PAKISTAN STOCK BROKERS ASSOCIATION

(A company setup under section 42 of the Companies Act 2017)

Regd Office: Mezzanine Floor, Trading Hall, Stock Exchange Building, Stock Exchange Road, Off I.I Chundrigar Road, Karachi.

Tel: 021-32401278, E-mail: secretariat@psba.pk, Web: www.psba.pk, Fax: 021-32401279

Bilal Farooq Zardi
Secretary General

Ref: PSBA/N0521-02

May 18, 2021

MR. MUHAMMAD LUKMAN
Chief Executive Officer
National Clearing Company of Pakistan Ltd
Karachi.

Sub: **INVITATION OF COMMENTS ON PROPOSED AMENDMENTS IN THE NCCPL REGULATIONS, 2015 PERTAINING TO RISK MANAGEMENT**

Dear Mr. Lukman,

This refers to the subject notification dated May 3, 2021, and in continuation of earlier meeting and correspondence dated March 1, 2021, and March 3, 2021, respectively, with regards to the working paper shared by NCCPL on various DFC related proposals, increase in margins, contributions in SGF, etc. The points of discussion were submitted for you to discuss further internally, as well as with the authorities. We were supposed to sit again as it is also mentioned in the aforesaid correspondence (copy enclosed). As it was decided, neither the consultation process has been observed, nor have the requisite working papers been shared.

However, we, on behalf of the members, would like to submit the comments in the below seriatim:

A. CONCENTRATION MARGIN:

The market participants are of the considered view that the proposed margins are too high. Currently, there is no need to change. As, this will certainly increase the cost of doing business, and will put an additional burden on investors/ brokers. Moreover, it is also advised that the MTS Concentration Margin collection should also be done thru near cash instruments, like T-Bills, Bank Guarantee, etc.

B. MARK TO MARKET PROFIT/LOSS:

As it was conveyed, with regards to the disbursement of profit, if the price movement is 50% or more. The members seem to be ok with it.

C. CONTRIBUTION TOWARDS SETTLEMENT GUARANTEE FUND (SGF):

Once again we would like to highlight here that based on the discussions we had earlier in the matter, it reflects that the controlling authority has a conflict in the maintenance of this fund. Therefore, it is suggested that all the SGF related matters should be looked after by an Independent Body. It is imperative to highlight here that as per the valuation of actuarial, the size of SGF is at its optimum. We have failed to understand that what are the factors that may cause it to rise by more than 3 times? We, therefore, respectfully submit that it cannot be considered relevant to enhance the contribution of SGF. It is also recommended that the Management Fee of the said fund should be brought down to 0.1% from 1%. This will add, close to Rs. 30mn to the fund size, every year.

D. EXPOSURE MARGINS FOR CATEGORY B SECURITIES:

With already higher margins in Category B, 100% cash margins will affect the liquidity, hence it makes no sense. This will ultimately increase the burden on investors and will shrink the volumes in the DFC market.

Though, we support NCCPL's initiative in reviewing the margin regime. However, it is a cause of concern that why the adjustment has not been made in the Close-Out mechanism. As it was agreed in the above-referred meeting, that in the said mechanism, financiers will get 40% or increased margins, whichever is higher. We suggest that this amendment should also be made part of the subject document.

In case of any further discussion, please do not hesitate to contact the undersigned.

Yours faithfully,

Encl: As discussed above.

Cc: **MR. AAMIR KHAN** - Chairman - SECP
MR. FARRUKH KHAN - Chief Executive Officer - PSX
MR. MUHAMMAD ASIF - Head of Operations - NCCPL

Meeting with NCCPL on Working Paper/Proposals - 01-03-2021

To lukman@nccpl.com.pk on 2021-03-03 07:03

Details Plain text

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Dear Mr. Muhammad Lukman,

This is in continuation of our meeting held on March 1, 2021, with regards to the working paper shared by NCCPL on various DFC related proposals, increase in margins, contribution in SGF, etc. The points of discussion are being submitted herewith to enable you to discuss further with the authorities so that the implementation takes place with the mutual agreement.

1. Regards to the increase in concentration and special margins, members are of the view that these new margins are too high. Moreover, the benefit of higher margins should be shared with the financier and close-out mechanism needs to be adjusted accordingly.

2. With regards to the disbursement of profit, if the price movement is 50% or more. The members seem to be ok with it (Proposal 3).

3. If the size of the Settlement Guarantee Fund (SGF) is adequate as per the valuation of actuarial, then what are the factors that may cause it to rise. The current valuation may kindly be shared so that some reasonable conclusion may be reached. Moreover, sharing of return of SGF needs to be reviewed in order to increase the size of SGF.

4. In the close-out mechanism it should be clearly mentioned that, 40% or increased margins, whichever is higher, would be adjusted.

5. With already higher margins on Category B, 100% cash margins will affect the liquidity. Moreover, what would be the exact margins of Category B after increase according to the proposal, the NCCPL is requested to share working papers to clarify the position.

6. A joint meeting may please be arranged wherein all the relevant authorities should participate so that a healthy discussion is made in the consultation process.

We look forward to work with close coordination.