



Detailed Procedures for Trading, Clearing, Settlement and Risk Management of Ijara Sukuk in Secondary Market

Abstract

This document covers the modalities and process involved in conducting the secondary market trading & Settlement flow for CDS eligible Government Debt Securities (GDS) through capital market infrastructure institutions.

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1) Introduction

- The GDS issued through Primary auction shall be made available for secondary market trading.
- The first day of trading shall be A+3 working day (where A is the Auction Date).

Note: Start of trading in Secondary market is dependent on credit of units in respective CDC accounts.

2) Product Structure:

1-Year GIS-Discounted

Product Name	Government of Pakistan (GoP) Ijarah Sukuk (GIS)
Tenor	One Year Tradeable security
GIS-Type	Discounted
Issued AT	Discount per Rs.100
Issue Size	PKR 30 Billion
Issue Date	24-Jan-2024
Maturity Date	24-Jan-2027 for 3 Years 24-Jan-2029 for 5 Years
Payment on Maturity Date	Rental Payments & Principal amount on Maturity
Settlement Cycle	T+1
Notice of Trading Suspension by PSX	X working days before Shut period date.
Notice of Suspension by CDC	Upon issuance of PSX notice of trading suspension.
Suspension of Trading	3 working days before Shut Period Date
Shut Period	2 working day before Maturity

3 & 5 Year GIS - Fixed Rental Rate (FRR) & GIS - Variable Rental Rate (VRR)

Product Name	Government IJARAH SUKUK
Tenor	3 & 5 Year
GIS-Type	FRR and VRR Tradeable Security
Issued AT	Face Value of PKR 100
Issue Size	PKR 15 Billion each instrument
Issue Date	24-Jan-2024
Maturity Date	24-Jan-2027 for 3 Years 24-Jan-2029 for 5 Years
Payment on Maturity Date	Rental Payments on Semi-Annual basis & Principal Payment with rental amount on Maturity

Settlement Cycle	T+1
Notice of Trading Suspension by PSX	X working days before Shut period date.
Notice of Suspension by CDC	Upon issuance of PSX notice of trading suspension.
Suspension of Trading	3 working days before Shut Period Date
Shut Period	2 working day before Maturity

3 & 5 Year GIS - Fixed Rental Rate (FRR) & GIS - Variable Rental Rate (VRR) – Re-Opening

Product Name	Government IJARAH SUKUK
Tenor	3 & 5 Year
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Issue Size	PKR 30 Billion each instrument
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Settlement Cycle	T+1
Notice of Trading Suspension by PSX	X working days before Shut period date.
Notice of Suspension by CDC	Upon issuance of PSX notice of trading suspension.
Suspension of Trading	3 working days before Shut Period Date
Shut Period	2 working day before Maturity

3) Eligible Participants for Secondary Market:

- 1) Broker Clearing Members (BCMs)
- 2) Non-Broker Clearing Members (NBCMs) using IDS facility of NCCPL or allowed to be admitted at PSX for direct trading facility
- 3) Professional Clearing Members (PCMs) - to facilitate Trading Only Securities Brokers trading
- 4) Investor Account Services using IDS facility for Roshan Digital Account Holders (RDA)

Above mentioned eligible participants shall be required to admit with NCCPL as Debt Market Clearing Member (“DMCM”)

3 (A) Eligible Investors

Following types of investors (UIN) as per NCCPL and CKO Regulations are eligible for trading in the GDS Market:

- 1) All Scheduled Bank, DFI, NBFIs, AMCs
- 2) Mutual Funds, Voluntary Pension Schemes and Private Funds being managed by NBFC;
- 3) Takaful & Insurance Companies;
- 4) Trusts
- 5) A Fund and Trust as defined in the Employees Contributory Funds (Investment in listed Securities) Regulations 2018;
- 6) A Company and Body Corporate as defined in the Companies Act, 2017;
- 7) Individuals
- 8) NRPs and RDA customers

4) Pre-Requisites for Trading in Secondary Market

- 1) All participants should have/get access of BnB enabled JTT by simply sending a request to PSX-ITSS.
- 2) Registration shall also be required for all participants with NCCPL as Debt Market Clearing Member (DMCM). Those BCMs/NBCMs who are already DMCM of NCCPL are not required to apply for registration with NCCPL as DMCM again. Participants who are not DMCM of NCCPL can coordinate with NCCPL customer support center for required assistance.
- 3) All eligible investors must have CDS accounts with their respective Securities Brokers to trade in Secondary market.
- 4) All those investors maintaining custody of GDS in CDC - Investor Account Services are required to transfer to CDS Sub Account with the securities broker to trade in the secondary market
- 5) All those investors who do not have CDS Sub A/c and whose Sukuk's custody is parked by CDC in Investor Facilitation Account should open CDS A/c with any broker in order to trade in secondary market.
- 6) RDA maintaining custody with CDC – Investor Account Services shall perform trade in GDS through their respective securities broker
- 7) Banks admitted with NCCPL as DMCM and with PSX as Market Maker for trading in GDS shall also have access of trading terminal for their market making and proprietary trading.
- 8) Financial Institutions (other than Banks and DFIs also) admitted with NCCPL as DMCM shall be allowed to trade with their respective Securities Brokers as per existing mechanism.

5) Role and Responsibility of Stakeholders

The role and responsibilities of each SRO is as follows:

No.	Stakeholder	Role and Responsibility
1.	Pakistan Stock Exchange Limited (PSX)	<ul style="list-style-type: none"> a. Issuance of Sukuk Listing notice to the market participants b. Provide Trading platform to the eligible participants as per their request. c. Transmission of trading data on real time basis to NCCPL for clearing, settlement, risk management and taxation functions of Sukuks. d. The fields transmitted include: <ul style="list-style-type: none"> (i) Scrip (ii) Volume (iii) Price <p>Issuance of Trading Suspension notice by PSX <u>X</u> days prior to shut period Date. Suspend Trading ---- days prior to Shut period Date.</p> <p>Note: Settlement Value and all related parameters used in tax calculations shall be calculated by NCCPL at their end.</p>
2.	National Clearing and Settlement Company of Pakistan Limited (NCCPL)	<ul style="list-style-type: none"> a. Perform Clearing and Settlement of GDS Trades b. Risk Management on Post Trade basis and as per regulatory framework. c. Responsible for dealing with tax related matters including WHT and capital gain tax at trade level. d. Security movement in CDS shall be performed through Balance Order (BO) of NCCPL. e. In case of money/delivery default, the standard process as per NCCPL regulatory framework shall follow. f. To process maturity/coupon payment to investors through IBAN account in coordination with MoF .
3.	Central Depository Company of Pakistan Limited (CDC)	<ul style="list-style-type: none"> a. Act as the custodian of Government Debt Securities (GDS). b. Issuance of ISIN c. Execution of Balance Order and Movement of Sukuks in respective CDS Account to complete the settlement process. d. Notice of suspension.

		<p>e. PSX/NCCPL will give the notice of shut period to CDC two working days before the shut period for coupon/ maturity payments.</p> <p>f. Define Shut Period in CDS.</p> <p>g. Provide sukuk unit holders /security holders details to NCCPL /PDSCL for maturity/coupon payments and revoke the security once payment is completed.</p>
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6) Step by Step Process Flow

- Symbols of GIS-Discounted GIS-FRR and GIS-VRR shall be created by PSX at their end before Primary Auction.
- The symbol code and name shall be communicated through pre-security file (auto routine) and also via email to NCCPL for setup at their end.
- For Symbol creation, PSX shall adopt the following scheme:

Symbol Code	Symbol Name
P01GIS190225	1 Year GIS-Discounted – Maturity Date 19-Feb-25
P03FRR240127	3 Year GIS-FRR – Maturity Date 24-Jan-27
P05FRR240129	5 Year GIS-FRR – Maturity Date 24-Jan-29
P03VRR240127	3 Year GIS-VRR – Maturity Date 24-Jan-27
P05VRR240129	5 Year GIS-VRR – Maturity Date 24-Jan-29

6.1 Security Setup in CDC Systems

- 2.1.1 CDC will declare eligibility of GDS (Sukuk) as CDS eligible security based on the requisite documents (Issuer Agreement and Issuer Admission Form) and setup the security in the Central Depository System.
- 2.1.2 ISIN number will also be created by CDC.
- 2.1.3 Security symbols will be provided by PSX.
- 2.1.4 Provided security will then be setup in CDS system by CDC.

Note: The security setup at CDC shall be performed before Primary Auction

6.2 Security Setup in PSX Systems

- 2.1.5 The Listing department of PSX shall issue a notice to all the market participants mentioning the listing of new SUKUK at PSX. The notice includes listing date, first trading date, security symbol, Face Value, Marketable lot, trading system of exchange, NCCPL being a Clearing House and settlement date.

2.1.6 Symbol listing in ancillary systems by business departments of PSX.

6.3 Security Setup in NCCPL Systems

2.1.7 Once listing process is completed in PSX system, the information is being disseminated through auto routines (pre-sec file) to NCCPL for setup at their end (the same is required on A-5 for instrument wise Margin collection from A-3 till A-1).

2.1.8 As per current process, the security details shall also be sent to NCCPL via email by the business department.

6.4 Trading Platform Used in Sukuk Trading

Sukuk shall be traded on Jade Trading Terminal (JTT) – BnB enabled terminal only

6.5 Designated Time Schedule

- CDS eligible Sukuk shall follow the following DTS:

Mon – Thu	Friday	
	1 st Session	2 nd Session
9:30 to 3:30	9:15 to 12:00	2:30 to 4:30

6.6 Trading Parameters

- Following Trading parameters shall be applicable for CDS eligible GDS.

S. No	Parameters	Government Ijara Sukuk (GIS)
1	Input in terms of	Price up to 4 decimal places
2	Volume in terms of *	Face Value of Sukuk
3	Tick Size	Rs.0.0001
4	Buy Lot Size*	5,000
5	Sell Lot Size*	5,000

6	Min Order Quantity*	5,000
7	Max Order Quantity*	1,000,000,000
8	Min Order Value	N/A
9	Max Order Value	1,000,000,000

* Volume, BUY/SELL Lot size, Minimum/Maximum BUY and SELL Quantity represents Face Value of Sukuk i.e. 5,000 and in multiple thereof.

6.7 Step by Step Process of Trading on PSX Trading Platform

Trading Sessions Available in JTT

1. Continuous Auction
2. Negotiated Deals Market (NDM) – Wherein Settlement Date available is T+1 only.

Assumption: Investor already has a trading account with BCM

3. Investor to approach BCMs who are already a DMCM of NCCPL for trading in secondary market.
4. Before Order placement, trader can verify the respective Yield and Settlement Value of Sukuk through Deal Ticket option available on BUY/SELL window.
5. For Deal Ticket window, trader has to input (i) No. of Certificates (ii) Price (iii) Tick mark on Price to Yield conversion option.
6. From inputted parameters, respective Yield and Settlement Value will be generated.
7. After verification, trader shall place order by inputting Price up to 4 decimals.
8. The order placement in GoP Ijarah Sukuk is on the basis of “Face Value” instead of Volume of Sukuk. Face Value of 5,000 is equal to 1 Sukuk unit. If an investor wants to buy Sukuk of face value PKR 100,000, it means he/she will buy 20 Sukuk units (100,000/5,000). Investor/broker need to enter face value (PKR) 5,000 or in multiple thereof in Volume field of BUY/SELL window. This is the same convention that is followed in OTC market.
9. The formula to calculate Accrued Interest is

$$\text{Face Value of Sukuk} * \text{Coupon Rate} * \text{Accrued Days}/365$$
10. The matching will be done on the basis of price.
11. Real time traded data shall be transmitted to NCCPL for clearing & settlement and risk management.

Opening Price Calculation by the System

- The opening price shall be the first execution price of Sukuk on a particular trading day.
- Cross trades shall not be eligible for the determination of Opening Price.
- No opening price in case of no trade on a particular trading day.

Closing Price Calculation by the System

- The closing price determination method, as mentioned above, shall be similar to the method followed for corporate debt securities listed on the Exchange.
- **Tips: The trades here refer to all the trades generated in auction trading, and RFQ quote trading.** Cross trades shall not be eligible for the determination of Closing Price.

7. Step by Step Process of Clearing, Settlement & Risk Management by NCCPL

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

- 7.1. 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. Trade-for-Trade gross settlement means money and delivery settlement of every trade will be settled separately i.e. no netting will be allowed.
- 7.2. Trades will not be netted with equity market trades.
- 7.3. A separate Clearing Account is required to open in NCSS by a Clearing Member exclusively for clearing & settlement and risk management of trades executed on PSX Trading system.
- 7.4. Institutional Delivery System (“IDS”) facility of NCSS is also made available for the clearing and settlement of trades of NBCMs. RDA & Non-residents are also eligible. Hence, CCM, IDSC & IDSI functionality will also be made available.
- 7.5. 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.
- 7.6. NCSS generates separate money payable and receivable on gross basis for each Clearing Member for each Balance Order generated on Trade-for-Trade basis.
- 7.7. Upon fulfillment of payment obligation by Clearing Member, sukuk units are transferred into respective buying Clearing Member CDS Account.
- 7.8. Upon fulfillment of delivery obligation by Clearing Member, NCSS credit funds into respective selling Clearing Member’s settling bank account.
- 7.9. WHT shall be part of NCSS settlement on T+1, whereas CGT computation will be done as per current mechanism.

- 7.10. Post trade margins shall be collected at NCCPL in accordance with applicable regulations within DTS.
- 7.11. In order for facilitation of market participants, capital adequacy requirement for GDS instruments shall not be applicable.
- 7.12. In case of money/delivery default, such trades will be closed-out as per NCCPL regulatory framework
- 7.13. Execution of Balance Order and Movement of Sukuks in respective CDS Accounts by CDC to complete the settlement process.

8. Maturity Payments and revocation of Security from CDS

- 7.1. CDC will define shut period of Ijara sukuk. Shut Period date will be two days prior to maturity date.
- 7.2. CDC provides details of Sukuk holders as of prior to shut period to NCCPL.
- 7.3. NCCPL receives payment from MoF Account maintained with SBP on maturity date of Sukuk.
- 7.4. NCCPL transfers the payment to the respective Sukuk holders after deduction of applicable taxes
- 7.5. CDC will revoke the security from CDS based on confirmation letter received from NCCPL that the final payments have made to sukuk holders. after maturity payment.
- 7.6. For de-listing, PSX shall follow the standard process in coordination with NCCPL

9. Miscellaneous

- 1 **Repo transaction** is the simultaneous sale of securities (such as T-bills and PIBs) with an agreement to purchase it back in future at a predetermined date and price

Handling in repo transaction in CDS in case Government securities:

- Option 1: Repo Transaction can be processed in Central Depository System (CDS) by the way of execution of pledge transaction by the borrower in favor of lender and in this way, title of government debt securities shall not be changed. This pledge transaction shall be allowed in favor of Eligible Pledgee (all Banks have a pledgee account in CDS). The lender and borrower shall create a contract with the CDS Eligible Pledgee to lien mark the government securities.
- Option 2: CDC has introduced **“Free Delivery functionality”** in CDS to handle Repo / Reverse Repo transactions in respect of Government Ijarah Sukuks. Free Delivery functionality allows instant transfer of securities, including beneficial ownership, risk and rewards between CDS Accounts. Banks holding CDS Eligible GIS in their CDS accounts, can transfer GIS units to Banks designated CDS Account using the Free Delivery functionality with relevant Reason Code such as Repo transaction.

The transaction details are instantly verifiable through the CDS Account Balance Report / View Option.

- 2 **Reverse repo transaction** is the reverse of the repo transaction. It is defined as the simultaneous purchase of securities with an agreement to sell it back in future at a predetermined date and price.

Handling in reverse repo transaction in CDS in case Government securities: Reverse Repo Transaction shall be handled in the similar way as mentioned above and Reverse Repo can only be initiated via

Free Delivery functionality with relevant Reason Code such as Reverse Repo against already executed Repo transaction.

The transaction details are instantly verifiable through the CDS Account Balance Report / View Option.

3 Open Market Operations (OMO)

Open Market Operation is a tool used by a Central Bank (or monetary authority) to inject or mop-up funds, based on the liquidity requirements, from the banking system via the purchase or sale of eligible securities.

Operationally, in case of OMO (Injections), SBP lends funds to banks/PDs against eligible collateral to address liquidity shortage in the system. In OMO (Mop-up), SBP sells MTBs to banks against funds to remove surplus liquidity from the system.

Handling in OMO transaction in CDS in case Government securities:

- Option 1: OMO Transaction can be performed in Central Depository System (CDS) by the way of execution of pledge transaction in favor of SBP (SBP has a pledgee CDS Account) or PD Banks for lending/borrowing funds against collaterals to address liquidity shortage.
- Option 2: CDC has introduced **“Free Delivery functionality”** in CDS to handle OMO transactions in respect of Government Ijarah Sukuks. Free Delivery functionality allows instant transfer of securities, including beneficial ownership, risk and rewards between CDS Accounts. Banks holding CDS Eligible GIS in their CDS accounts can transfer GIS units to SBP/ PD Banks designated CDS Account using the Free Delivery functionality with relevant Reason Code such as OMO transaction.

The transaction details are instantly verifiable through the CDS Account Balance Report / View Option