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AWARENESS SESSION ON ISSUANCE, TRADING & SETTLEMENT OF GDS THROUGH CAPITAL MARKET

January 11, 2024

Agenda

1

Primary Market Auction – Process Flow

2

Secondary Market Trading & Settlement – Process Flow

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Q & A Session

Background



- The Debt Management Office had approved certain amendments to Ministry of Finance (MOF) in Rules relating to Government Debt Securities (GDS) i.e. Treasury Bills (T-Bills) and Government Ijarah Sukuk (GIS) for enabling issuance and trading of GDS through capital market.
- **The major amendments include:**
 - Allowing issuance of GDS through capital market Auction process and enabling secondary market trading of GDS through capital market trading platform.
 - Allowing capital market participants to hold custody of GDS.
 - The initial plan is to issue GIS of all types at PSX i.e. Discounted, Fixed Rental Rate (FRR), Variable Rental Rate (VRR) and Re-opening of GIS.



PRIMARY MARKET AUCTION PROCESS FLOW

Product Features

Features	GIS-Discounted	GIS-Fixed Rental Rate (FRR)	GIS-Variable Rental Rate (VRR)
Issuer	Pakistan Domestic Sukuk Company Limited (PDSCL)		
Product Name	Government IJARA SUKUK (GIS)		
Tenor	1 Year Tradeable Instrument	3 & 5 Year Tradeable Instruments	
Issued at	Discount	Face Value	
GIS Type	Fresh Issue		
Rental Payment Frequency	At Maturity	Semi-Annual	
Allocation Mechanism	Allocation of Sukuks to the Successful Bidders on Single Cut-Off rate i.e. Price, Yield% and bps		

Product Features

Features	GIS-Discounted	GIS-Fixed Rental Rate (FRR)	GIS-Variable Rental Rate (VRR)
Maturity	Rental Payment & Principal Redemption on Maturity Date	Rental Payments on semi-annual basis, Principal Redemption on Maturity Date	
Margin/Final Collection	National Clearing Company of Pakistan Limited (NCCPL)		
Custody at	Central Depository Company of Pakistan Limited (CDC)		
Shut Period	3 working days before Maturity date of Sukuk		

Auction Key Highlights



Parameters	Description
Auction System	Eligible Participants and Investors can place bids through Online Auction Portal provided by PSX
Auction Date & Time	As per Auction calendar notified.
Eligible Participants	<ul style="list-style-type: none"> • Broker Clearing Members (BCMs) of NCCPL • Non-Broker Clearing Members (NBCMs) of NCCPL • Professional Clearing Member (PCM)
Eligible Investors	<ul style="list-style-type: none"> • Existing investors having CDC Sub A/c • New investors having no CDC Sub A/c can participate through Facilitation Account service provided by CDC
Margin Requirements	<ul style="list-style-type: none"> • For BCMs, 10% advance cash one day before auction, remaining on Settlement Date on A+1 • For NBCMs (Banks or DFI), Standing Instruction • For NBCMs (Mutual Funds), Irrevocable undertaking from Trustee
Bid Type	Disclosed/un-disclosed OR anonymous

Auction Key Highlights

Parameters		Description
Mandatory details to be provided to NCCPL by eligible participants in order to register Participant account by PSX.	<ul style="list-style-type: none"> • Participant ID • Participant Name • Participant Contact Person • Contact Person Cell No. • Contact Person Email address 	<ul style="list-style-type: none"> • No. of Branches to be created • Instrument • Instrument wise commitment Amount** (Rs.) <p>**This will be Advance cash i.e. 10% on which participant can place bids up to 10 times.</p>
Mandatory details to be provided to their participants by the investors for registrations.	<ul style="list-style-type: none"> • Investor Name • CNIC/Co. Registration No/License No. • IBAN • Email Address • **Mobile# 	<ul style="list-style-type: none"> • Instrument • Margin Amount • Participant ID • CDC Sub A/c # (If any) <p>**For RDA customers, International Mobile No. can be provided.</p>

Where A=Auction Day

Instrument Wise Bidding - Key Highlights

Features	GIS-Discounted	GIS-Fixed Rental Rate (FRR)	GIS-Variable Rental Rate (VRR)
Minimum Bid Amount	Rs.5,000		
Bid entry on the basis of	Price up to 4 decimal places	Bid Rental Rate (%) up to 4 decimal places	BPS [Spread Over and Above (+/-)] of Benchmark Rate of Latest 6-Month T-Bill Weightage Average Yield
Bid Output	Yield% up to 4 decimal places	Price = Rs.100.0000 for all bids	Weighted Average Yield + (+/- BPS)
Multiple Bids per investor allowed for Competitive Bidding	Yes		

Instrument Wise Bidding - Key Highlights

Features	GIS-Discounted	GIS-Fixed Rental Rate (FRR)	GIS-Variable Rental Rate (VRR)
Floor OR Ceiling on Bid Rate		No	
Multiple Bids per investor allowed for Non-Competitive Bidding		No	
Eligible Participants for Non-Competitive Bidding	All investors other than Commercial Banks, Investment Banks, Microfinance Banks, DFIs, Special PDs and TREC Holders		
Per Investor Limit for Competitive Bidding		No Limit	

Instrument Wise Bidding - Key Highlights

Features	GIS-Discounted	GIS-Fixed Rental Rate (FRR)	GIS-Variable Rental Rate (VRR)
Bid Cancellation Allowed			Yes
Bid Modification Allowed			No

Process Flow – Auction Setup

Debt office communicates the auction calendar plan to PSX

PSX will notify the market participants regarding auction details before auction

From A-4 till A-2, Participants shall provide their expression of interest to NCCPL including the instrument wise commitment amount as per the specified format shared by PSX in Notice.

From A-4 till A-2, PSX will setup its auction system in coordination with NCCPL who will advise PSX to register eligible participants and assign them the committed amount.

Upon successful registration, User ID and password will be communicated at provided contact details i.e User ID and Password will be shared on registered email address while PIN on registered Mobile#.

Process Flow – Participant/Investor Registration

PSX shall register Participants and assign them commitment amount as per the details provided by them to NCCPL.

Once eligible participants are registered by PSX, they can further register their Prop. and Investor user IDs.

For instance, a commercial bank may create a user ID for its proprietary bids, create a user ID on clients behalf (disclosed bids), and client ID (anonymous bids)

Participants can also upload CSV file as per specified format. By providing this facility, number of investors can be uploaded in auction system in no time. However, the instrument mapping is a manual process.

An individual may directly approach BCM, NBCM to participate in the bidding

CDC will create Investor Facilitation Account for unregistered investors in coordination with NCCPL

Eligible Participants & Bidding

PSX

(Register Participants / Bid Collection Centers as per list provided by NCCPL)

BCMs, NBCMs & PCM

Bids for Prop.

Bids for Investors at Investors'
provided rate (Disclosed)

Bids by Investors themselves
(Un-Disclosed)

Participants will take the risk of their investors.

Participants should be willing to take inventory in case of any shortfall (same as done in current SBP structure)

Process Flow – Margining

On A-1, NCCPL will provide advance cash collection screen to BCM, NBCMs & PCM through NCSS System during 9:00 a.m. to 5:00 p.m.

BCM & PCM will deposit the advance cash against proposed GDS bids amount through their settling Bank for participation in auction

For reconciliation purposes, NCCPL shall send the detail of Advance cash collected from participants after advance cash collection time ended

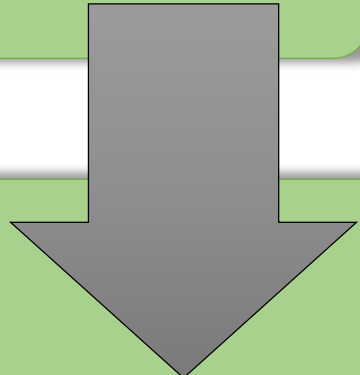
Any deviation in collected amount vs commitment amount shall be communicated by NCCPL to PSX separately.

PSX shall act accordingly and re-assign the advance cash amount to the participant in auction system.

In case amount is already assigned by the participant to its investors. PSX/NCCPL shall intimate the participant to reduce the assigned amount up to the submitted amount and confirm.

Process Flow – Bidding

Before placement of every bid, participant/investor should mark the check box which shows the relevant authorizations of Terms & Conditions from every investor as per requirement of GIS Shariah Advisors.



On Auction day, all investors registered as Prop or Investors will participate in the bidding process within the assigned limit i.e. against submission of Rs.100,000 as 10% advance cash in one instrument, participant/ investor can place bid up to Rs.1 million. Pool bids (consolidated Bids placed from Prop. A/c for more than one investor) are not allowed.

Process Flow – Allocation

Once auction is completed, PSX will disseminate the instrument wise bid report to the Debt Office – who will decide the cut off amount and rate of each instrument.

After Debt office confirmation, PSX will run the allocation process of each instrument.

An auto generated email confirmation will send to all successful bidders of each instrument mentioning that their bids are accepted/successful and are required to submit funds to NCCPL on A+1

PSX shall share the details of successful bidders with Debt Office and NCCPL

Process Flow – Settlement

NCCPL will collect the balance amount of funds at A+1 from successful bidders

For unsuccessful bids (if any), NCCPL will release the advance cash on A+1

NCCPL to provide details of successful investors to CDC on same day. On the basis of instruction of PDSCL, CDC will credit each instrument into designated CDS Accounts)

In case of facilitation account, CDS account should be opened within 40 days of credit

In case of any shortfall happens, NCCPL shall execute a shortfall management procedure as agreed with Banks/AMCs.

NCCPL will deposit the collected funds to debt office (onwards submission to Debt Office, no shortfall accepted)

Process Flow – CDC Process

CDC will setup CDS eligible securities in consultation with PDSCCL

CDC will allocate each instrument to the respective accounts in coordination with NCCPL/PDSCCL

Investor/Banks may use the CDC pledging facility for OMO, SBP reserve requirement, etc.

Coupon & Maturity Payments

NCCPL will receive the Rental Payments on Semi-Annual basis for GIS-FRR & GIS-VRR and PRINCIPAL PAYMENT along with the final RENTAL payment from Debt Office

NCCPL will pass the same to the Security holder after deduction of applicable taxes based on the details provided by CDC at the time of maturity

CDC to revoke the CDS security in coordination with NCCPL/PDSCL, once final maturity payment is made

SECONDARY MARKET TRADING & SETTLEMENT PROCESS FLOW

154.29%
Cumulative Return
11 years

69%
Cumulative Return
25 years



Role of Parties



- Clearing & Settlement
- Risk Management on Post Trade Basis
- Taxation related matters

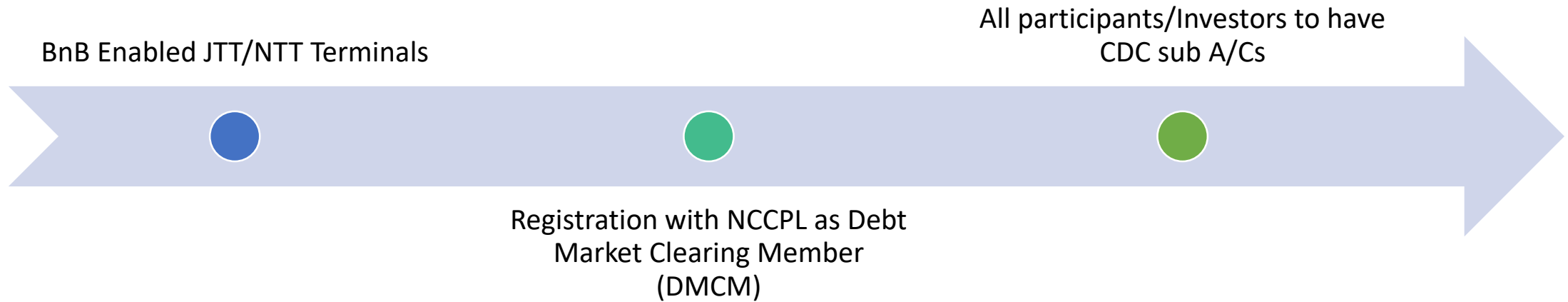


- Trading Platform
- Data Transmission to NCCPL



- Custodian of SUKUKs
- Movement of SUKUKs

Pre Requisites for Trading in Secondary Market



Pre Requisites for Trading in Secondary Market

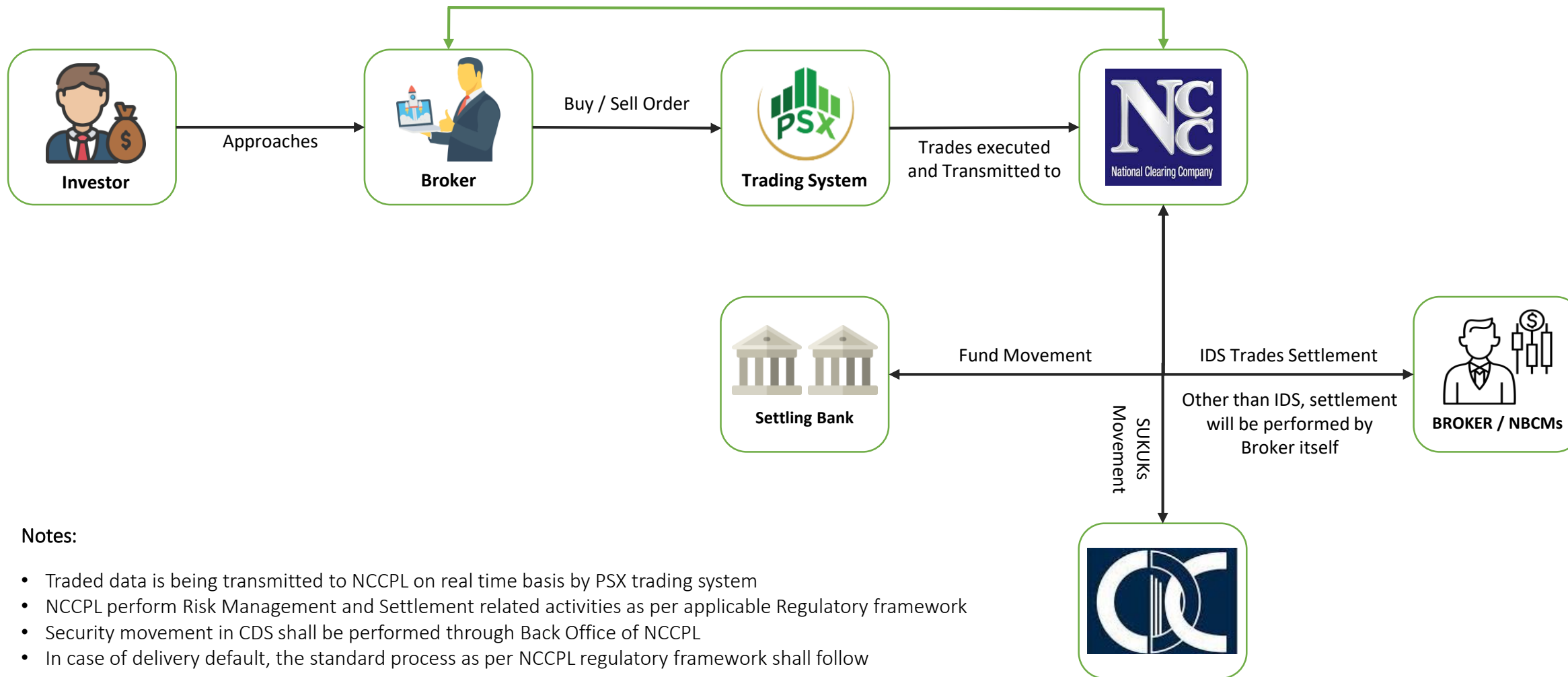


- CDS eligible SUKUKs shall be made available for trading in following trading platforms:
 1. Jade Trading Terminal (JTT) – BnB enabled terminal only
 2. New Trading Terminal (NTT) – BnB enabled terminal only

Trading, Settlement & Risk Management



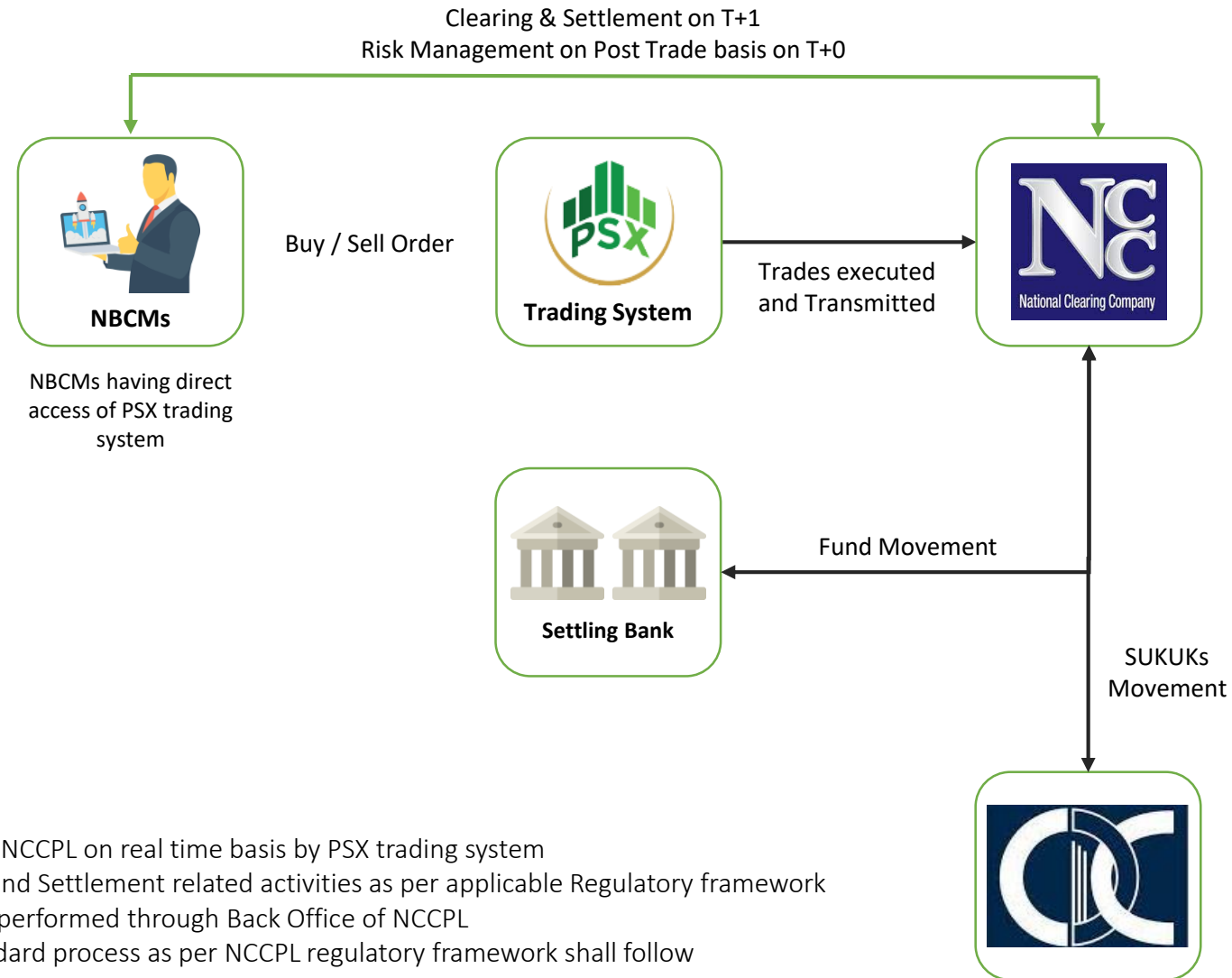
Clearing & Settlement on T+1
 Risk Management on Post Trade basis on T+0
 Applicable tax deduction on trades



Notes:

- Traded data is being transmitted to NCCPL on real time basis by PSX trading system
- NCCPL perform Risk Management and Settlement related activities as per applicable Regulatory framework
- Security movement in CDS shall be performed through Back Office of NCCPL
- In case of delivery default, the standard process as per NCCPL regulatory framework shall follow

Trading, Settlement & Risk Management NBCMs (Direct Access)



Notes:

- Traded data is being transmitted to NCCPL on real time basis by PSX trading system
- NCCPL perform Risk Management and Settlement related activities as per applicable Regulatory framework
- Security movement in CDS shall be performed through Back Office of NCCPL
- In case of delivery default, the standard process as per NCCPL regulatory framework shall follow

Trading Modalities



Parameter	GIS-Discounted	GIS-FRR	GIS-VRR
Available Platforms	Jade Trading Terminal (JTT) – BnB enabled New Trading Terminal (NTT) – BnB enabled		
Available Sessions	Continuous Auction and Negotiated Deals Market (NDM) on JTT Continuous Auction, Request for Quote (RFQ) and Negotiated Deals Market (NDM) on NTT		
Trading Timings	Mon-Thu → 9:30 to 3:30 Friday → 9:15 to 12:00 & 2:30 to 4:30		
Settlement Date for all sessions	T+1		
Deal input in terms of	Price up to 4 decimal places		
Deal input on the basis of	Face Value of Sukuk i.e. 5,000 and its multiple thereof		
Sukuks Volume Calculation	Face Value of Sukuk inputted by the investor / Par Value of Sukuk $100,000/5,000= 5,000$ Sukuks		
Deal Ticket for Price to Yield and Cheque Value calculation	Available on BUY/ SELL windows of JTT only		

Detailed Flow - Clearing & Settlement and Risk Management



Clearing & Settlement and risk management of trades executed by Clearing Members on PSX trading system are handled by NCCPL through its NCSS as per the following mechanism:

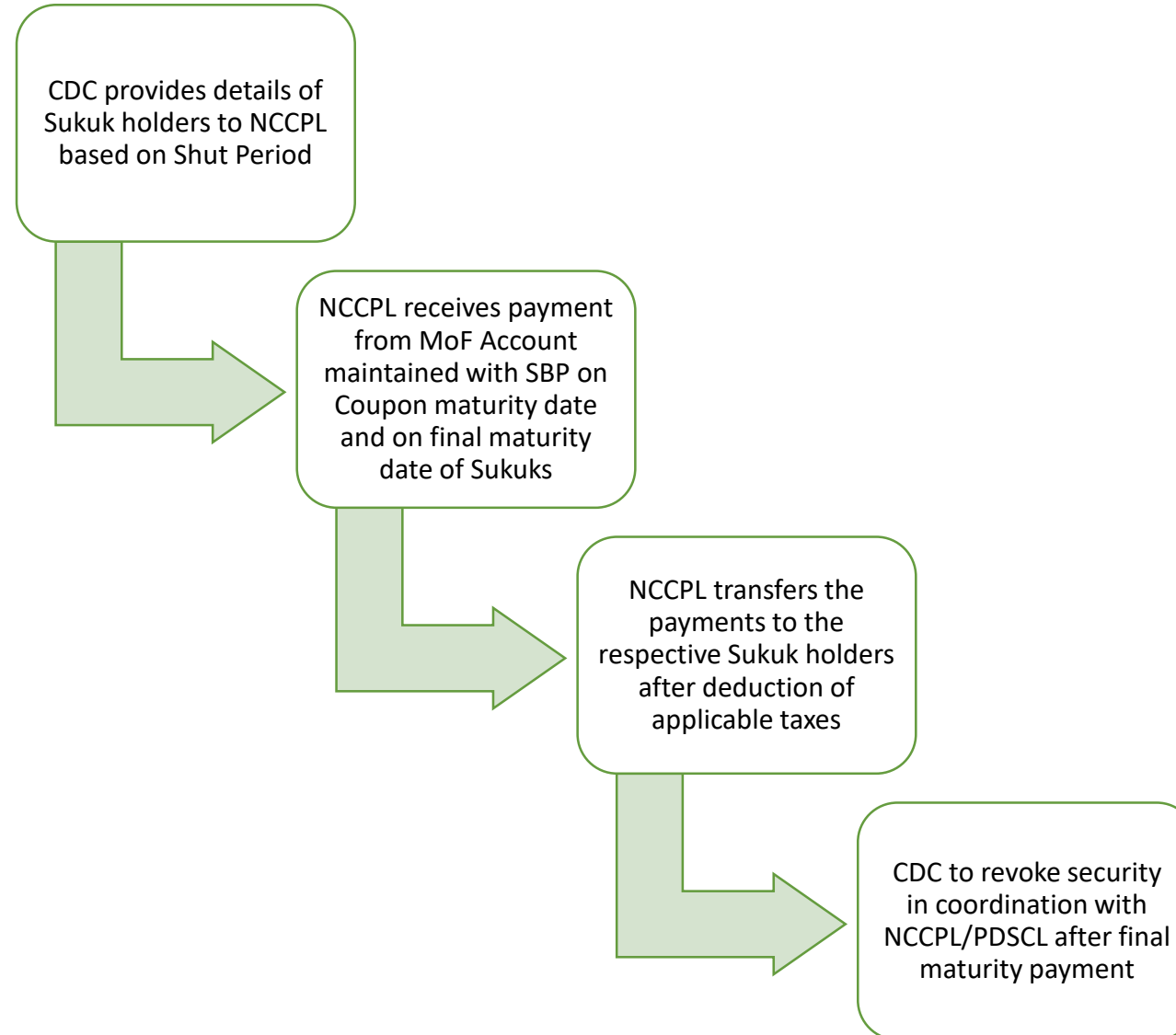
- Trades executed by Clearing Members on PSX trading system shall be settled through NCSS on the basis of Trade-for-Trade T+1 settlement cycle
- Trades will not be netted with equity market trades
- A separate Clearing Account is required to open in NCSS by a Clearing Members exclusively for clearing & settlement and risk management of trades executed on PSX Trading system
- Institutional Delivery System (“IDS”) facility of NCSS is also made available for the clearing and settlement of trades of NBCMs

Detailed Flow - Clearing & Settlement and Risk Management



- On the Settlement Date, Balance Order for every Debt Market Trade is generated on gross basis whereby Clearing Member is required to deliver and/or receive each and every trade even in the same Security separately on Trade-for-Trade basis
- NCSS generates separate money payable and receivable on gross basis for each Clearing Member for each Balance Order generated on Trade-for-Trade basis
- Upon fulfillment of payment obligation by Clearing Member, securities are transferred into respective buying Clearing Member CDS Account
- Upon fulfillment of delivery obligation by Clearing Member, NCSS credit funds into respective selling Clearing Member's settling bank account

Coupon & Maturity Payments



Q & A Session