



PROCEDURE FOR ENHANCED MARGIN FINANCING MECHANISM AND RELATED MATTERS

Operations & Customer Support Services
CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED
CDC HOUSE, 99-B, BLOCK B, S.M.C.H.S, MAIN SHARAH-E-FAISAL, KARACHI

PROCEDURES FOR ENHANCED MARGIN FINANCING MECHANISM AND RELATED MATTERS

These Procedures have been prepared for the purpose of managing enhanced MF mechanism and related matter in CDS.

An enhanced Margin Financing Regime (MF) has been developed and implemented by NCCPL. Consequently, CDC has also made necessary system level changes in light of requirements prescribed under Regulation 7B of NCCPL Regulations read with provisions of Chapter 9C of the CDC Regulations.

1. Establishment of MF ID in CDS

- 1.1. Broker Margin Financier who opt to provide funding from its own resources to its customer, shall apply for MF ID as an Account Holder and submit a request to CDC signed by the authorized signatory(ies), on a format prescribed in Annexure A.

MF Account Holder ID shall be established with a Main Account and a House Account pursuant to CDC Regulations.

- 1.2. Broker Margin Financier who opt to borrow funds from Financial Institution to provide Margin Financing to its customers and /or provide funding from its own resources to its customers, shall apply for MF ID as Participant and submit a request to CDC on a format prescribed in Annexure B.

MF Participant ID shall be established with a Main account, a House Account and a MF Additional House Account. Participant will also be able to open sub accounts under umbrella of MF Id i.e. Margin Financing Customer (MFC) account(s) for its customer, subject to the compliance of the conditions as prescribed in these Procedures.

- 1.3. Non-Broker Margin Financier who opt to provide funding to investors, shall apply for MF ID as an Account Holder and submit a request signed by the authorized signatory(ies), on a format prescribed in Annexure C.

MF Account Holder ID shall be established with a Main Account and a House Account.

- 1.4. Broker Margin Financier who wants to change its existing MF ID status from Account Holder to Participant shall submit a request signed by the authorized signatory(ies), on a format prescribed in Annexure D.

2. Margin Financing Customer Account.

- 2.1. Participant under its MF ID umbrella will be able to open Margin Financing Customer (MFC) Account by mirroring the normal sub account where Participant would not be allowed to amend any registration or other details in the MFC Account.
- 2.2. Participant should ensure that CDC Web Access, SMS Alert and e-Alert services are activated in customer's regular sub-account before opening the MFC account. Such services shall be auto activated in respect of MFC account of respective customers. Moreover, NCCPL's Universal Information System subscription is also mandatory for opening a MFC account in CDS.

- 2.3. MFC account would be activated by CDC upon provision of the initial request for tagging of Pledge Group ID with the particular MFC account.

3. Tagging of Pledge Group ID

- 3.1. Tagging of a Pledge Group ID at the time of activation of MFC account will be compulsory.
- 3.2. Multiple Pledge Group IDs can be tagged with a particular MFC account.
- 3.3. In light of Regulations 6.2.2 & 6.7.2 of CDCPL Regulations, Participant shall submit a certified true copy of margin financing agreement duly signed and executed by and between the Broker Margin Financier and the respective customer, financing agreement duly signed and executed by and between the Broker Margin Financier and the Eligible Pledge and the pledge authorization provided in compliances with SBP requirements ; along with Covering Letter signed by the authorized signatory(ies), on a format prescribed in Annexure E; for tagging of each Pledge Group ID with a particular MFC account.
- 3.4. Eligible Pledgee shall ensure and open specific Pledge Group ID only for the purpose of pledging of securities under MF regime.
- 3.5. Once a Pledge Group ID is tagged with MFC account no other pledging shall be allowed under such Pledge Group IDs.
- 3.6. Pledging of Securities from customers regular Sub-Account to the specific Pledge Group Id for Margin Financing in favor of Pledgee through which funding is arranged by Broker Margin Financier, will only be allowed in CDS where an open Margin Financing position exists for such customer.
- 3.7. Participant to immediately report to CDC in case of cancellation in the existing tri-partite agreement and request for un-tagging of Pledge Group ID.

4. Closure of MFC

If the customer wishes to close MFC, then the open position in the MFC should be nil. Moreover, a system check is built that normal sub-account can only be closed once the mirrored MFC account is closed.

5. Handling of Corporate Action Pertaining to Margin Financed Securities

As per CDC Procedure made under the CDC Regulations, read with CD Act, the holder of the securities is recognized as the Beneficial Owner of the securities irrespective of the nature of the transaction / trade due to which securities are transferred and to which resultant entitlements due to corporate action, as and when announced, are calculated in favor of account holders in whose name the securities are appearing in the CDS account at the end of the day before the start of the book closure date.

However, under the Margin Financing Regime, the Financier is not the beneficial owner of the Margin Financed Securities although such securities are parked as Collateral against the financing provided to the beneficial owner of the securities (Finanee).

Any entitlement on such securities arising due corporate action; Finanee's CDS account should be recorded in entitlement list and not the Financier.

In case of MFC account, entitlement will have to be recorded for Finanee regular sub-account and for additional house account the entitlement will have to be recorded against normal House of the Participant.

Not all MF transactions are forced released before the start of book closure period; therefore in order for the Finanee to get corporate action benefit, following procedure shall be applicable:

- 5.1. CDC upload mechanism will facilitate automatic movement of Margin Financed Securities parked under the umbrella of MF ID to Finanee account during the end of the day process on the day preceding the start of the book closure date and subsequently the same securities will be transferred back to the financier account and/or MFC account as the case may be in the same position bucket as was before the transfer, at the beginning of book closure date.

Same process will also be applicable for movement of securities from additional house account to normal house of the Participant and vice versa.

- 5.2. CDS to process the transfer, on the basis of data uploaded by NCCPL in accordance with (5.3) below, NCCPL to ensure using CDS account holder Id as CM id in line with current practice.

- 5.3. NCCPL to upload the following details in CDS, 3 business days or latest by 1 business day prior to the commencement of book closure period:

- Account holder id (both for "from account" and "to account")
- UIN (both for "from account" and "to account")
- Account Number (both for "from account" and "to account")
- Security Symbol
- Volume

- 5.4. In cases where CDS account (sub/house), under the umbrella of normal Participant ID, is closed or blocked due to whatever reason at the time when securities are to be transferred, securities would be transferred to the Main account of the Account Holder. Delivery onwards to the beneficiary account will be the responsibility of the account holder.

- 5.5. This procedure will only be applicable for book closures related to the following entitlements:

- General Meetings
- Cash Dividends
- Stock Dividends (including dividend in specie)
- Rights

For other corporate actions like Merger/De-Merger, Split/Consolidation, etc., it would be the responsibility of NCCPL to force release all open MF transactions before the start of book closure period.

- 5.6. Automatic transfer will not be executed in following cases:

- Any restriction imposed on the movement of securities in CDS account maintained under umbrella of MF ID by any court, Regulatory/competent Authority.

- If Margin Financed securities are parked in the Main account of Margin Financier.

Consequently, entitlement will be issued/credited into financier account or sub-account under his control. CDC will provide “failure report” to NCCPL at the start of book closure. NCCPL will arrange to deliver the entitlement pertaining to stock dividend and Rights to the entitled Finanee account through a manual process in a controlled environment.

6. Pledging from MF House Account

Where the Broker Margin Financier has extended Margin Financing from its own resources, CDC will allow pledging of Margin Financed Securities to the extent permissible in the NCCPL Regulations from the MF House Account on the basis of confirmation email from NCCPL. The TREC Holder wanting to initiate pledge from House Account would therefore be requesting NCCPL in this regard.

Note: The term Account Holder for the purposes of these Procedures also includes Participant account.

Dated: _____

Annexure A

Head of Operations & Customer Support Services

Central Depository Company of Pakistan Limited

CDC House, 99-B, Block “B”, SMCHS,

Main Shahra-e-Faisal,

Karachi-74400

Dear Sir,

**APPLICATION FOR ADDITIONAL MAIN ACCOUNT FOR THE PURPOSE OF MF
TRANSACTIONS – AS ACCOUNT HOLDER**

We have been admitted as an Eligible Financier by the National Clearing Company of Pakistan Limited (“NCCPL”) in accordance with the National Clearing Company of Pakistan Limited Regulations, 2003 (“NCCPL Regulations”) to enter into MF Transactions in terms of the NCCPL Regulations. However, for this purpose, we are required under the NCCPL Regulations to open and maintain an additional Account with the Central Depository Company of Pakistan Limited (“CDC”) for receiving, holding and making Delivery of Book-entry Securities, being Margin Financed Securities, to be financed by us from time to time through the MF System of NCCPL by way of MF Transactions.

Therefore, we hereby request you to kindly establish an additional Main Account for us pursuant to CDC Regulation 6.1.1 and a MF House Account under such additional Main Account pursuant to CDC Regulation 6.1.2 based on the information given below. Our Registration Details and operating instructions pertaining to these new MF Accounts shall remain the same as for existing CDS ID mentioned below:

Name of Account Holder/Participant	
Existing CDS ID No. for the purpose of MF Account	

We are fully aware that there will be certain restrictions and limitations on our ability to Handle securities entered in our MF Accounts as provided (or may be provided) in the NCCPL Regulations and CDC Regulations. We hereby convey our acceptance of such restrictions and undertake to operate such MF Accounts established in our name subject to such restrictions and limitations.

September 2022

Further, in consideration of your accepting the request made in this letter of request, we hereby unconditionally authorize CDC and irrevocably instruct (hereinafter referred to as “Instructions”) CDC to Deliver Book-entry Securities represented by Margin Financed Securities from time to time to and from our MF Account(s) with CDC in accordance with the NCCPL Regulations, the CDC Regulations and the Procedures made thereunder.

We hereby confirm that the Instructions are irrevocable and if we give you notice revoking the same, CDC shall have the right to deregister us as an Eligible Financier Clearing Member of NCCPL in the CDS in accordance with the Procedures.

We undertake to indemnify CDC and its Directors and employees and to keep them and every one of them indemnified in respect of any damages, costs and expenses incurred by CDC or its Directors and employees on account of opening of additional Accounts in our name pursuant to this request and/or arising from any breach of the provisions of the CDC Regulations or the NCCPL Regulations and which limits our authority to Handle the Margin Financed Securities entered in our MF Accounts, and/or your acting on the Instructions contained hereinabove.

The terms “Handle” as used above shall have same meaning as assigned thereto in the Central Depositories Act, 1997 (XIX of 1997).

Yours faithfully,

Authorized Signatory

Authorized Signatory

Dated: _____

Annexure B

Head of Operations & Customer Support Services

Central Depository Company of Pakistan Limited

CDC House, 99-B, Block “B”, SMCHS,

Main Shahra-e-Faisal,

Karachi-74400

Dear Sir,

APPLICATION FOR ADDITIONAL MAIN ACCOUNT FOR THE PURPOSE OF MF TRANSACTIONS – As Participant

We have been admitted as an Eligible Financier by the National Clearing Company of Pakistan Limited (“NCCPL”) in accordance with the National Clearing Company of Pakistan Limited Regulations, 2003 (“NCCPL Regulations”) to enter into MF Transactions in terms of the NCCPL Regulations. However, for this purpose, we are required under the NCCPL Regulations to open and maintain an additional Account with the Central Depository Company of Pakistan Limited (“CDC”) for receiving, holding and making Delivery of Book-entry Securities, being Margin Financed Securities, to be financed by us from time to time through the MF System of NCCPL by way of MF Transactions.

Therefore, we hereby request you to kindly establish an additional Main Account for us pursuant to CDC Regulation 6.1.1 and a MF House Account under such additional Main Account and an Additional House Account under the same additional Main Account pursuant to CDC Regulation 6.1.2 along with authority to open sub accounts under the additional Main Account pursuant to Regulation 9C.2.4 based on the information given below. Our Registration Details and operating instructions pertaining to these new MF Accounts shall remain the same as for existing CDS ID mentioned below:

Name of Account Holder/Participant	
Existing CDS ID No. for the purpose of MF Account	

We are fully aware that there will be certain restrictions and limitations on our ability to Handle securities entered in our MF Accounts as provided (or may be provided) in the NCCPL Regulations and CDC Regulations. We hereby convey our acceptance of such restrictions and undertake to operate such MF Accounts established in our name subject to such restrictions and limitations.

September 2022

Further, in consideration of your accepting the request made in this letter of request, We hereby unconditionally authorize CDC and irrevocably instruct (hereinafter referred to as “Instructions”) CDC to Deliver Book-entry Securities represented by Margin Financed Securities from time to time to and from our MF Account(s) with CDC in accordance with the NCCPL Regulations, the CDC Regulations and the Procedures made thereunder.

We hereby confirm that the Instructions are irrevocable and if we give you notice revoking the same, CDC shall have the right to deregister us as an Eligible Financier Clearing Member of NCCPL in the CDS in accordance with the Procedures.

We undertake to indemnify CDC and its Directors and employees and to keep them and every one of them indemnified in respect of any damages, costs and expenses incurred by CDC or its Directors and employees on account of opening of additional Accounts in our name pursuant to this request and/or arising from any breach of the provisions of the CDC Regulations or the NCCPL Regulations and which limits our authority to Handle the Margin Financed Securities entered in our MF Accounts, and/or your acting on the Instructions contained hereinabove.

The terms “Handle” as used above shall have same meaning as assigned thereto in the Central Depositories Act, 1997 (XIX of 1997).

Yours faithfully,

Authorized Signatory

Authorized Signatory

Dated: _____

Annexure C

Head of Operations & Customer Support Services

Central Depository Company of Pakistan Limited

CDC House, 99-B, Block “B”, SMCHS,

Main Shahra-e-Faisal,

Karachi-74400

Dear Sir,

**APPLICATION FOR ADDITIONAL MAIN ACCOUNT FOR THE PURPOSE OF MF
TRANSACTIONS – As Non Broker Account Holder**

We have been admitted as an Eligible Financier by the National Clearing Company of Pakistan Limited (“NCCPL”) in accordance with the National Clearing Company of Pakistan Limited Regulations, 2016 (“NCCPL Regulations”) to enter into MF Transactions in terms of the NCCPL Regulations. However, for this purpose, we are required under the NCCPL Regulations to open and maintain an additional Account with the Central Depository Company of Pakistan Limited (“CDC”) for receiving, holding and making Delivery of Book-entry Securities, being Margin Financed Securities, to be financed by us from time to time through the MF System of NCCPL by way of MF Transactions.

Therefore, we hereby request you to kindly establish an additional Main Account for us pursuant to CDC Regulation 6.1.1 and a MF House Account under such additional Main Account pursuant to CDC Regulation 6.1.2 based on the information given below. Our Registration Details and operating instructions pertaining to these new MF Accounts shall remain the same as for existing CDS ID mentioned below:

Name of Account Holder/Participant	
Existing CDS ID No. for the purpose of MF Account	

We are fully aware that there will be certain restrictions and limitations on our ability to Handle securities entered in our MF Accounts as provided (or may be provided) in the NCCPL Regulations and CDC Regulations. we hereby convey our acceptance of such restrictions and undertake to operate such MF Accounts established in our name subject to such restrictions and limitations.

September 2022

Further, in consideration of your accepting the request made in this letter of request, we hereby unconditionally authorize CDC and irrevocably instruct (hereinafter referred to as “Instructions”) CDC to Deliver Book-entry Securities represented by Margin Financed Securities from time to time to and from our MF Account(s) with CDC in accordance with the NCCPL Regulations, the CDC Regulations and the Procedures made thereunder.

We hereby confirm that the Instructions are irrevocable and if we give you notice revoking the same, CDC shall have the right to deregister us as an Eligible Financier Clearing Member of NCCPL in the CDS in accordance with the Procedures.

We undertake to indemnify CDC and its Directors and employees and to keep them and every one of them indemnified in respect of any damages, costs and expenses incurred by CDC or its Directors and employees on account of opening of additional Accounts in our name pursuant to this request and/or arising from any breach of the provisions of the CDC Regulations or the NCCPL Regulations and which limits our authority to Handle the Margin Financed Securities entered in our MF Accounts, and/or your acting on the Instructions contained hereinabove.

The terms “Handle” as used above shall have same meaning as assigned thereto in the Central Depositories Act, 1997 (XIX of 1997).

Yours faithfully,

Authorized Signatory

Authorized Signatory

Dated: _____

Annexure D

Head of Operations & Customer Support Services

Central Depository Company of Pakistan Limited

CDC House, 99-B, Block “B”, SMCHS,

Main Shahra-e-Faisal,

Karachi-74400

Dear Sir,

APPLICATION FOR CHANGE OF MF ID STATUS FROM ACCOUNT HOLDER TO PARTICIPANT FOR THE PURPOSE OF MF TRANSACTIONS

we are already admitted as an Eligible Financier by the National Clearing Company of Pakistan Limited (“NCCPL”) in accordance with the National Clearing Company of Pakistan Limited Regulations, 2016 (“NCCPL Regulations”) to enter into MF Transactions in terms of the NCCPL Regulations. Moreover, for this purpose, we are also maintaining an additional Account with the Central Depository Company of Pakistan Limited (“CDC”) for receiving, holding and making Delivery of Book-entry Securities, being Margin Financed Securities, to be financed by us from time to time through the MF System of NCCPL by way of MF Transactions.

In this respect, we hereby request you to kindly change following MF ID status from Account Holder to Participant and also open an additional House Account for us under existing additional Main Account pursuant to CDC Regulation 6.1.2 along with authority to open sub accounts as part of his account Family under the MF ID pursuant to Regulation 9C.2.4 based on the information existent in my additional Main Account. Our Registration Details and operating instructions pertaining to these new Accounts shall remain the same as for existing CDS ID mentioned below:

Name of Account Holder/Participant	
Existing CDS ID No. for the purpose of MF Account	
Existing MF ID No	

We are fully aware that there will be certain restrictions and limitations on our ability to Handle securities entered in our MF Accounts as provided (or may be provided) in the NCCPL Regulations and CDC

September 2022

Regulations. We hereby convey our acceptance of such restrictions and undertake to operate such MF Accounts established in our name subject to such restrictions and limitations.

Further, in consideration of your accepting the request made in this letter of request, we hereby unconditionally authorize CDC and irrevocably instruct (hereinafter referred to as “Instructions”) CDC to Deliver Book-entry Securities represented by Margin Financed Securities from time to time to and from our MF Account(s) with CDC in accordance with the NCCPL Regulations, the CDC Regulations and the Procedures made thereunder.

We hereby confirm that the Instructions are irrevocable and if we give you notice revoking the same, CDC shall have the right to deregister us as an Eligible Financier Clearing Member of NCCPL in the CDS in accordance with the Procedures.

We undertake to indemnify CDC and its Directors and employees and to keep them and every one of them indemnified in respect of any damages, costs and expenses incurred by CDC or its Directors and employees on account of opening of additional Accounts in our name pursuant to this request and/or arising from any breach of the provisions of the CDC Regulations or the NCCPL Regulations and which limits our authority to Handle the Margin Financed Securities entered in our MF Accounts, and/or your acting on the Instructions contained hereinabove.

The terms “Handle” as used above shall have same meaning as assigned thereto in the Central Depositories Act, 1997 (XIX of 1997).

Yours faithfully,

Authorized Signatory

Authorized Signatory

On Company's Letterhead

Date:

Chief Compliance Officer
Central Depository Company of Pakistan Limited
CDC House, 99-B, Block "B", S.M.C.H.S.
Main Shahra-e-Faisal
Karachi.

Submission of agreements for MF Sub-Account

Dear Sir,

This is with reference to the captioned subject, enclosed please find the copy of margin financing agreement (as referred to in the NCCPL Regulations) pertaining to the MF Sub-Account Holder <Title of Account> in respect of whom the MF Sub-Account is established under our MF Account Holder ID <xxxxx>, as required under Regulation 9C.2.5 of the CDC Regulations.

In this respect, we also hereby request you to please associate aforementioned MF Sub-Account, established by us as part of our Account Family, with Pledge Group ID <xxxx> of <Name of Eligible Pledgee> for the purpose of pledging of securities in favor of such Eligible Pledgee.

We confirm that the customer has unconditionally and irrevocably authorizes the Broker Margin Financier in terms of section 12 read with section 24 of the Central Depositories Act, 1997 to pledge Margin Financed Securities from the customer's CDS sub-account maintained in MF Blocked Account Status and to pledge Securities from normal CDS sub-account of the customer in favor of the Bank. In the event of any default, the Bank may sell the pledged securities or any part thereof for settling and appropriating the amounts outstanding against the above mentioned Broker Margin Financier in accordance with the provisions of the NCCPL Regulations without any further reference to the customer. The customer agrees that it shall not have any objection in this regard. We also confirm and undertake that all conditions have been complied as prescribed in NCCPL Regulations and the Procedures and also made part to the agreement.

In addition, enclosed please find the copy of Financing Agreement (as referred to in the NCCPL Regulations); along with copy of the pledge authorization provided in compliances with SBP requirements.
Yours truly,

Authorized Signatory(ies)

Affix corporate stamp here