form of TO and/or client(s) to PCM for UIN registration/mapping, KYC registration/UKN tagging, sub-account and bank account opening and other activities in accordance with the Procedures.

e. submit CRF and KYC registration form to PCM for sub account opening and other formalities. KYC details will be entered by the PCM in the NCCPL Central Portal and related documents will be submitted to NCCPL.

- f. ensure that the registration information w.r.t. CDS sub-account and UIN of TO and/or client(s) provided to the PCM is duly updated and any change therein is timely reported to the PCM.
- g. use of Order Management System (OMS) for placement of proprietary and client(s) trades.
- h. assign and open a new client(s) code in the OMS back-office system and will inform the PCM.
- i. extending access of OMS to client(s) for online trading.
- j. dealing with trade related complaints of the client(s).
- k. maintaining confidentiality of client's information.
- l. facilitating timely collection and deposit of funds from client(s) to PCM in the manner prescribed under Section 8.
- m. timely passing the client(s) request (other than trade related request) for handling of CDS transactions e.g. securities deposit & withdrawal, gift, portfolio, pledge, etc. to the PCM.
- n. facilitate collection of transaction charges such as custody, account maintenance, transaction fee, etc. from the client(s).
- o. payment of transaction charges such as custody, account maintenance, transaction fee, etc. of proprietary/client(s) CDS sub-account to the PCM.
- p. collection of brokerage commission, trading, laga and other PSX/NCCPL charges directly from the client(s) (if applicable).
- q. payment of trading, laga and other PSX/NCCPL charges directly to the PSX/NCCPL (if applicable).

- 2.1.3. execute a tripartite agreement with client(s) and PCM which will be made part of the Customer Registration Form (CRF).

(Note: Client will fill CRF and it will be transmitted by TO to PCM and TO will retain the copy for its record. Client will not need to fill two CRFs separately for TO and PCM).

**3. Requirements for PCM for providing services to the TO and its client(s)**

3.1. Any PCM providing services to the TO and its clients in accordance with the Procedures shall:

3.1.1. execute a tripartite agreement with client(s) and TO which will be made part of the Customer Registration Form (CRF)

3.1.2. ensure that the TO/Client(s) has fulfilled all the necessary requirements and provided all the relevant documents duly filled and signed as per the respective Regulations and Procedures .

3.1.3. ensure the correctness of information entered in all the relevant systems such as UIN Registrations/Mapping, CDS, NCSS etc.

3.1.4. execute a Bilateral Agreement with the TO in accordance with the Procedures covering:

1. Roles and responsibilities of TO as described under 2.1.2.2) roles and responsibilities of TO.

2. Roles and responsibilities of PCM w.r.t TO:

a. dealing with complaints of the TO related to proprietary and/or client(s) trading and related matters.

b. maintaining confidentiality of TO and client(s) assets and trade related information.

c. timely executing the client(s) request received through the TO for custody and settlement purpose.

d. timely executing the client(s) request other than trade related request for handling of CDS transactions e.g. gift, portfolio, transmission, pledge, etc. through the TO.

e. registering and mapping UIN of TO/client(s) as per the procedures and regulation of NCCPL.

f. Registering/tagging KYC of client(s) as per the procedures and regulations of CKO.

g. Completion of RMS related requirement of TO/clients as per the procedures and regulations of NCCPL

h. Completion of CGT related requirement of TO/clients as per the procedures and regulations of NCCPL.

- i. ensure that the registration information w.r.t. CDS sub-account and UIN of TO and/or client(s) provided by the TO is duly updated in the relevant systems.
  - j. providing a digital account opening facility for TO/clients as per rules governing online account opening.
  - k. providing an OMS Including Trading and Back-Office system to the TO.
  - l. providing master interface of OMS to TO for proprietary/client(s) trading and client(s) user management.
  - m. formulating risk management framework with respect to TO, covering margin requirements, assigning trading limits and undertaking other measures as prescribed by the regulating body.
  - n. providing assurance that each and every locked-in Exchange/Non-Exchange trade/transaction will be settled by the PCM.
  - o. opening and maintaining bank and securities account(s) of the TO.
  - p. facilitating deposit and withdrawal of securities/cash from TO/client(s) sub account/cash account.
  - q. conducting over and above AML/EDD of client(s) and TO such as CNIC verification through NADRA Verysis, ensure authenticity of bank verification, identifying blacklisted criminals/terrorists etc.
  - r. reimburse TO for charges paid to PSX such as laga for TO and client(s) trades (if applicable).
  - s. may provide financing against trades of TO and client(s).
  - t. safekeeping of documents.
  - u. ensure compliance of CDC, NCCPL & PSX Regulations.
- 3.1.5. be subject to necessary inspection from time to time in accordance with the relevant Regulations.

**4. Responsibility of TO and PCM towards client(s):**

4.1. Execute a Tripartite Agreement (covered in CRF) with the client(s) covering:

4.1.1. Roles and responsibilities of TO w.r.t. client(s):

1. performing KYC and CDD and confirming the probity and integrity of the client(s) through Proof of Identity and Proof of Address documents. In addition, IPV will be a mandatory requirement in line with existing regulatory framework. IPV and KYC matters shall be governed as per the relevant rules and regulations.
2. deal with trade related complaints of the client(s).
3. ensure that client(s) has fulfilled all the necessary requirements and provided all the relevant documents.
4. assign client(s) code and record it in the Back Office of OMS.
5. facilitate registration/mapping of client(s) UIN through the PCM.
6. facilitate opening of client(s)'s CDS sub-account with PCM by forwarding duly filled and signed required documents to the PCM.
7. facilitate payment of client(s)'s CDS, NCCPL and PSX charges.
8. facilitate deposit/withdrawal of client(s)'s cash and securities with the PCM.
9. extend OMS Online Trading interface to client(s) for online trading.
10. timely execute trade as per client(s)'s instructions.

11. educate client(s) on the Risk Management framework w.r.t. the implementation of trading limits, margin requirements etc.

4.1.2. Roles and responsibilities of PCM w.r.t. client(s):

1. deal with settlement and custody related complaints of the client(s).
2. timely execute the client(s)'s request for handling of CDS transactions e.g. deposit/withdrawal of securities, gift, portfolio, transmission, pledge, etc.
3. register and map client(s)'s UIN in accordance with the procedures and regulation of NCCPL.
4. Register the KYC details for UKN issuance, tagging or information update in accordance with the procedures and regulations of CKO
5. open and maintain client(s) CDS sub-account.
6. maintain segregated record of client(s)'s cash deposited with the PCM.
7. assign trading limits to the client(s) according to the Risk Management framework defined in the relevant Regulations.
8. maintain confidentiality of client(s)'s assets.
9. may provide or facilitate financing against trades of client(s).
10. ensure the settlement of client(s)'s trades executed by the TO/client(s).
11. facilitate TO in maintaining multiple bank accounts with PCM

12. send periodic alerts and statements to clients w.r.t client assets under custody of PCM
- 4.1.3. authorization from the clients to the PCM for settlement of the trades executed through TO and/or directly by client using online trading platform provided by the TO, as provided in 14.2.1 and 6.2.2.
- 4.1.4. obligation of client to deposit margins as per the procedures of PCM and fulfill all RMS and settlement obligations.
- 4.1.5. authorization from the clients to the PCM for liquidating open position of clients and collateral deposited with PCM in the case of failure by the client in fulfilling the margin requirements or the settlement obligations as provided in 6.2.2 and 15.1.

## **5. UIN Registration Process**

### **5.1. TO will be responsible to:**

- 5.1.1. assign and open a new client(s) code in the OMS back-office system and will inform the PCM.
- 5.1.2. forward the relevant documents of TO/client(s) required for UIN Registration to the PCM.
- 5.1.3. forward any change in the Registration Details of TO/client(s) to the PCM.

### **5.2. PCM will be responsible to:**

- 5.2.1. Ensure that the Customer Verification of client(s) of TO has been successfully performed as per the regulations of CKO before proceeding for client code registration and/or CDS sub account registration
- 5.2.2. register the UIN of TO and client(s) through the NCSS UIN Registration Screen. Registration process for client(s) type individual, corporate, foreigners etc. will be as per the defined procedures and regulations of NCCPL.
- 5.2.3. register UIN with a new “PCM” option available in UIN Category in UIN Registration Screen for clearing and settlement of Exchange Trades through the PCM.
- 5.2.4. provide all other necessary details which once submitted will be transmitted to NCCPL through automated process in NCSS. The NCCPL shall, after verification, approve such record(s). Where the record(s) so transmitted are not verified, the NCCPL shall reject them.
- 5.2.5. for any update in the UIN Registration details, mechanism prescribed by NCCPL will be followed and request will be routed through the PCM.
- 5.2.6. ensuring the correctness and completeness of the UIN Registration Details of their client(s) entered in NCSS by obtaining from and maintaining the documentary evidence of UIN for each of its client(s). NCCPL may ask PCM to provide such documentary evidence of the UIN for any client(s) entered in the UIN Registration Screen. NCCPL may reject such evidence at its sole discretion for any reason what-so-ever.
- 5.2.7. verify the status of the UIN Registration request through the relevant report(s) available in NCSS.
- 5.2.8. PCM will facilitate the TO in UIN registration process of all clients.

5.3. In the case of NBCM,CCM and AMC, UIN and other relevant details will be passed on to the TO, who will in turn request the PCM to register the UINs through NCSS UIN Registration Screen.

5.4. UKN Registration/tagging/information update:

PCM will do the following actions:

- 5.4.1. perform and ensure completion of Customer Verification of individual Pakistani customer(s) of TO as per the regulations of CKO
- 5.4.2. register and complete the process for UKN issuance to client(s) of TO through the KIS and provide required information and supporting document(s) as defined in the CKO procedures and regulations.
- 5.4.3. tagging and complete the process of UKN tagging (in case of a customer already having a UKN), and provide required supporting document(s) as defined in the CKO procedures and regulations.
- 5.4.4. Update KYC information of client(s) of TO and provide required supporting document(s) as per the process defined in CKO procedures and regulations.

## **6. CDS sub-account Opening & Maintenance**

### **6.1. CDS sub-account Opening**

- 6.1.1. PCM shall establish a CDS sub-account of the TO/client(s) on the basis of CRF duly signed by such TO/client(s). No other form or document whatsoever shall be used by the PCM for the purpose of establishment of a CDS sub-account.
- 6.1.2. TO will be tagged with client sub account in CDS.
- 6.1.3. TO can only open one proprietary CDS sub-account.
- 6.1.4. The PCM shall not, under any circumstances, modify, alter, amend or make any change in the CRF.
- 6.1.5. PCM shall have the right to verify and reject CDS sub-account opening request if the registration details are found to be incorrect or incomplete.
- 6.1.6. PCM will reject CDS sub-account opening of such TO/client(s) where the UIN of such TO/client(s) has been rejected by NCCPL.
- 6.1.7. In addition to the above mentioned scenarios, PCM shall have the right to reject CDS sub-account opening request if it contravenes the parameters defined by the PCM.
- 6.1.8. On successful verification, PCM will open and maintain a CDS sub-account of TO and/or client(s) for handling of Balance Order Settlement of Exchange/Non-Exchange Trade/Transactions.

### **6.2. CDS sub-account Maintenance**

- 6.2.1. CDS sub-account of TO and/or client(s) shall always be maintained by the PCM in accordance with the Procedures.
- 6.2.2. The PCM is authorized by the TO and/or TO's client(s) to perform following:
  - 1. Clearing and settlement of Exchange/Non-Exchange Trade/Transactions executed by the relevant TO through OMS, up to the trading limit assigned, from the Securities Available Balance on the basis of Security-wise, Settlement Date-wise net sell position.
  - 2. To exercise any rights or claims arising from or relating to securities including (without limitation) dividends, rights issues or other corporate actions.

- 6.2.3. TO will facilitate its client(s) to route other than trade related request for handling of CDS transactions such as Deposit, Withdrawal, Portfolio Transfer, Pledge etc. to the PCM. However, such instructions may be directly passed by the client(s) to the PCM.
- 6.2.4. PCM on the instruction received from client(s) or through the TO will execute the transaction in the CDS based on the volumes available.
- 6.2.5. A client may, at any time, close its account maintained with the PCM by informing the PCM in writing directly or through TO as detailed in the CDC Regulations.

## **7. UIN Mapping**

- 7.1. PCM will be provided TO wise tagging facility.
- 7.2. PCM will tag the CDS sub-account with client(s) code of TO and/or Client(s) (as provided by the TO). Client(s) Codes which are not tagged with CDS sub-accounts maintained with the PCM will not be eligible for trading in the Market as per the procedures and Regulations of NCCPL. Biometric/customer verification of individual/domestic customer will be a pre-requisite before tagging.
- 7.3. Where TO and/or client(s) has multiple sub-accounts with PCM, in such case the TO shall be required to inform the PCM the active CDS sub-account with which the Client(s) Code needs to be mapped.
- 7.4. PCM will update the details of proprietary and CDS sub-account(s) as mapped above on the request of TO as per NCCPL Regulations/Procedures. PCM will facilitate the TO in the updation process. Accordingly, NCSS Balance Order shall be generated on the basis of such Client(s) Codes duly mapped with active TO's proprietary sub-accounts and client(s)'s CDS sub-accounts used at the time of execution of exchange trades or non-exchange transaction.
- 7.5. In case of any subsequent changes in UIN Registration Details on the same day of UIN registration, the NCSS shall not consider such changes while generating Balance Orders of trades executed on that day.
- 7.6. A client may, at any time, close its client code account maintained with the PCM subject to obtaining NOC (CGT Obligation) from NCCPL allowing such closure.
- 7.7. In the case of Non Broker Clearing Member (NBCM), Asset Management Company (AMC), Custodian Clearing Member (CCM), and Roshan Digital Account (RDA), TO will request PCM to map client(s)'s UIN through NCSS as per the defined procedures of NCCPL. PCM will facilitate the TO in UIN mapping process.

**8. Bank Account with PCM**

- 8.1. PCM will open and maintain separate bank accounts with multiple banks to keep funds pertaining to TO and its client(s). However, for the purpose of settlement, PCM will maintain separate multiple active settling bank accounts with the settling banks of NCCPL. At the time of clearing and settlement, PCM will move the desired funds from clients' account to any of the active settling bank accounts and vice versa.
- 8.2. TO will facilitate its client(s) in depositing funds with PCM by accepting physical financial instruments such as Cheque/demand draft/pay order etc. written out in favor of the PCM, and forwarding the same to PCM. Payment to PCM could also be made directly by the client(s) via Online Transfer with proper intimation to PCM as prescribed in procedures.
- 8.3. PCM will disburse funds to the TO and client(s) through Online Transfers. However, funds can also be disbursed via physical financial instruments such as Cheque/warrants/demand draft/pay order etc. written out in favor of the client(s).
- 8.4. PCM will facilitate the withdrawal or deposit of funds only on the instruction of the TO and/or its Client(s).

**9. Maintenance of Cash Account**

- 9.1. PCM will maintain the segregated TO's and Client(s)'s cash positions in its Back office, interface of which would be available to the TO also.
- 9.2. The PCM shall debit the TO Proprietary and its Client(s)'s Cash Available Balance with an amount (including the purchase price/difference and all related fees, costs, expenses, margins and CGT etc.) required to be paid by the TO and/or TO's Client(s) pursuant to any Exchange/Non-Exchange Trade/Transactions executed. The same will be reflected in the bank account maintained by the PCM.

## **10. Order Management System (OMS)**

- 10.1. All entities desiring to become PCM will be required to develop an Order Management software for TOs. The idea is that any TO can easily manage its operations without the need of any system requirements at its end. OMS of PCM will be so developed that all the system requirements of TO will be catered through OMS.
- 10.2. For all TOs the PCM will provide the complete package of OMS, including Trading, Risk Management and Back Office services.
- 10.3. Features of OMS:
- 10.3.1. The structure of OMS will have three broad components:
1. OMS Trading Platform (Mandatory for TOs)
  2. OMS Risk Management Component (Mandatory)
  3. OMS Back Office Component (Mandatory)
- 10.3.2. OMS will be a complete trading solution whereby trade order(s) will be filtered on the basis of trading limits assigned by PCM to the TO and its client(s). Trades which are under the trading limits will be routed through the FIX Protocol of PSX before placement on the Trading Engine of PSX for order matching.
- 10.3.3. Only trades that are routed through OMS RMS filter will be executed on the trading engine. PSX system will not entertain trades from TO through any other channel other than trades coming through PCM OMS RMS filter.
- 10.3.4. Trading terminals with OMS will be installed at TO premises.
- 10.3.5. OMS will be accessible via web and mobile platforms also.
- 10.3.6. Alerts such as Margin Calls in the form of SMS/e-alerts/fax will be available.
- 10.3.7. OMS will allow TOs to automate a variety of brokerage business processes, such as order management, validation, routing, client(s) management, scrip management, trade execution handling etc.
- 10.3.8. Trade related information such as Market watch/portfolio information, MTM profit/loss tracking, Pre-trade and Post-trade Margin information etc. will be available.
- 10.3.9. Data Portal will be available which will display announcements, news, RSS feed, trading guidelines, investor information etc.

- 10.3.10. Appropriate measures will be taken to ensure security of information in OMS.
- 10.3.11. OMS would also be linked with NCSS and CDS so it could have complete data related to settlement and custody.
- 10.3.12. Tariff, brokerage commission, PSX charges, laga, etc. details will be available in the OMS for TO own and client(s) trading activities.
- 10.3.13. TO and Client(s) will be able to view their respective complete trading activities, portfolio position (securities and cash), settlement obligations, risk management, margins, pay & collect etc. in the OMS system. Relevant reports will be available on the same.
- 10.3.14. OMS Back Office component will provide the following advantages:
  - 1. Transparency of Back Office operations by the TO will be ensured.
  - 2. Back Office can be customized to suit different requirements of TOs.
  - 3. There will be no operational cost to TO for maintaining Back Office as it will be managed by the PCM.
- 10.4. PCM will provide access of the OMS to the TO and its client(s) for trade execution.
- 10.5. PCM will provide a master OMS ID to the TO for user maintenance and placing trade orders on behalf of its client(s).
- 10.6. Online Trading:
  - 10.6.1. TO's client(s) will be able to perform online trading through the OMS provided to the TO by the respective PCM.
  - 10.6.2. Through the master OMS ID, the TO will be able to create online Trading User IDs for its client(s).
  - 10.6.3. Risk Management of the client(s) will be handled through RMS component of OMS.
- 10.7. TO will not be able to edit the securities & cash portfolio balances of its client(s) in the OMS. View / print option for trading activities and balances of client(s) will be available to TO.
- 10.8. No download option will be available in the OMS for TO.

- 10.9. PCM will allocate overall trading limit to TO in OMS in accordance with the Risk Management model detailed in Section 11.
- 10.10. Trading limits will be assigned to TO's client(s) by PCM in OMS in accordance with the Risk Management model detailed in Section 11.

## **11. Risk Management System**

11.1. RMS shall be conducted at below mentioned 3 levels:

### 11.1.1. Professional Clearing Member - PCM

1. A professional clearing member shall be responsible for clearing and settlement of all trades executed by Trading Only Broker. Accordingly, PCM shall be required to manage the risk arising from assuming this responsibility.
2. PCM shall be allowed a maximum exposure / trading limit as prescribed by SECP. Furthermore, maximum allowed position limits to PCM, for various markets, shall also be as prescribed by SECP. While allowing exposure limit to PCM the need to cater business of all prospective TOs shall be taken into account.

### 11.1.2. Trading Only Broker – TO

1. The financial resources requirements shall be as prescribed by SECP. Trading limit will be managed by PCM RMS filter and all trades routed through PCM OMS will be executed on PSX trading terminal.
2. Market wise allowed position limit for TO shall be same as provided in NCCPL/PSX Regulations.

### 11.1.3. Client(s) of TO

1. Trades of client(s) will be executed by the respective TO. Client(s) will also be able to execute trade directly through online trading terminal connected with OMS.
2. PCM will assign trading limits for TO and its client(s). OMS will pre-match the order with the assigned trading limit. Orders within the prescribed limit will pass through from OMS and shall be transmitted to the Trading System. Orders over and above the prescribed limit will be blocked and shall not be transmitted to the Trading System.

3. PCM shall categorize its client(s) into category A, B, C considering various quantitative and qualitative factors, as mentioned below. These assessment criteria may include the following:
  - a. In case of Individuals:
    - a.1 Source of income
    - a.2 Assets
    - a.3 A declaration form that the person has never conducted any fraud, default etc.
    - a.4 Income tax compliance status i.e. filer / non filer status
    - a.5 ECIB report i.e. Consumer Credit Information Report. (PCM shall be required to become member of CIB, or shall make an interim arrangement with a commercial bank for this purpose. Client(s) with negative ECIB shall only be added in Category C).
  - b. In case of corporate client(s):
    - b.1 Audited financial statements showing income and
    - b.2 Net assets of the corporate client(s)
    - b.3 Size of company, including numbers of employees, date of incorporation
    - b.4 Income tax compliance status i.e. filer / non filer status
    - b.5 ECIB report i.e. Corporate Credit Information Report (PCM shall be required to become member of CIB, or shall make an interim arrangement with a commercial bank for this purpose. Client(s) with negative ECIB shall only be added in Category C)

b.6 Trading Limits of NBCMs and IDSC client(s)  
will be defined with the mutual consultation of  
TO and PCM

11.2. Based on abovementioned assessment criteria, PCM shall have discretion to categorize its client(s) into 3 categories, and shall accordingly assign the exposure limits of client(s). The TO may also provide recommendations for categorization of clients into a category subject to the allocation of losses to TO in the case of default of such client as explained in 15.1.5. Furthermore, trading / exposure limits of client(s)/proprietary account shall be incorporated in OMS accordingly (Detailed in OMS Chapter). Example of Categorization of client(s) is as under:

11.2.1. Category A Client(s) – Low risk profile, maximum exposure can be allowed i.e. allowed trading in ready market /leverage / futures up to 3 times of the net assets provided (subject to maximum exposure limits detailed in NCCPL Regulations)

11.2.2. Category B Client(s) – Medium risk , medium range exposure can be allowed i.e. allowed trading in ready/leverage / futures up to 2 times of the net assets provided (subject to maximum exposure limits detailed in NCCPL Regulations)

11.2.3. Category C Client(s) – High risk, lowest exposure to be allowed i.e. only delivery versus payment trading allowed (subject to maximum exposure limits detailed in NCCPL Regulations)

11.3. TO shall allow trading by client(s) as per the position limits defined above.

11.4. Where TO wants to allow more extended trade limit to its client(s) (over and above Net Equity), they may do so by allotting cash / securities (with applicable haircuts) from its propriety account, but up to the maximum extent of 5 times of the available balance of client(s). However, in such case the extra required cash /securities (i.e. the cash / securities provided by TO from proprietary account) must be submitted by the client(s) within next 3 days.

11.5. In addition to these position / trading limits as applied by PCM for TO and TO's client(s), the risk management regime of NCCPL including but not limited to all types of margins, Marked-to-Market (MTM) Losses, position limits, capital adequacy limits and acceptable collateral management except Liquidity Margin shall also be applicable on the TO Level to be collected from PCM as prescribed by NCCPL from time to time. This shall also include pre and post monitoring of TO position.

11.6. PCM shall also provide reports/statements pertaining to settlement and risk management to the respective TO and its client(s). Such statements shall be furnished on a periodic basis as per requirements of NCCPL and as covered in the Tripartite Agreement between TO, PCM and Client(s).

- 11.7. Post trade margins, MTM losses, collaterals as mentioned above, shall be submitted by PCM on behalf of TO's proprietary and client(s)'s trades to NCCPL as and as when required, as per NCCPL's Regulations. The same shall be recovered from available balances of TO in case of proprietary trades or TO's client(s), as applicable. However, the requirement of Pre-Trade margin may be fulfilled by submission of Bank Guarantee/Near Cash Instruments/Cash by PCM to NCCPL. The collection to be done from PCM without having any need to identify any specific TO. PCM can utilize such deposit submitted from its own account for any TO as per its requirement.
- 11.8. TO shall also have authority to allow its propriety account balances to be used for margin, MTM losses and collaterals demands as mentioned above, for its client(s). The treatment of this will be as per current Regulations.
- 11.9. The PCM on the request of TO/client(s) will release excess collateral to the TO and/or its client(s) as per mutual agreement.
- 11.10. In case of leverage market and trading in future market, Pre trade and post trade margins, futures variations margins call should also be provided by TO to PCM. Securities acceptable by PCM for the purpose of collateral and margins shall be as per criteria prescribed in the NCCPL Regulations. Furthermore, MTM losses for leverage market shall also be collected by PCM from TO/client(s) as per the NCCPL Regulations.
- 11.11. Where available cash / acceptable securities balance of client(s) falls below the minimum required balance, as per the allowed trading limit, a demand call shall be generated by PCM to TO and/or its client(s). TO/client(s) shall be required to provide such required cash / acceptable securities as per demand call, within next 24 hours.
- 11.12. Where demanded cash / securities are not provided within 24 hours, PCM shall have right to liquidate open position of such TO/client(s) as the case may be up to the extent where such shortfall is fulfilled.
- 11.13. Netting Regime – Security wise and TO and UIN wise netting regime will be applicable.
- 11.14. All exposure and other margins will be netted at TO and UIN level.
- 11.15. Liquidity margin requirement will be waived for PCM.
- 11.16. Deposit and Release for Cash/Near Cash Instrument/Bank Guarantee
  - 11.16.1. Cash deposit will be submitted by PCM from respective client account.
  - 11.16.2. Near cash can be pledged or transferred by PCM from respective client account.
  - 11.16.3. Cash/Bank guarantee can be submitted by TO as per existing NCCPL regulations.

- 11.16.4. Bank Guarantee/Cash/Near Cash instruments pledged by PCM shall be accepted against the margin demand of all underlying TOs of such PCM.
- 11.16.5. Limit will be assigned on PCM level basis against deposits submitted via any of the above sources. Limit assigned to PCM will be as per current Regulations.
- 11.17. Security Deposit and Release
  - 11.17.1. Security will be pledged from respective client/TO sub account (Proprietary/Directors).
  - 11.17.2. Shares pledged from the CDS account of customer shall only be considered against the margin demand of the same customer for the same TO as per existing regime.
  - 11.17.3. Shares pledged from the house account or CDS account of director of a TO shall only be considered against the margin demand of the same TO as per existing regime.
- 11.18. Cash Collection and Disbursement w.r.t. MTS and DFC
  - 11.18.1. Profit and loss will be net off as per existing NCCPL regulation.
  - 11.18.2. UIN wise details of profit/loss will be shared with PCM by NCCPL.
- 11.19. Exposure Dropout against PSD
  - 11.19.1. All exposure dropout against PSD will be passed on as per existing regime at TO and UIN level.
- 11.20. Settlement of Non Exchange transactions

## **12. Trading Process**

- 12.1. Trade order will be filtered in OMS on the basis of trading limits assigned by PCM to the TO and its client(s). Trades which are under the trading limits will be routed through the FIX Protocol of PSX before placement on the Trading Engine of PSX for order matching.
- 12.2. TO will provide Trading Accounts (Client(s) Codes) and Online Trading User ID(s) details to the client(s) for the purposes of trading once the PCM has registered the client(s) UIN with NCCPL, opened sub-account in CDS and mapped client(s) code with CDS sub account.
- 12.3. Trades of Client(s) can be executed by their respective TO and/or directly by client(s) through online OMS provided by PCM.
- 12.4. Responsibility for the settlement of all locked-in trades by a TO and/or client(s) successfully executed in the Market shall reside with the PCM.
- 12.5. Accordingly TO will not be required to fulfill margin obligations in respect of such trades. PCM will be responsible for both the pre-trade and post-trade margin of such trades.
- 12.6. TO may also engage in trading in leverage markets such as MTS, MF, MSF and SLB according to defined procedures.

### **13. Initiation and Affirmation Process for IDS and IDSC Transactions**

#### 13.1. In the case of Custodian Clearing Members (CCMs):

13.1.1. PCM will facilitate the TO in the initiation of the IDSC transaction. The option to initiate IDSC transaction may be in build in the OMS or can be manually handled between PCM and TO

13.1.2. PCM/TO will initiate the IDSC transaction on trade date which will be automatically routed from OMS to NCSS.

13.1.3. If the IDSC transaction is affirmed by CCM, settlement obligation will shift to the CCM.

13.1.4. If the IDSC transaction is rejected by the CCM, BO will be generated in CDS proprietary sub-account of TO maintained with PCM.

#### 13.2. In the case of Non Broker Clearing Members (NBCMs/AMCs):

13.2.1. IDS transaction will be auto-initiated.

13.2.2. If the IDS transaction is affirmed by NBCM, settlement obligation along with the risk management of the client(s) will shift to the NBCM and TO margin will be released.

13.3. If the IDS transaction is rejected by the NBCM/AMC, BO will be generated in CDS sub-account of TO maintained with PCM.

## **14. Clearing and Settlement**

### **14.1. Netting Mechanism:**

- 14.1.1. TO will only be allowed to open and maintain CDS sub-accounts for proprietary and client(s) trades under the Participant umbrella of PCM. Securities and Funds of the TO and its client(s) will be kept with the PCM based on a tripartite arrangement between the PCM, TO and its client(s).
- 14.1.2. For the purpose of securities settlement, Balance Order Netting Mechanism of the NCCPL will be applied whereby Securities shall be netted at PCM level, TO level, UIN level and CDS sub-account level for each settlement date. For the purpose of money settlement, existing Netting Mechanism of the NCCPL will be applied whereby money obligation of PCM shall be netted across TO/Client(s) and arrive at single payable or receivable obligation. However, PCM shall be responsible to segregate cash at TO and its client(s) level and remain responsible for settlement with each TO and its client(s).

### **14.2. Securities Settlement**

- 14.2.1. In accordance with the NCCPL Regulations, PCM will be authorized by the TO and its client(s) to:
  - 1. Provide services for the purposes of settlement of Exchange/Non-Exchange Trade/Transactions executed by the relevant TO/Client(s) through OMS up to the trading limits assigned from the Securities/Cash Available Balance.
- 14.2.2. Trades once executed by TO from their proprietary and its client(s) accounts, shall be settled by PCM on the respective settlement date. Settlement should be done on settlement day as notified by NCCPL.
- 14.2.3. On Trade Day (T), trade shall be executed and passed from OMS and accordingly the OMS shall be updated i.e. trading limit of buyer/seller shall be adjusted in OMS. On next day (T+1) all arrangements for settlement including availability of reports for settlement shall be finalized. Accordingly on settlement day (SD) the securities shall be moved in / out of the CDS sub- accounts for settlement purposes.
- 14.2.4. In case of a buy transaction, securities shall be moved into the CDS sub- account of the buyer and accordingly in case of a sale transaction, securities shall be moved out of the CDS sub-account of the seller on settlement day (SD).

- 14.2.5. Where securities are not made available by TO/client(s) on settlement day i.e. T+2, PCM shall require TO to arrange the securities. In case TO is unable to arrange delivery of securities on the request of TO/Client(s), PCM shall attempt to arrange delivery from SLB Spot Market as per the NCCPL Regulations.
- 14.2.6. If securities are not available in SLB Spot Market, the NCCPL shall initiate squaring-up/ close-out process in accordance with NCCPL Regulations and Procedures on SD+1.

### 14.3. Money Settlement

- 14.3.1. The details of the Designated Branches of the Banks along with account numbers of PCM shall be made available to the TO and its client(s). Amount shall be deposited in the Online Bank Account of PCM. Such amount need to be deposited through cheque, demand draft, pay order and/or any other financial instrument. A mechanism shall be defined by PCM to receive deposit details from TO/Client(s)
- 14.3.2. Money settlement with NCCPL shall be done at PCM level as mentioned in point 13.1.2 above. Also, the money deposited by each TO and its client(s) shall be kept in a separate account by the PCM distinct from his own account. PCM will not use funds of TO/Client(s) to meet the settlement obligation of any other TO and/or its client(s).
- 14.3.3. On Trade Day (T), trade shall be executed and passed from OMS and accordingly the OMS shall be updated i.e. bank balance of buyer/seller shall be adjusted in OMS. On next day (T+1) all arrangements for settlement including availability of reports for settlement shall be finalized. Accordingly on settlement day (SD) the funds shall be moved in / out of the respective bank accounts for settlement purposes.
- 14.3.4. Money settlement should be done on settlement day (SD), account ledgers of TO/client(s) shall be adjusted accordingly In case of a buy transaction, funds shall be moved out the buyer's account and accordingly in case of a sale transaction, funds shall be moved in bank account of the seller on settlement day (SD).